50

CBBCBank

YEARS

Twin Cities Financial Services, Inc.

2023 Annual Report

Twin Cities Financial Services, Inc.

CBBC Bank

2023 | Annual Report

The mission of CBBC Bank is to make our LOCAL community a better place to live and work. This is accomplished by employing highly skilled and motivated team members with personal integrity and strong core values. Our commitment is to anticipate and exceed expectations in providing the best possible banking solutions for our customers' needs. Our clients are not only our customers, they are also our friends, neighbors and family.

Table of Contents

Financial Statements
December 31, 2023

Locations

Main Office
330 E. Broadway Ave.
P. O. Box 9730
Maryville, TN 37802-9730
Phone (865) 977-5900

Foothills
600 Foothills Mall Dr.
Maryville, TN 37801
Phone (865) 977-5971

Heritage
2614 E. Lamar Alexander Pkwy.
Maryville, TN 37804
Phone (865) 977-5946

Hwy. 411 South
2307 Market Place Dr.
Maryville, TN 37801
Phone (865) 380-1361

Midland
214 N. Calderwood St.
Alcoa, TN 37701
Phone (865) 977-5951

Topside
2041 Topside Rd.
Louisville, TN 37777
Phone (865) 977-5985

Townsend
7729 E. Lamar Alexander Pkwy.
Townsend, TN 37882
Phone (865) 448-5990

Fingertip Banking
24 Hour Account Information
(865) 977-5999

BankOnLine
cbbcbank.com

TO OUR SHAREHOLDERS AND FRIENDS:

Your investment in Twin Cities Financial Services, Inc. continued to grow and prosper during CBBC Bank's successful 2023. Since 1973, the Bank has financially rewarded the investment and strengthened the trust of our shareholders while also providing superior service and community contributions.

The Bank's performance for 2023 created net profits of over $5.87 million, which provided a dividend payout of $2.75 per share. Strong loan growth in 2023 resulted in a loan increase from $225 million to $249 million, with deposits totaling $409 million.

In September we celebrated our 50th Bank Anniversary by holding a BBQ lunch for our customers and community. This celebration showcased our pride in continuing to be your LOCAL bank.

As we look to 2024, vigilant growth of our deposit and loan portfolio will be a primary goal to further increase your profitability and investor return in TCFS, Inc. and CBBC Bank. With seven branches located throughout our community, we consider ourselves Blount County's most convenient bank.

With gratitude for your personal banking relationships, we also promise to provide excellent banking services for your referrals of friends, family, and business associates.

Thank you for your continued support,

Jerry H. Dean
Chairman of the Board

Michael W. Hearon
President & CEO

Twin Cities Financial Services, Inc.
Directors & Officers

Directors

Mike Baker
Retired, CBBC Bank

Robert L. Carroll
Retired, CBBC Bank

Bill Clabough
Exec. Dir. Foothills Land Conservancy

Jerry H. Dean
Ready Set Go (RSG) Delivery
Retired, U.S. Office of Personnel Mgmt.
& U.S. Investigations Services

Michael W. Hearon
President & CEO, CBBC Bank

Leann E. Hicks
Blount County Schools

Gaynell Lawson
Retired, CBBC Bank

John G. Proffitt
Retired, State of Tennessee

Dr. James Robertson
Retired, Dentist

Officers

Jerry H. Dean
Chairman

Dr. James Robertson
Vice Chairman

Michael W. Hearon
President & CEO

Leann E. Hicks
Secretary

Mindy Stooksbury
Treasurer/Assistant Secretary

Mike Hearon
President
Chief Executive Officer

John Harris
Executive Vice President
Chief Lending Officer

SENIOR VICE PRESIDENTS

Robert Carter
Commercial Banker

Marilyn Cobble
Commercial Banker

Brian Hord
Commercial Banker

David Howard
Chief Credit Officer

Kathy Johnson
Business Development

Novella Jones
Residential Department Manager

Beth Pyle
Branch Administrator

Jonathan Settlemire
Chief Operations Officer

Mindy Stooksbury
Chief Financial Officer

Susan Zerambo
Human Resources Manager

VICE PRESIDENTS

Mindy Boudreau
Manager, Main Office

Keith Daniel
Information Technology Manager

Scott Edmondson
Facilities & Security Manager

VICE PRESIDENTS

Laura Lenear
Marketing & Advertising Director

Julie Miller
Manager, Foothills Office

Brent Musick
Manager, Townsend Office

Perry Roberts
Manager, Midland Office

Stefanie Shipley
Loan Operations Manager

ASSISTANT VICE PRESIDENTS

Meagan Byrd
Manager, Heritage Office

Chad Hicks
Mortgage Loan Officer

Rick Hudolin
Manager, Hwy. 411 South Office

Molly Miser
Manager, Topside Office

Joy Paine
Operations Officer, Midland Office

Scott Small
Information Technology Officer

Leah Smith
Loan Operations Officer

BANKING OFFICERS

Sean Garrett
BSA Administrator & Fraud Expert

Lana Pettis
Ex. Assistant & Deposit Specialist

Financial Highlights

	2019	2020	2021	2022	**2023**
Condensed consolidated income statements in thousands					
Net interest income	$12,007	$12,502	$13,918	$15,133	**$17,595**
Other noninterest income*	1,547	4,050	1,804	1,731	**781**
Total revenue, net interest expense	13,554	16,552	15,722	16,864	**18,376**
Provision for loan losses	33	1,059	93	345	**245**
Noninterest expense	8,753	9,155	8,973	9,777	**10,818**
Net income (loss) prior to taxes (benefit)	4,768	6,338	6,656	6,742	**7,314**
Income taxes (benefit)	1,168	1,655	1,442	1,324	**1,441**
Net income (loss)*	3,600	4,684	5,214	5,418	**5,873**
Per common share					
Net earnings (loss)	$ 6.68	$ 8.71	$ 9.66	$ 9.98	**$ 10.78**
Dividends paid**	2.15	3.90	2.45	3.50	**2.75**
Book value	105.99	116.76	120.14	75.32	**90.00**
Year-end balance sheet data in thousands					
Assets	$357,122	$419,424	$486,728	$463,866	**$475,837**
Allowance for loan losses	3,353	4,413	4,409	4,708	**4,931**
Loans	206,569	235,725	211,399	225,694	**249,242**
Deposits	296,377	347,739	414,444	413,906	**409,162**
Shareholders' equity	57,004	62,801	65,415	40,949	**49,071**
Regulatory risk-based capital	59,514	62,838	66,588	70,403	**74,823**
Performance ratios					
Return on average assets	1.01%	1.12%	1.07%	1.17%	**1.23%**
Return on average common equity	6.53%	7.46%	7.97%	13.23%	**11.97%**
Overhead expenses to average assets	2.44%	2.34%	1.96%	2.02%	**2.26%**
Employees per $1 million assets	0.22	0.18	0.16	0.16	**0.17**
Net interest margin to average assets	3.42%	3.20%	3.04%	3.13%	**3.68%**
Capital ratios					
Equity and reserves to assets	16.69%	15.85%	14.03%	9.73%	**11.23%**

*2020 had an extraordinary net gain of $1.8 million on a loan recovery
**2 separate dividends were paid during 2020 - 1 special dividend based on the loan recovery and 1 regular dividend based on projected earnings
**2 separate dividends were paid during 2022 - 1 special dividend and 1 regular dividend based on projected earnings

See Independent Auditor's Report on the Supplementary Information.

