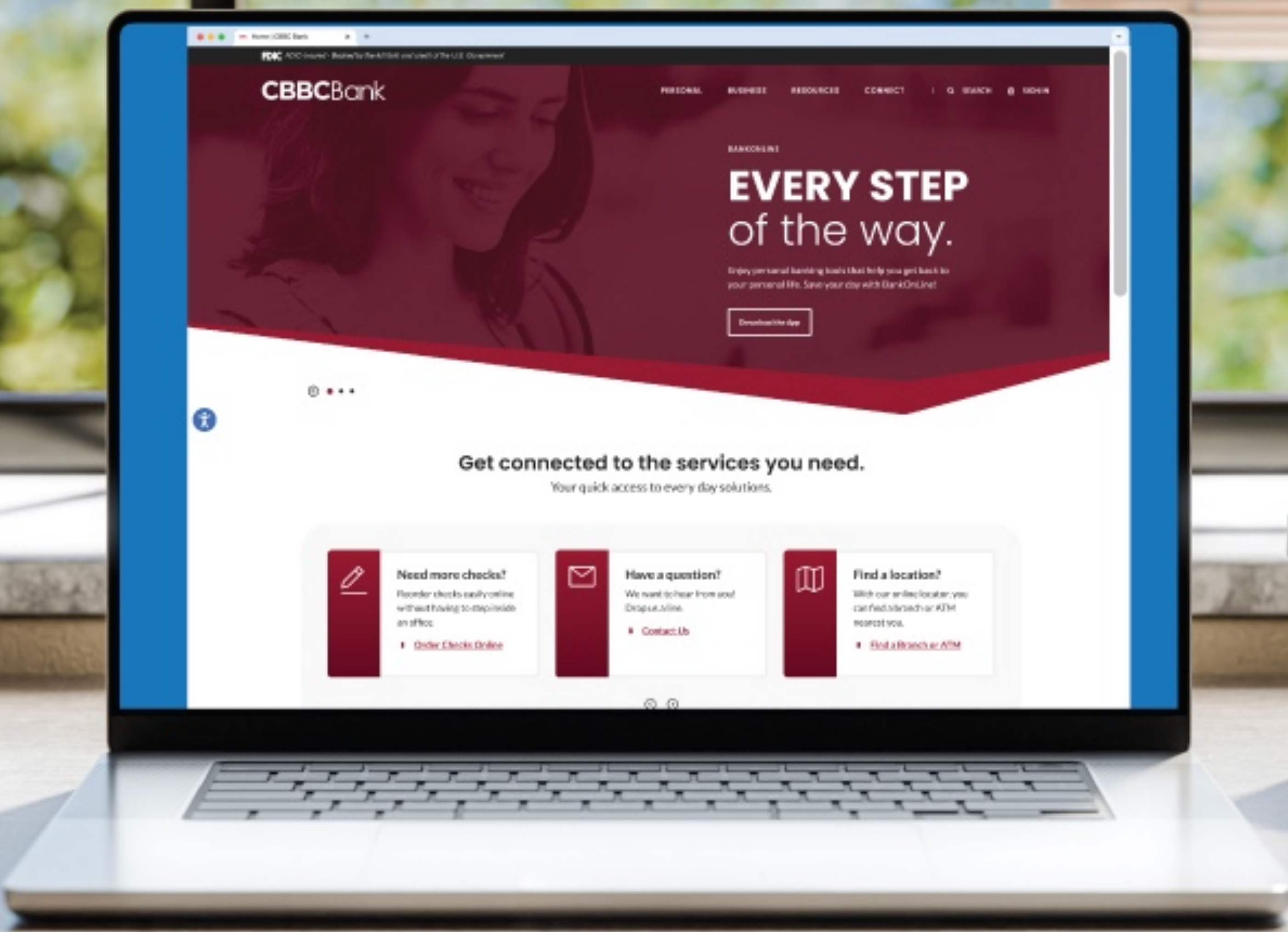
CBBCBank



Twin Cities Financial Services, Inc.

2024 Annual Report

Twin Cities Financial Services, Inc.

CBBC Bank

2024 | Annual Report

CBBC Bank

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.

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Financial Statements
December 31, 2024

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
cbbc.bank

TO OUR SHAREHOLDERS AND FRIENDS:

Your investment in Twin Cities Financial Services, Inc. continued to grow and prosper during CBBC Bank's successful 2024. 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 2024 created net profits of over $6.03 million, which provided a dividend payout of $3.00 per share. Loan growth in 2024 resulted in a loan increase from $249 million to $268 million, with deposits increasing from $410 million to $417 million.