		December 31, 2023		2022
ASSETS				
Cash and cash equivalents:				
Cash and noninterest-bearing due from banks	**$**	**5,610,919**	$	7,332,003
Interest-bearing due from banks		**45,737,798**		22,131,141
Federal funds sold		**8,182,826**		27,779,119
Total cash and cash equivalents		**59,531,543**		57,242,263
Securities available-for-sale, at estimated fair value		**155,773,069**		167,783,758
Federal Home Loan Bank stock, at cost		**401,400**		923,700
Other investments		**349,184**		837,891
Loans, net of estimated allowance for credit losses of of $4,931,337 in 2023 and net of estimated allowance for loan losses of $4,708,292 in 2022		**244,310,974**		220,986,011
Interest receivable		**1,840,761**		1,760,759
Deferred income taxes, net		**5,545,505**		6,410,919
Premises and equipment, net		**7,623,672**		7,434,307
Other assets		**461,110**		486,185
TOTAL ASSETS	**$**	**475,837,218**	$	463,865,793

Consolidated Balance Sheets

TWIN CITIES FINANCIAL SERVICES, INC., AND CBBC BANK

	2023	2022
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	**$ 114,607,894**	$ 135,632,598
Interest-bearing	**294,553,661**	278,273,588
Total deposits	**409,161,555**	413,906,186
Securities sold under repurchase agreements	**11,968,483**	8,195,530
Reciprocal deposits	**4,757,787**	-
Interest payable	**127,179**	11,861
Accounts payable and accrued liabilities	**751,481**	803,682
Deferred income taxes, net	**-**	-
TOTAL LIABILITIES	**426,766,485**	422,917,259
COMMITMENTS AND CONTINGENCIES - Notes K and L		
STOCKHOLDERS' EQUITY		
Common stock, $1 par value; 100,000,000 shares authorized; 545,226 shares issued and outstanding at December 31, 2023 and 543,682 shares issued and outstanding at December 31, 2022	**545,226**	543,682
Additional paid-in capital	**13,011,464**	12,899,771
Retained earnings	**58,099,185**	53,725,766
Accumulated other comprehensive loss	**(22,585,142)**	(26,220,685)
TOTAL STOCKHOLDERS' EQUITY	**49,070,733**	40,948,534
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 475,837,218**	$ 463,865,793

See accompanying notes to consolidated financial statements.

TWIN CITIES FINANCIAL SERVICES, INC., AND CBBC BANK

		2023		2022
INTEREST INCOME				
Loans, including fees	**$**	**13,247,890**	$	10,079,304
Securities:				
Taxable		**6,150,825**		4,311,476
Tax-exempt		**904,028**		925,959
Federal funds sold		**914,755**		398,291
TOTAL INTEREST INCOME		**21,217,498**		15,715,030
INTEREST EXPENSE				
Interest on deposits		**3,350,628**		561,955
Interest on securities sold under repurchase agreements		**271,984**		20,173
TOTAL INTEREST EXPENSE		**3,622,612**		582,128
NET INTEREST INCOME		**17,594,886**		15,132,902
PROVISION FOR CREDIT LOSSES		**244,600**		345,300
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES		**17,350,286**		14,787,602
NONINTEREST INCOME				
Service charges on deposit accounts		**1,442,144**		1,501,458
Loss on sale of investment securities		**(855,084)**		-
Other		**194,116**		229,830
TOTAL NONINTEREST INCOME		**781,176**		1,731,288
NONINTEREST EXPENSE				
Salaries and employee benefits		**5,614,950**		5,068,602
Occupancy		**573,602**		577,733
Equipment		**360,960**		337,198
Data processing		**1,424,412**		1,141,356
Advertising		**264,357**		213,325
Supplies		**128,164**		97,668
Communication		**326,002**		290,907
Banking agency assessments		**201,244**		157,058
Other operating		**1,924,265**		1,892,720
TOTAL NONINTEREST EXPENSE		**10,817,956**		9,776,567
INCOME BEFORE INCOME TAXES		**7,313,506**		6,742,323
INCOME TAX EXPENSE		**1,440,715**		1,324,383
NET INCOME	**$**	**5,872,791**	$	5,417,940
EARNINGS PER COMMON SHARE OUTSTANDING	**$**	**10.78**	$	9.98

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

TWIN CITIES FINANCIAL SERVICES, INC., AND CBBC BANK

		2023		***2022***
OTHER COMPREHENSIVE INCOME				
NET OF INCOME TAXES:				
Change in fair value on securities available-for-sale, net of taxes	**$**	**3,003,978**	$	(28,227,300)
Net loss on sale of investment securities reclassified from other comprehensive income into net income, net of taxes		**631,565**		-
Total other comprehensive income (loss)		**3,635,543**		(28,227,300)
COMPREHENSIVE INCOME (LOSS)	**$**	**9,508,334**	$	(22,809,360)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

TWIN CITIES FINANCIAL SERVICES, INC., AND CBBC BANK

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
BALANCES, January 1, 2022	540,400	$ 540,400	$ 12,656,902	$ 50,210,716	$ 2,006,615	$ -	$ 65,414,633
Cash dividends ($3.50 per share)	-	-	-	(1,902,890)	-	-	(1,902,890)
Issuance of 3,282 shares of common stock in connection with employee stock purchase plans	3,282	3,282	242,869	-	-	-	246,151
Treasury stock acquired (2,703 shares)	-	-	-	-	-	(198,225)	(198,225)
Treasury stock sold (2,703 shares)	-	-	-	-	-	198,225	198,225
Net income	-	-	-	5,417,940	-	-	5,417,940
Other comprehensive loss	-	-	-	-	(28,227,300)	-	(28,227,300)
BALANCES, December 31, 2022	543,682	543,682	12,899,771	53,725,766	(26,220,685)	-	40,948,534
Cash dividends ($2.75 per share)	-	-	-	(1,499,372)	-	-	(1,499,372)
Issuance of 1,544 shares of common stock in connection with employee stock purchase plans	1,544	1,544	111,693	-	-	-	113,237
Treasury stock acquired (250 shares)	-	-	-	-	-	(15,000)	(15,000)
Treasury stock sold (250 shares)	-	-	-	-	-	15,000	15,000
Net income	-	-	-	5,872,791	-	-	5,872,791
Other comprehensive income	-	-	-	-	3,635,543	-	3,635,543
BALANCES, December 31, 2023	545,226	$ 545,226	$ 13,011,464	$ 58,099,185	$ (22,585,142)	$ -	$ 49,070,733

Consolidated Statements of Cash Flows

TWIN CITIES FINANCIAL SERVICES, INC., AND CBBC BANK

		2023		***2022***
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	**$**	**5,872,791**	$	5,417,940
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for credit losses		**244,600**		345,300
Depreciation		**360,957**		359,837
Realized loss on sale of investment securities		**855,084**		-
Net accretion and amortization of investment securities		**575,959**		709,776
Deferred income tax (benefit) expense		**(100,996)**		(50,151)
Net change in:				
Interest receivable		**(80,002)**		(390,604)
Other assets		**25,075**		100,900
Interest payable		**115,318**		(10,571)
Accounts payable and accrued liabilities		**(52,201)**		424,221
NET CASH PROVIDED BY OPERATING ACTIVITIES		**7,816,585**		6,906,648
CASH FLOWS FROM INVESTING ACTIVITIES				
Activity in available-for-sale securities:				
Maturities, prepayments, and calls		**6,881,013**		12,450,826
Sales		**14,137,590**		-
Purchases		**(5,837,004)**		(35,342,449)
Activities in other investments:				
Maturities and calls		**488,707**		979,774
Loan originations and principal collections, net		**(23,569,563)**		(14,340,835)
Additions to premises and equipment		**(550,322)**		(253,007)
Proceeds from the sale of Federal Home Loan Bank stock		**522,300**		322,700
NET CASH USED IN INVESTING ACTIVITIES		**(7,927,279)**		(36,182,991)

See accompanying notes to consolidated financial statements.

TWIN CITIES FINANCIAL SERVICES, INC., AND CBBC BANK

	2023	2022
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits (non-time deposits)	**(45,822,847)**	20,084,940
Net change in time deposits	**41,078,216**	(20,623,096)
Net change in securities sold under repurchase agreements	**3,772,953**	2,871,363
Net change in reciprocal deposits	**4,757,787**	-
Issuance of common stock	**113,237**	246,151
Cash dividends	**(1,499,372)**	(1,902,890)
Purchase of treasury stock	**(15,000)**	(198,225)
Proceeds from sale of treasury stock	**15,000**	198,225
NET CASH PROVIDED BY FINANCING ACTIVITIES	**2,399,974**	676,468
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,289,280**	(28,599,875)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**57,242,263**	85,842,138
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 59,531,543**	$ 57,242,263
SUPPLEMENTAL INFORMATION:		
Cash paid during the year for:		
Interest	**$ 3,507,294**	$ 592,699
Income taxes	**$ 1,546,000**	$ 990,000
SUPPLEMENTAL SCHEDULE OF NON-CASH ACTIVITIES:		
Change in unrealized gain/loss on securities available-for-sale	**$ 4,601,953**	$ 35,730,759
Change in unrealized gain/loss on securities available-for-sale, net of tax effects and reclassification adjustments for realized gain/loss	**$ 3,635,543**	$ 28,227,300

See accompanying notes to consolidated financial statements.

NOTE A--OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Twin Cities Financial Services, Inc. (the Holding Company) is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiary, CBBC Bank (the Bank) (collectively, the Company). The Bank generates commercial, mortgage, and consumer loans and receives deposits from customers located primarily in Blount County, Tennessee and the surrounding area. The Bank operates under a state bank charter and provides a full range of banking services. As a state-chartered bank, the Bank is subject to regulation by the Tennessee Department of Financial Institutions and the Federal Deposit Insurance Corporation (FDIC). In addition, the Holding Company is subject to regulation by the Federal Reserve Bank.

Basis of Presentation and Consolidation: The consolidated financial statements include the accounts of the Holding Company and the Bank after elimination of material intercompany accounts and transactions.

Use of Estimates: The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income 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, foreclosed assets, and the valuation of deferred taxes.

Significant Group Concentrations of Credit Risk: Most of the Bank's activities are with customers located within Blount County, Tennessee, and the surrounding area. Blount County and the surrounding area are in close proximity to the Great Smoky Mountains National Park and are therefore impacted by the tourism industry. As such, the Bank has a concentration of loans secured by hotels which are dependent upon both the tourism industry and business travel to service the loans. Note B discusses the types of securities in which the Bank invests. Note C discusses the types of lending in which the Bank engages.

Cash and Cash Equivalents: Due from bank balances in excess of FDIC limits are not insured. For purposes of the consolidated statements of cash flows, cash and cash equivalents include all cash and amounts due from depository institutions, interest-bearing deposits in other banks, and federal funds sold, all of which mature within 90 days of purchase.

Securities: Securities are classified based on management's intention on the date of purchase. All debt securities classified as available-for-sale are recorded at fair value with any unrealized gains and losses reported in accumulated other comprehensive income (loss), net of the deferred income tax effects.

Interest and dividends on securities, including amortization of premiums and accretion of discounts calculated under the effective interest method, are included in interest income. For certain securities, amortization of premiums and accretion of discounts is computed based on the anticipated life of the security which may be shorter than the stated life of the security. Realized gains and losses from the sale of securities are determined using the specific identification method and are recorded on the trade date of the sale.

Periodically, available-for-sale securities may be sold or the composition of the portfolio realigned to improve yields, quality or marketability, or to implement changes in investment or asset/liability strategy, including maintaining collateral requirements and raising funds for liquidity purposes. Additionally, if an available-for-sale security loses its investment grade, tax-exempt status, the underlying credit support is terminated or collection otherwise becomes uncertain based on factors known to management, the Bank will consider selling the security, but will review each security on a case-by-case basis as these factors become known.

Allowance for Credit Losses - Securities Available-for-Sale: For any securities classified as available-for-sale that are in an unrealized loss position at the balance sheet date, the Bank assesses whether or not it intends to sell the security, or more likely than not will be required to sell the security, before recovery of its amortized cost basis. If either criteria is met, the security's amortized cost basis is written down to fair value through net income. If neither criteria is met, the Bank evaluates whether any portion of the decline in fair value is the result of credit deterioration. Such evaluations consider the extent to which the amortized cost of the security exceeds its fair value, changes in credit ratings and any other known adverse conditions related to the specific security. If the evaluation indicates that a credit loss exists, an allowance for credit losses is recorded through provisions for credit losses for the amount by which the amortized cost basis of the security exceeds the present value of cash flows expected to be collected, limited by the amount by which the amortized cost exceeds fair value. Any impairment not recognized in the allowance for credit losses is recognized in other comprehensive income.

Federal Home Loan Bank (FHLB) Stock: The Bank is a member of the FHLB of Cincinnati and as such is required to maintain an investment in the capital stock of the FHLB of Cincinnati. The FHLB stock is carried at cost. The amount of stock required to be held by the Bank is determined annually based on an assessment made by the FHLB of Cincinnati.

Other Investments: The Bank invests in negotiable certificates of deposit with other depository institutions. Certificates of deposit with maturities greater than 90 days from the date of purchase are classified as other investments. Certificates of deposit are carried at cost which approximates fair value. There were no Certificates of deposit that exceeded the FDIC insurance limit at December 31, 2023 and 2022.

Loans: The Bank uses the following loan segments for financial reporting purposes: commercial real estate, construction and land development, Residential real estate, commercial, and consumer.

The appropriate classification is determined based on the underlying collateral utilized to secure each loan. These classifications are consistent with those utilized in the Quarterly Report of Condition and Income filed by the Bank with the FDIC. Loans are reported at their outstanding principal balances, net of applicable purchase accounting and any deferred fees or costs on originated loans. Interest income on loans is accrued based on the principal balance outstanding. Loan origination fees, net of certain loan origination costs, are deferred and recognized as an adjustment to the related loan yield using a method which approximates the interest method, if significant. At December 31, 2023 and 2022, net deferred loan fees of $347,101 and $362,176, respectively, were included as a reduction to loans in the accompanying consolidated balance sheets. As part of the Bank's routine credit monitoring process, loans receive risk ratings by the assigned financial advisor and are subject to validation by the Bank's independent loan review function. Risk ratings are categorized as non-classified, special mention, substandard, doubtful, and loss. The Bank believes that its categories follow those used by the Bank's primary regulators.

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

Loans are placed on nonaccrual status when there is a significant deterioration in the financial condition of the borrower, which generally is the case but is not limited to when the principal or interest is more than 90 days past due, unless the loan is both well-secured and in the process of collection. Consumer loans are typically charged-off when they become 90 days past due. Past due status is based on contractual terms of the loan. All interest accrued but not collected for loans that are placed on nonaccrual status is reversed against current interest income. Interest income is subsequently recognized only if certain cash payments are received while the loan is classified as nonaccrual, but interest income recognition is reviewed on a case-by-case basis to determine if the payment should be applied to interest or principal pursuant to regulatory guidelines. A nonaccrual loan is returned to accruing status once the loan has been brought current as to principal and interest and collection is reasonably assured or the loan has been well-secured through other techniques. Loans are charged off when management believes that the full collectability of the loan is unlikely.

Allowance for Credit Losses - Loans: As described below under Recently Adopted Accounting Pronouncements, the Bank adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 326 effective January 1, 2023, which requires the estimation of an allowance for credit losses in accordance with the Current Expected Credit Losses (CECL) methodology. Under CECL, the Bank calculates the allowance for credit losses using a lifetime expected credit loss approach. The Bank's management assesses the adequacy of the allowance on a quarterly basis. This assessment includes procedures to estimate the allowance and test the adequacy and appropriateness of the resulting balance. The level of the allowance is based upon management's evaluation of historical default and loss experience, current and projected economic conditions, asset quality trends, known and inherent risks in the portfolio, adverse situations that may affect the borrowers' ability to repay a loan (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, industry and peer bank loan quality indications and other pertinent factors, including regulatory recommendations. The level of the allowance for credit losses maintained by management is believed adequate to absorb all expected future losses inherent in the loan portfolio at the balance sheet date. The allowance is increased through provision for credit losses and decreased by charge-offs, net of recoveries of amounts previously charged-off. Actual losses may differ from the December 31, 2023 allowance for credit losses as the CECL estimate is sensitive to economic forecasts and management judgment.

The allowance for credit losses is measured on a collective basis for pools of loans with similar risk characteristics. See Note C for additional details related to the Bank's specific calculation methodology. The Bank has identified the following pools of financial assets with similar risk characteristics for measuring expected credit losses:

- *Commercial Real Estate Loans:* Commercial real estate loans are secured by hotels, commercial office buildings, industrial buildings, warehouses, retail buildings, churches, and multifamily residential housing. For such loans, repayment is largely dependent upon the operation of the borrower's business or lease income generated from the underlying collateral.

- *Construction and Land Development Loans:* Construction and land development loans include loans where the repayment is dependent on the successful completion and eventual sale, refinance, or operation of the related real estate project. Construction and land development loans include 1-4 family construction projects and commercial construction endeavors such as warehouses, apartments, office and retail space, and land acquisition and development.

- *Residential Real Estate Loans:* Residential real estate loans consist primarily of loans secured by 1-4 family residential properties, including home equity lines of credit. Repayment is primarily dependent on the personal cash flow of the borrower.

- *Commercial Loans:* Commercial loans include loans to business enterprises issued for commercial, industrial, and/or other professional purposes. These loans are generally secured by equipment, inventory, and accounts receivable of the borrower and repayment is primarily dependent on business cash flows.

- *Consumer Loans:* Consumer loans include all loans issued to individual consumers that are not secured by real estate. Examples of consumer loans are vehicle, boat, or recreational vehicle loans; overdraft protection; revolving; and deposit secured loans; among others. Many consumer loans are unsecured. Repayment is primarily dependent on the personal cash flow of the borrower.

Estimated Allowance for Loan Losses: Prior to the adoption of Accounting Standards Update (ASU) 2016-13 during the year ended December 31, 2023, which introduced the CECL methodology for credit losses, the estimated allowance for loan losses was established as losses are estimated to have occurred through an estimated provision for loan losses charged to earnings. Loan losses were charged against the allowance when management believed the uncollectibility of a loan balance was confirmed. Subsequent recoveries, if any, were credited to the allowance for loan losses.

The estimated allowance for loan losses was evaluated on a regular basis by management and was based upon management's periodic review of the collectability of loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may have affected the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation was inherently subjective as it required estimates that were susceptible to significant revision as more information became available.

While management used available information to recognize losses on loans, further reductions in the carrying amounts of loans may have been necessary based on changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically reviewed the estimated allowance for loan losses. Such agencies may have required the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it was reasonably possible that the estimated allowance for loan losses may have changed materially in the near term. However, the amount of the change that was reasonably possible cannot be estimated.

The estimated allowance consisted of specific and general components. The specific component related to loans that were classified as loss, doubtful, or substandard (as defined by the Bank, consistent with the definitions given by regulatory agencies). For such loans that were also classified as impaired, an allowance was established when the estimated discounted cash flows (or collateral value or observable market price) of the impaired loan was lower than the carrying value of that loan. The general component covered non-classified loans and classified loans that were determined not to be impaired by management. The general component was based on historical loss experience adjusted for qualitative factors.

A loan was considered impaired when, based on current information and events, it was probable that the Bank would be unable to collect the scheduled payments of principal or interest, when due, according to the contractual terms of the loan agreement. Factors considered by management in determining impairment included payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experienced insignificant payment delays or shortfalls generally were not classified as impaired. Management determined the significance of payment delays or shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment was measured on a loan-by-loan basis for commercial, residential, and construction loans 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 was collateral dependent.

Large groups of smaller balance homogeneous loans were collectively evaluated for impairment. Accordingly, the Bank did not separately identify individual consumer loans for impairment disclosures, unless such loans were the subject of a restructuring agreement.

Foreclosed Assets: Assets acquired through, or in lieu of, loan foreclosure are initially recorded at estimated fair value less estimated selling cost at the date of foreclosure, establishing a new cost basis. Any write-downs based on the asset's estimated fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, property held for sale is carried at the lower of the new cost basis or estimated fair value less cost to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its estimated fair value. Costs of significant property improvements on foreclosed assets are capitalized, whereas costs relating to holding the property are expensed. The portion of interest costs relating to development of foreclosed real estate is capitalized. Valuations are periodically performed by third parties, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or estimated fair value, less cost to sell. There were no foreclosed assets as of December 31, 2023 and 2022. As of December 31, 2023, the Bank had no consumer mortgage loans collateralized by residential real estate property that were in the process of foreclosure.

Premises and Equipment: Land is carried at cost. Other premises and equipment are stated at cost less accumulated depreciation. Depreciation has been computed using the straight-line method based on the estimated useful lives of the respective assets.

Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

Income Taxes: Income taxes are provided for the tax effects of the transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to net operating loss carryforwards, differences between the tax and book bases of the estimated allowance for loan losses, premises and equipment depreciation, foreclosed asset write-downs, and other assets and liabilities. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through income tax expense or benefit. A valuation allowance is required for deferred tax assets if, based on available evidence, it is more likely than not that all or some portion of the asset may not be realized due to the Company's inability to generate sufficient taxable income in the period and/or of the character necessary to utilize the benefit of the deferred tax asset. The Holding Company files consolidated income tax returns with the Bank. The Company has not taken any material uncertain income tax positions in its previously filed income tax returns or in income tax returns expected to be filed. When applicable, the Company recognizes interest related to income tax matters and penalties related to income tax matters as other noninterest expense. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2020 through 2023, and the state of Tennessee for the years ended December 31, 2020 through 2023.

Off-Balance Sheet Financial Instruments: In the ordinary course of business, the Bank has entered into certain off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded.

Allowance for Credit Losses on Off Balance Sheet Credit Exposures: The Bank estimates expected credit losses over the contractual term of obligations to extend credit, unless the obligation is unconditionally cancellable. The allowance for off balance sheet exposures is adjusted through other noninterest expense. The estimates are determined based on the likelihood of funding during the contractual term and an estimate of credit losses subsequent to funding. Estimated credit losses on subsequently funded balances are based on the same assumptions as used to estimate credit losses on existing funded loans.

Reciprocal Deposits: Reciprocal deposits are Bank customer deposits transferred to a deposit placement network on a reciprocal basis. The deposit placement network provider distributes the funds to other banks in $250,000 increments. This allows Bank customers with deposits in excess of FDIC insurance limits to have their deposits fully insured. The Bank also receives reciprocal deposits from other banks/customers so that the Bank's deposit level is maintained.

Earnings Per Common Share: Net income per common share is calculated on the weighted average number of common shares outstanding during each year. The average shares outstanding was 544,795 and 542,703 for the years ended December 31, 2023 and 2022, respectively. Treasury shares are not deemed outstanding for earnings per share calculations.

Comprehensive Income (Loss): GAAP requires 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 debt securities available-for-sale, are reported as a separate component of the stockholders' equity section of the consolidated balance sheets. Such items, along with net income, are components of comprehensive income (loss).

Recently Adopted Accounting Pronouncements: In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*

(Topic 326), and has issued subsequent amendments thereto, which introduces the CECL methodology. Among other things, ASC 326 requires the measurement of all expected credit losses for financial assets, including loans, held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The CECL model requires institutions to calculate all probable and estimable losses that are expected to be incurred through the financial asset's contractual life through a provision for credit losses. For available-for-sale securities where fair value is less than cost, credit-related impairment, if any, is recognized through an allowance for credit losses and adjusted each period for changes in credit risk. The Bank adopted ASU 2016-13 and all related amendments thereto effective January 1, 2023 using the modified retrospective method for all financial assets measured at amortized cost and off balance sheet credit exposures. Amounts for periods beginning on or after January 1, 2023 are presented under ASC 326 and all prior period information is presented in accordance with previously applicable GAAP. At January 1, 2023, the cumulative adjustment related to the adoption of ASU 2016-13 was insignificant.

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, which removes the accounting guidance for troubled debt restructurings and requires entities to evaluate whether a modification provided to a borrower results in a new loan or continuation of an existing loan. The amendments enhance existing disclosures and require new disclosures for receivables when there has been a modification in contractual cash flows due to a borrower experiencing financial difficulties. The guidance is effective for entities that have adopted ASU 2016-13 for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. The Bank adopted ASU 2022-02 on January 1, 2023. All prior period information is presented in accordance with previously applicable GAAP. The Bank had no loan modifications during the year ended December 31, 2023 that would require disclosure under ASU 2022-02.

Reclassifications: Certain reclassifications have been made to the 2022 amounts to conform to the 2023 presentation.

NOTE B—SECURITIES

The amortized cost of available-for-sale securities and their approximate fair values are as follows:

	Amortized Cost	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Fair Value*
As of December 31, 2023:				
Mortgage-backed securities	$ 57,790,264	$ 15,949	$ 6,861,314	$ 50,944,899
Collateralized mortgage obligations and real estate mortgage investment conduits	10,417,276	59,751	929,722	9,547,305

TWIN CITIES FINANCIAL SERVICES, INC., AND CBBC BANK

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate	250,305	-	-	250,305
Small business administration securities	1,333,239	59,333	-	1,392,572
State and municipal securities	114,570,771	68,623	21,001,406	93,637,988
	$ 184,361,855	$ 203,656	$ 28,792,442	$ 155,773,069
As of December 31, 2022:				
U.S. Government and federal agencies	$ 1,988,120	$ -	$ 49,293	$ 1,938,827
Mortgage-backed securities	65,223,855	3,147	7,090,652	58,136,350
Collateralized mortgage obligations and real estate mortgage investment conduits	9,313,518	-	984,986	8,328,532
Corporate	250,305	-	-	250,305
State and municipal securities	124,198,699	550	25,069,505	99,129,744
	$ 200,974,497	$ 3,697	$ 33,194,436	$ 167,783,758

The components of amortized cost for debt securities on the consolidated balance sheets excludes accrued interest receivable since the Bank elected to present accrued interest receivable separately on the consolidated balance sheets. As of December 31, 2023 and 2022, total accrued interest receivable on debt securities was $1,088,742 and $1,154,054, respectively. The Bank also elected not to measure an allowance for credit losses for accrued interest receivables.

The amortized cost and approximate fair value of securities at December 31, 2023, by contractual maturity, are as follows:

	Amortized Cost	Fair Value
Available-for-sale:		
One year or less	$ 600,126	$ 590,341
Due after one year through five years	16,644,686	15,786,805
Due after five years through ten years	11,411,211	9,927,912
Due in more than ten years	96,332,024	76,880,235
	124,988,047	103,185,293
Mortgage-backed securities	57,790,264	50,944,899
Corporate	250,305	250,305
Small business administration securities	1,333,239	1,392,572
	$ 184,361,855	$ 155,773,069

Mortgage-backed securities are disclosed as a separate line item because borrowers may have the right to call or prepay obligations without penalties.

TWIN CITIES FINANCIAL SERVICES, INC., AND CBBC BANK

At December 31, 2023 and 2022, debt securities with a carrying value of approximately $33,683,000 and $21,288,000, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. At December 31, 2023 and 2022, the carrying amount of debt securities pledged to secure repurchase agreements was approximately $13,523,000 and $13,228,000, respectively.

Information pertaining to securities with gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

	Less Than Twelve Months		*Over Twelve Months*		
	Gross Unrealized Losses	*Fair Value*	*Gross Unrealized Losses*	*Fair Value*	*Total Unrealized Losses*
As of December 31, 2023:					
Mortgage-backed securities	$ -	$ -	$ 6,861,314	$ 49,727,781	$ 6,861,314
Collateralized mortgage obligations and real estate mortgage investment conduits	-	-	929,722	7,030,083	929,722
State and municipal securities	-	-	21,001,406	91,982,674	21,001,406
	$ -	$ -	$ 28,792,442	$ 148,740,538	$ 28,792,442
As of December 31, 2022:					
U.S. Government and federal agencies	$ 49,293	$ 1,938,828	$ -	$ -	$ 49,293
Mortgage-backed securities	2,467,711	31,794,864	4,622,941	25,961,218	7,090,652
Collateralized mortgage obligations and real estate mortgage investment conduits	317,575	3,817,592	667,411	4,510,940	984,986
State and municipal securities	10,187,760	50,333,225	14,881,745	48,010,969	25,069,505
	$ 13,022,339	$ 87,884,509	$ 20,172,097	$ 78,483,127	$ 33,194,436

Because the Bank currently does not intend to sell those securities that have an unrealized loss at December 31, 2023, and it is not more-likely-than-not that the Bank will be required to sell the securities before recovery of their amortized cost bases, which may be maturity, the Bank has determined that no write-down is necessary. In addition, the Bank determined that the unrealized losses associated with available-for-sale securities at December 31, 2023 are driven by changes in interest rates and are not due to the credit quality of the securities, and accordingly, no allowance for credit losses is considered necessary related to available-for-sale securities at December 31, 2023. As such, no provision for credit losses for available-for-sale securities was recognized during the year ended December 31, 2023. These securities will continue to be monitored as a part of the Bank's ongoing evaluation of credit quality.

During 2023, available-for-sale securities of approximately $14,138,000 were sold and net unrealized losses, net of tax, of approximately $632,000 were reclassified from accumulated other comprehensive income into net income.

Prior to the adoption of ASC 326, the Bank evaluated available-for-sale debt securities with unrealized losses for other-than-temporary impairment (OTTI) and recorded no OTTI for the year ended December 31, 2022.

NOTE C--LOANS AND ESTIMATED ALLOWANCE FOR LOAN LOSSES

A summary of loans and estimated allowances for credit losses as of December 31, follows:

	2023	***2022***
Loans		
Real estate:		
Commercial	$ 147,127,379	$ 146,747,007
Construction and land development	41,524,683	32,362,995
Residential	37,073,773	26,091,257
Total real estate	225,725,835	205,201,259
Commercial	21,014,869	17,929,947
Consumer	2,501,607	2,563,097
Total loans	249,242,311	225,694,303
Less: Allowance for credit losses (2023)/ estimated allowance for loan losses (2022)	4,931,337	4,708,292
Loans, net	$ 244,310,974	$ 220,986,011

The components of amortized cost for loans on the consolidated balance sheet excludes accrued interest receivable as the Bank elected to present accrued interest receivable separately on the consolidated balance sheets. As of December 31, 2023 and 2022, total accrued interest receivable on loans was $752,019 and $606,705, respectively. The Bank also elected not to measure an allowance for credit losses for accrued interest receivables.

The Bank utilizes a loss rate approach in determining its lifetime expected credit losses on its loans to customers. This method is used for calculating an estimate of losses based primarily on the Bank's historical loss experience. In determining its loss rates, the Bank evaluates information related to its historical losses, adjusted for current conditions and further adjusted for the period of time that the Bank can reasonably forecast. For the period of time beyond which the Bank can reasonably forecast, the Bank applies immediate reversion based on the facts and circumstances as of the reporting date.

Qualitative and quantitative adjustments related to current conditions and the reasonable and supportable forecast period consider all of the following: the borrower's creditworthiness, changes in lending policy and procedures, changes in nature and volume of the loan portfolio and in the terms of loans, changes in experience, ability and depth of lending management and staff, changes in the quality of the loan review system, changes in the value of underlying collateral for collateral-dependent loans, existence and effect of any concentration of credit and changes in the level of such concentrations, effect of other external forces such as competition, legal, and regulatory requirements on the level of estimated credit losses in the existing portfolio, and the current and forecasted direction of the economic and business environment. Such forecasted information includes: Gross Domestic Product (GDP) growth, unemployment rates, interest rates, and house price indexes amongst others.

The Bank engages in a variety of lending activities, including commercial, real estate-commercial, real estate-residential, and consumer loans. The Bank focuses its lending activities on individuals and small to medium sized businesses.

The Bank originates commercial business loans with professionals, sole proprietorships, and small businesses in their primary market areas. Commercial business loans are extended on a secured and unsecured basis. Secured commercial loans are generally collateralized by residential and nonresidential real estate, marketable securities, accounts receivable, inventory, industrial/commercial machinery and equipment, and furniture and fixtures. These loans are made on both lines of credit and fixed-term basis. When making commercial business loans, the Bank considers the financial statements and/or tax returns of the borrower, the borrower's payment history along with the principal owners' payment history, the debt service capabilities of the borrower, the projected cash flows of the business, and the value of the collateral and the financial strength of the guarantor.

Real estate-commercial loans are made to local commercial, retail, and professional firms and individuals for the construction and acquisition of new property or the refinancing of existing property. These loans are typically related to commercial businesses and secured by the underlying real estate used in these businesses or real property of the principals.

The Bank also offers a full range of residential real estate and consumer loans. These loans consist of residential mortgages, home equity lines of credit, equity loans, personal loans, automobile loans, and overdraft protection. Each residential mortgage loan is evidenced by a promissory note secured by a mortgage or deed of trust creating a first lien on one-to-four family residential property. Residential real estate properties underlying residential mortgage loans consist of single-family detached units, individual condominium units, two-to-four family dwelling units, and townhouses. The Bank's home equity revolving lines of credit come with a floating interest rate tied to the prime rate. The Bank also offers fixed rate home equity loans. Most of these home equity loans are secured by second liens on the property. Credit is based on the income and cash flow of the individual borrowers, real estate collateral supporting the mortgage debt, and past credit history.

TWIN CITIES FINANCIAL SERVICES, INC., AND CBBC BANK

Consumer loans may entail greater risk than residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate in value rapidly. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections depend on the borrower's continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans. There have been no significant changes to the types of collateral securing the Bank's collateral-dependent loans.

The following is a summary of the activity in the estimated allowance for credit losses for the years ended December 31, 2023 and 2022 by loan classification and the allocation of allowance for credit losses.

	Real Estate					*Additional*	
	Commercial	*Construction and Land Development*	*Residential*	*Commercial*	*Consumer*	*Qualitative Reserve*	*Total*
Allowance for Credit Losses (2023):							
Balance at January 1, 2022	$ 1,278,722	$ 176,880	$ 128,188	$ 72,105	$ 9,961	$ 2,742,904	$ 4,408,760
Loans charged off	-	-	-	-	(49,768)	-	(49,768)
Recoveries on loans	-	-	-	-	4,000	-	4,000
Estimated provision for loan losses	(274,820)	30,644	19,822	17,545	48,622	503,487	345,300
Balance at December 31, 2022	$ 1,003,902	$ 207,524	$ 148,010	$ 89,650	$ 12,815	$ 3,246,391	$ 4,708,292
Impact of adopting ASC 326	678,482	562,208	27,535	147,115	42,007	(1,474,382)	(17,035)
Loans charged off	-	-	-	-	(21,742)	-	(21,742)
Recoveries on loans	15,000	-	15	-	2,207	-	17,222
Estimated provision for credit losses	31,197	(75,647)	142,570	61,289	28,554	56,637	244,600
Balance at December 31, 2023	$ 1,728,581	$ 694,085	$ 318,130	$ 298,054	$ 63,841	$ 1,828,646	$ 4,931,337

The following details the allowance for loan losses and recorded investment by loan classification and by impairment evaluation as of December 31, 2022, as determined in accordance with ASC 310 prior to the adoption of ASU 2016-13.

	Real Estate					*Additional*	
	Commercial	*Construction and Land Development*	*Residential*	*Commercial*	*Consumer*	*Qualitative Reserve*	*Total*
Allowance for Loan Losses (2022):							
Balance at January 1, 2022	$ 1,278,722	$ 176,880	$ 128,188	$ 72,105	$ 9,961	$ 2,742,904	$ 4,408,760
Loans charged off	-	-	-	-	(49,768)	-	(49,768)
Recoveries on loans	-	-	-	-	4,000	-	4,000
Estimated provision for loan losses	(274,820)	30,644	19,822	17,545	48,622	503,487	345,300
Balance at December 31, 2022	$ 1,003,902	$ 207,524	$ 148,010	$ 89,650	$ 12,815	$ 3,246,391	$ 4,708,292
Ending balance, individually evaluated for impairment	$ 279,517	$ 47,285	$ 18,125	$ -	$ -	$ -	$ 344,927
Ending balance, collectively evaluated for impairment	$ 724,385	$ 160,239	$ 129,885	$ 89,650	$ 12,815	$ 3,246,391	$ 4,363,365
Loans (2022):							
Balance at December 31, 2022	$ 146,747,007	$ 32,362,995	$ 26,091,257	$ 17,929,947	$ 2,563,097	$ -	$ 225,694,303
Ending balance, individually evaluated for impairment	$ 1,863,446	$ 315,231	$ 120,835	$ -	$ -	$ -	$ 2,299,512
Ending balance, collectively evaluated for impairment	$ 144,883,561	$ 32,047,764	$ 25,970,422	$ 17,929,947	$ 2,563,097	$ -	$ 223,394,791

In its estimation of specific reserves for individually impaired loans, the Bank has obtained appraisals from third-party certified, and independent, appraisers to estimate the fair value of underlying real estate collateral. In addition to underlying real estate collateral, certain loans may be dependent upon the performance of guarantors and/or the future cash flows of income producing properties securing certain loans to mitigate the risk of loss. The inability of guarantors to perform, or the change in projections of future cash flows, could impact the Bank's estimate of the allowance for loan losses significantly in the near term.

Collateral Dependent Loans: For loans for which the repayment (based on the Bank's assessment) is expected to be provided substantially through the operation or sale of collateral and the borrower is experiencing financial difficulty, the following table presents the loans and the corresponding individually assessed allowance for credit losses by class of financing receivable.

	Type of Collateral		Individually Assessed Allowance for Credit Loss
	Real Estate	Financial Assets and Equipment	
As of December 31, 2023:			
Commercial real estate	$ 2,082,009	$ -	$ 1,111
Construction and land development	-	-	-
Residential real estate	348,675	-	-
Commercial	-	-	-
Consumer	-	-	-
Total	$ 2,430,684	$ -	$ 1,111

The following is an aging analysis of the loan portfolio as of December 31:

Loan Type	30-59 Days Past Due	60-89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Total Current	Total Loans Outstanding
As of December 31, 2023:						
Commercial real estate	$ -	$ -	$ -	$ -	$ 147,127,379	$ 147,127,379
Construction and land development	-	-	-	-	41,524,683	41,524,683
Residential real estate	24,057	-	-	24,057	37,049,716	37,073,773
Commercial	-	56,058	-	56,058	20,958,811	21,014,869
Consumer	-	-	-	-	2,501,607	2,501,607
Total	$ 24,057	$ 56,058	$ -	$ 80,115	$ 249,162,196	$ 249,242,311
As of December 31, 2022:						
Commercial real estate	$ -	$ -	$ -	$ -	$ 146,747,007	$ 146,747,007
Construction and land development	-	-	-	-	32,362,995	32,362,995
Residential real estate	-	25,187	-	25,187	26,066,070	26,091,257
Commercial	-	-	-	-	17,929,947	17,929,947
Consumer	3,323	-	-	3,323	2,559,774	2,563,097
Total	$ 3,323	$ 25,187	$ -	$ 28,510	$ 225,665,793	$ 225,694,303

There were no past-due loans 90 days or more still accruing interest as of December 31, 2023 and 2022.

The following table presents the amortized cost information of loans on non-accrual status:

		End of Period Amortized Cost			
	Beginning of Period Non-accrual Amortized Cost	*Non-accrual with no Related Allowance*	*Non-accrual with Related Allowance*	*Related Allowance*	*Year to Date Interest Income*
As of December 31, 2023:					
Commercial real estate	$ 26,545	$ 18,333	$ -	$ -	$ 104
Construction and land development	-	-	-	-	-
Residential real estate	120,175	151,234	-	-	498
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Total	$ 146,720	$ 169,567	$ -	$ -	$ 602

The following is a summary of the recorded investment, unpaid principal balance, and related allowance of impaired loans and the average recorded investment and the amount of interest income recognized for the year then ended, by category at December 31, 2022, as determined under ASC 310 prior to adoption of ASU 2016-13. Impaired loans generally include nonaccrual loans, troubled debt restructurings, and other loans deemed to be impaired but that continue to accrue interest:

Loan Type	*Recorded Investment*	*Unpaid Principal Balance*	*Related Allowance*	*Average Recorded Investment*	*Interest Income Recognized*
As of December 31, 2022:					
With an allowance recorded:					
Commercial real estate	$ 1,863,446	$ 1,863,446	$ 279,517	$ 1,895,100	$ 143,744
Construction and land development	315,231	315,231	47,285	257,421	13,962
Residential real estate	120,835	120,835	18,125	130,945	8,680
Total	$ 2,299,512	$ 2,299,512	$ 344,927	$ 2,283,466	$ 166,386

Risk ratings are subject to continual review by a financial advisor and a senior credit officer. At least annually, the Bank's credit procedures require risk rated loans in excess of a predetermined amount to be subject to a formal credit risk review process. Each loan's risk rating is also subject to review by the Bank's independent loan review function, which reviews a substantial portion of the Bank's risk rated portfolio annually. Included in the coverage are independent reviews of loans in targeted higher-risk portfolio segments such as certain commercial and industrial loans, land loans, and/or loan types in certain geographies.

Following are the definitions of the risk rating categories used by the Bank. Non-classified loans include all credits other than those included within these categories:

TWIN CITIES FINANCIAL SERVICES, INC., AND CBBC BANK

- Special mention loans are currently protected but are potentially weak. While concerns exist, the Bank is currently protected, and loss is unlikely. These loans constitute an undue and unwarranted credit risk but not to the point of justifying a classification of Substandard. They have potential weaknesses that may, if not checked or corrected, weaken the asset, or inadequately protect the Bank's credit position at some future date.

- Substandard loans are inadequately protected by the current net worth and financial capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize collection of the debt. Substandard loans are characterized by the distinct possibility that the Bank could sustain some loss if the deficiencies are not corrected.

- Doubtful loans have all the characteristics of Substandard loans with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

- Loss loans are considered uncollectible and of such little value that their continuance as bankable assets is not warranted.

The following is a summary of the credit risk profile, by category, of loans with internally assigned grades, as of December 31:

	Real Estate					
	Commercial	*Construction and Land Development*	*Residential*	*Commercial*	*Consumer*	*Total*
As of December 31, 2023:						
Grade:						
Loss	$ -	$ -	$ -	$ -	$ -	$ -
Doubtful	-	-	-	-	-	-
Substandard	1,240,684	-	181,433	69,363	-	1,491,480
Special mention	-	-	82,765	-	-	82,765
Non-classified	145,886,695	41,524,683	36,809,575	20,945,506	2,501,607	247,668,066
Total	$ 147,127,379	$ 41,524,683	$ 37,073,773	$ 21,014,869	$ 2,501,607	$ 249,242,311
As of December 31, 2022:						
Grade:						
Loss	$ -	$ -	$ -	$ -	$ -	$ -
Doubtful	-	-	-	-	-	-
Substandard	1,863,446	-	436,066	-	-	2,299,512
Special mention	108,455	-	84,683	-	-	193,138
Non-classified	144,775,106	32,362,995	25,570,508	17,929,947	2,563,097	223,394,791
Total	$ 146,747,007	$ 32,362,995	$ 26,091,257	$ 17,929,947	$ 2,563,097	$ 225,887,441

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law. It contains substantial tax and spending provisions intended to address the impact of the coronavirus disease 2019 pandemic. The CARES Act includes the Paycheck Protection Program, a program designed to aid small and medium-sized businesses, sole proprietors, and other selfemployed persons through federally guaranteed loans distributed through banks. These loans are intended to guarantee eight to 24 weeks of payroll and other costs to provide support to participating businesses and increase the ability of these businesses to retain workers.

These loans are fully guaranteed by the U.S. Small Business Administration (SBA), carry a term of two or five years, dependent on the date originated, and a 1.0% annualized interest rate. Forgiveness of these loans by the SBA began in the 3rd quarter of 2020. As of December 31, 2022, all applications from Bank borrowers had been submitted to the SBA for forgiveness and all applications had been approved for forgiveness by the SBA. For the year ended December 31, 2022, the Bank received $349,392 in proceeds from the SBA related to these forgiven loans.

There were no modifications of loans to debtors experiencing financial difficulty during the year ended December 31, 2023.

There were no troubled debt restructurings that occurred during the year ended December 31, 2022.

As of December 31, 2022, the Bank identified approximately $2,351,000 in troubled debt restructurings, respectively, where the terms of the loan agreements were modified to provide more favorable terms to allow the borrower to continue to service the loans. The modified terms of the new loan agreements included adjustments to loan maturities, principal balances, payment terms, and interest rates.

There were no loans pledged as collateral to secure FHLB advances at December 31, 2023 and 2022 due to there being no FHLB advances outstanding as of these dates.

The Bank has entered into transactions with certain directors, executive officers, significant stockholders, and their affiliates. In management's opinion, such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not involve more than normal credit risk or present other unfavorable features. As of December 31, 2023 and 2022, the Bank had $74,417 and $658,305 in loans, respectively, outstanding to such related parties.

NOTE D--PREMISES AND EQUIPMENT

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

TWIN CITIES FINANCIAL SERVICES, INC., AND CBBC BANK

	2023	2022
Land	$ 2,066,308	$ 2,066,308
Buildings	9,262,383	9,245,078
Furniture and equipment	2,945,169	2,842,614
Construction in Progress	399,588	-
	14,673,448	14,154,000
Accumulated depreciation	(7,049,776)	(6,719,693)
	$ 7,623,672	$ 7,434,307

Depreciation is based on estimated useful lives as presented below:

Buildings and improvements	5-40 years
Furniture and equipment	3-20 years

NOTE E--OPERATING LEASES

The Bank had no non-cancelable lease agreements of significance in effect at December 31, 2023 and 2022.

NOTE F--DEPOSITS

Deposits as of December 31, are summarized as follows:

	2023	2022
Non-interest bearing demand	$ 114,607,894	$ 135,632,598
Interest-bearing demand deposits	121,209,995	124,315,350
Savings	87,619,619	109,312,407
Time deposits under $250,000	54,519,071	35,906,623
Time deposits $250,000 and over	31,204,976	8,739,208
	$ 409,161,555	$ 413,906,186

At December 31, the scheduled maturities of time deposits are as follows:

Year Ending December 31,	
2024	$ 66,994,205
2025	17,724,142
2026	840,107
2027	151,815
2028	13,778
	$ 85,724,047

The directors, executive officers, and principal stockholders maintain certain deposits with the Bank. In management's opinion, the terms of these related party deposit contracts are comparable to those available to other depositors.

NOTE G--FEDERAL RESERVE BANK AND FHLB BORROWINGS

The Bank has approval to borrow funds through the Federal Reserve Discount Window. The funds are available through the Federal Reserve Bank's primary credit arrangement, which allows loans for terms of up to 90 days. As of December 31, 2023 and 2022, the Bank could apply to borrow, with a maximum of approximately $40,796,000 and $41,677,000, respectively, based on existing collateral value. Each borrowing requires a subsequent review of the Bank's credit worthiness, and the Bank is not guaranteed of qualifying to borrow the maximum amount. As of December 31, 2023 and 2022, the Bank had no funds drawn under this credit arrangement.

Additionally, as of December 31, 2023 and 2022, the Bank had borrowing capacity with the FHLB of approximately $20,299,145 and $23,747,000, respectively. As of December 31, 2023 and 2022, the Bank had no funds drawn under this credit arrangement.

NOTE H--EMPLOYEE BENEFIT PLANS

The Company sponsors a qualified employee stock purchase plan for all eligible employees. Common shares of the Company may be offered to employees at a discretionary discount (not to exceed 15% of fair value). The Company has accrued approximately $7,000 and $10,000 as compensation expense related to this plan as of December 31, 2023 and 2022, respectively. These amounts are included in accounts payable and accrued liabilities in the consolidated balance sheets as of December 31, 2023 and 2022.

In addition, the Company sponsors a nonqualified employee stock purchase plan for Company directors and other non-eligible employees. Common shares of the Company may be offered to participants at a discretionary discount from fair value. No amount was accrued as compensation expense related to this plan as of December 31, 2023. The Company accrued no compensation

TWIN CITIES FINANCIAL SERVICES, INC., AND CBBC BANK

The Company also has a defined contribution profit sharing plan covering all eligible employees. Profit sharing expense for both 2023 and 2022 was $150,000.

NOTE I--SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

The Bank has entered into agreements with certain depositors whereby the depositor's daily available balances are utilized to purchase certain securities from the Bank under repurchase agreements which mature daily and are automatically renewed daily. The Bank may be required to provide additional collateral based on the fair value of the underlying securities.

At December 31, 2023 and 2022, securities sold under repurchase agreements amounted to $11,968,483 and $8,195,530, respectively, and securities with a fair value of $11,348,816 and $11,423,200 at December 31, 2023 and 2022, respectively, are held as collateral for the agreements. The securities underlying the agreements are maintained under the Bank's control.

NOTE J--INCOME TAXES

The provision for income taxes consists of the following for the years ended December 31:

	2023	***2022***
Current income tax expense	$ 1,541,711	$ 1,374,534
Deferred income tax (benefit) expense	(100,996)	(50,151)
Total income tax expense	$ 1,440,715	$ 1,324,383
Income tax expense computed at statutory rates (26.1%)	$ 1,906,419	$ 1,767,203
Increase (decrease) in income taxes from:		
Tax exempt interest income	(472,271)	(476,876)
Other	6,567	34,056
	$ 1,440,715	$ 1,324,383

Deferred tax assets and liabilities arise from temporary differences between the financial and tax bases of certain assets and liabilities. Significant components of deferred tax assets and liabilities are as follows as of December 31:

TWIN CITIES FINANCIAL SERVICES, INC., AND CBBC BANK

	2023	2022
Deferred tax assets:		
Unrealized gain/loss on securities available-for-sale	$ 6,003,645	$ 6,970,055
Other	74,494	50,000
Total deferred tax assets	$ 6,078,139	$ 7,020,055
Deferred tax liabilities:		
Allowance for loan losses	$ 299,733	$ 351,099
Premises and equipment depreciation	94,924	120,818
FHLB stock dividends	55,033	54,517
Accrued expenses	17,635	17,378
Gain or loss on sale of assets	63,999	63,999
Non-accrual loan interest	1,310	1,325
Total deferred tax liabilities	532,634	609,136
Net deferred tax assets	$ 5,545,505	$ 6,410,919

The Bank has no federal and state net operating loss carryforwards at December 31, 2023.

NOTE K--OFF-BALANCE SHEET ACTIVITIES

In the normal course of business, the Bank has outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying consolidated financial statements. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated balance sheets.

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 Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include real estate, accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

There were no unfunded commitments as of December 31, 2023.

The Bank has available lines of credit with certain correspondent financial institutions totaling approximately $43,900,000 at both December 31, 2023 and 2022. No amounts were drawn on these lines of credit as of December 31, 2023 and 2022.

NOTE L--COMMITMENTS AND CONTINGENT LIABILITIES

The Company is subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position of the Company.

The Bank maintains its cash and cash equivalents with what it believes to be high-quality financial institutions and thus limits its credit risk exposure. At times, the cash maintained in these institutions exceeds federally insured limits.

NOTE M--FAIR VALUE OF FINANCIAL INSTRUMENTS

The FASB ASC establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. The definition of fair value focuses on the exit price (i.e., 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), not the entry price (i.e., the price that would be paid to acquire the asset, or received to assume the liability, at the measurement date). The ASC emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, the fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability.

Valuation Hierarchy: The ASC establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- *Level 1:* Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- *Level 2:* Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

- *Level 3:* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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 is a description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

- Assets

  - *Securities:* Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government securities and certain other products. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows and are classified within Level 2 of the valuation hierarchy. In certain cases where there may be limited activity or less transparency around inputs to the valuation, securities may be classified within Level 3 of the valuation hierarchy; and
  - *Collateral Dependent Loans (Impaired loans prior to the adoption of ASC 326):* Loans for which, based on current information and events, the Bank has determined foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and the Bank expects repayment of the loan to be provided substantially through the operation or sale of the collateral and it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Collateral dependent loans are classified as Level 3.

- Liabilities

  - At December 31, 2023 and 2022, the Bank has no liabilities meeting the criteria for disclosure.

The following tables present the financial instruments carried at fair value as of December 31, by caption in the consolidated balance sheets:

Assets Measured at Fair Value on a Recurring Basis as of December 31, 2023

	Total	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
Securities available-for-sale	$ 155,773,069	$ -	$ 155,773,069	$ -

TWIN CITIES FINANCIAL SERVICES, INC., AND CBBC BANK

Years Ended December 31, 2023 and 2022

Assets Measured at Fair Value on a Nonrecurring Basis as of December 31, 2023

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral dependent loans	$ 2,429,573	$ -	$ -	$ 2,429,573

Assets Measured at Fair Value on a Recurring Basis as of December 31, 2022

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale	$ 167,783,758	$ -	$ 167,783,758	$ -

Assets Measured at Fair Value on a Nonrecurring Basis as of December 31, 2022

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 1,954,585	$ -	$ -	$ 1,954,585

NOTE N--REGULATORY CAPITAL

The Bank is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct and material effect on the Bank, and on the consolidated financial statements of the Company.

Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by regulatory authorities concerning capital components, risk weightings, and other factors.

The capital level requirements also establish a "capital conservation buffer" of 2.5% above the regulatory minimum risk-based capital ratios, and result in the following minimum risk-based capital ratios when factoring in the conservation buffer: a common equity tier 1 risk-based capital ratio of 7%, a tier 1 risk-based capital ratio of 8.5%, and a total risk-based capital ratio of 10.5%. An institution will be subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if capital levels fall below minimum levels plus the buffer amounts.

Quantitative measures established by regulation to ensure capital adequacy requires the Bank to maintain minimum amounts and ratios (set forth in the following table) of: total risk-based capital, tier 1 capital and common equity tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and tier 1 capital (as defined) to average total assets (as defined) as of December 31, 2023 and 2022. Management believes that the Bank meets all capital adequacy requirements to which it is subject as of December 31, 2023 and 2022.

As of December 31, 2023 and 2022, the most recent notification from the Federal Reserve Bank categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum capital levels set forth in the table below. The capital conservation buffer is not included in the required ratios of the table. There are no conditions or events since that notification that management believes has changed the Bank's category.

The Bank's actual and required capital amounts and ratios are as follows:

	Actual		*For Capital Adequacy Purposes*		*To be Well Capitalized Under the Prompt Corrective Action Provisions*	
	Amount	*Ratio*	*Amount*	*Ratio*	*Amount*	*Ratio*
As of December 31, 2023:						
Total risk-based capital (to risk-weighted assets)	$ 74,823,046	22.2%	$ 26,913,840	8.0%	$ 33,642,300	10.0%
Tier 1 capital (to risk-weighted assets)	$ 70,609,046	21.0%	$ 20,185,380	6.0%	$ 26,913,840	8.0%
Common equity tier 1 capital (to risk-weighted assets)	$ 70,609,046	21.0%	$ 15,139,035	4.5%	$ 21,867,495	6.5%
Tier 1 capital (to average total assets)	$ 70,609,046	14.8%	$ 19,117,480	4.0%	$ 23,896,850	5.0%

Years Ended December 31, 2023 and 2022

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under the Prompt Corrective Action Provisions	
	Amount	***Ratio***	***Amount***	***Ratio***	***Amount***	***Ratio***
As of December 31, 2022:						
Total risk-based capital						
(to risk-weighted assets)	$ 70,402,710	22.1%	$ 25,503,760	8.0%	$ 31,879,700	10.0%
Tier 1 capital						
(to risk-weighted assets)	$ 66,409,710	20.8%	$ 19,127,820	6.0%	$ 25,503,760	8.0%
Common equity tier 1 capital						
(to risk-weighted assets)	$ 66,409,710	20.8%	$ 14,345,865	4.5%	$ 20,721,805	6.5%
Tier 1 capital						
(to average total assets)	$ 66,409,710	14.1%	$ 18,801,640	4.0%	$ 23,502,050	5.0%

NOTE O--SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of the Independent Auditor’s Report, which is the date the financial statements were available to be issued. During this period, management did not note any material recognizable subsequent events that required recognition or disclosure in the December 31, 2023 financial statements.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders of
Twin Cities Financial Services, Inc.:

Opinion

We have audited the consolidated financial statements of Twin Cities Financial Services, Inc. (the Holding Company) and CBBC Bank (the Bank) (collectively, the Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Twin Cities Financial Services, Inc. and CBBC Bank as of December 31, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of a Matter - New Accounting Guidance

As discussed in Note A to the financial statements, the Bank adopted new accounting guidance required by Accounting Standards Update (ASU) 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments (Topic 326)*, effective January 1, 2023. The Bank adopted the new credit loss standard using the modified retrospective method provided in ASU 2016-13 such that information for the year ended December 31, 2022, is not adjusted and continues to be reported in accordance with previously applicable generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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 the Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

PYA, P.C.

Knoxville, Tennessee
February 16, 2024

PYA
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INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

To the Board of Directors and Stockholders of
Twin Cities Financial Services, Inc.:

We have audited the consolidated financial statements of Twin Cities Financial Services, Inc. and CBBC Bank as of and for the years ended December 31, 2023 and 2022, and have issued our report thereon dated February 16, 2024, which contained an unmodified opinion on those consolidated financial statements. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information (Financial Highlights) included in this annual report is presented for purposes of additional analysis 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 supplementary information for the years ended December 31, 2023 and 2022 has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

PYA, P.C.

Knoxville, Tennessee
February 16, 2024

CBBCBank