In January we launched our new website **cbbc.bank** which has provided a new online experience with even more security. Throughout the year in 2025 we will be upgrading our ATMs to Interactive Teller Machines (ITMs) which will provide teller assistance through video connection. ITMs will let our customers perform simple cash transactions or engage in deeper, more personalized banking activities with remote tellers. CBBC Bank remains committed to investing in technology to provide customers a choice, access, and convenience to perform their everyday banking.

As we look to 2025, 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,

Bill Clabough
Chairman of the Board

Michael W. Hearon
President & CEO

Twin Cities Financial Services, Inc.
Directors & Officers

Directors

Mike Baker
Retired, CBBC Bank

Bill Clabough
Exec. Dir. Foothills Land Conservancy

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

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

Bill Clabough
Chairman

Dr. James Robertson
Vice Chairman

Michael W. Hearon
President & CEO

Gaynell Lawson
Secretary

Mindy Stooksbury
Treasurer/Assistant Secretary

CBBC Bank Officers

Mike Hearon
President
Chief Executive Officer

John Harris
Executive Vice President
Chief Lending Officer

SENIOR VICE PRESIDENTS

Robert Carter
Commercial Banker

Christley Ford
Commercial Banker

Brian Hord
Commercial Banker

Kathy Johnson
Business Development

Novella Jones
Mortgage Department Manager

Aaron Owen
Commercial Banker

Beth Pyle
Bank Risk Manager/Information Security Officer

Jonathan Settlemire
Chief Operations Officer

Mindy Stooksbury
Chief Financial Officer

Susan Zerambo
Human Resources Manager

VICE PRESIDENTS

Mindy Boudreau
Loan Compliance Officer

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
Controller

Leah Smith
Loan Operations Manager

ASSISTANT VICE PRESIDENTS

Meagan Byrd
Manager, Heritage Office

Sean Garrett
Bank Secrecy Act Officer

Chad Hicks
Manager, Main Office/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

BANKING OFFICERS

Lana Pettis
Ex. Assistant & Deposit Specialist

Kelly Whedbee
eBanking Branch Officer/Bank Trainer

Financial Highlights

	2020	2021	2022	2023	**2024**
Condensed consolidated income statements in thousands					
Net interest income	$12,502	$13,918	$15,133	$17,595	**$16,721**
Other noninterest income*	4,050	1,804	1,731	781	**1,824**
Total revenue, net interest expense	16,552	15,722	16,864	18,376	**18,545**
Provision for loan losses	1,059	93	345	245	**140**
Noninterest expense	9,155	8,973	9,777	10,818	**10,842**
Net income (loss) prior to taxes (benefit)	6,338	6,656	6,742	7,314	**7,562**
Income taxes (benefit)	1,655	1,442	1,324	1,441	**1,531**
Net income (loss)*	4,684	5,214	5,418	5,873	**6,031**
Per common share					
Net earnings (loss)	$ 8.71	$ 9.66	$ 9.98	$ 10.78	**$ 11.03**
Dividends paid**	3.90	2.45	3.50	2.75	**3.00**
Book value	116.76	120.14	75.32	90.00	**95.43**
Year-end balance sheet data in thousands					
Assets	$419,424	$486,728	$463,866	$475,837	**$488,851**
Allowance for loan losses	4,413	4,409	4,708	4,931	**4,941**
Loans	235,725	211,399	225,694	249,242	**268,625**
Deposits	347,739	414,444	413,906	409,162	**416,628**
Shareholders' equity	62,801	65,415	40,949	49,071	**52,300**
Regulatory risk-based capital	62,838	66,588	70,403	74,823	**79,570**
Performance ratios					
Return on average assets	1.12%	1.07%	1.17%	1.23%	**1.23%**
Return on average common equity	7.46%	7.97%	13.23%	11.97%	**11.53%**
Overhead expenses to average assets	2.34%	1.96%	2.02%	2.26%	**2.23%**
Employees per $1 million assets	0.18	0.16	0.16	0.17	**0.16**
Net interest margin to average assets	3.20%	3.04%	3.13%	3.68%	**3.44%**
Capital ratios					
Equity and reserves to assets	15.85%	14.03%	9.73%	11.23%	**11.71%**

*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, 2024	December 31, 2023
ASSETS		
Cash and cash equivalents:		
Cash and noninterest-bearing due from banks	**$ 5,971,855**	$ 5,610,919
Interest-bearing due from banks	**37,779,736**	45,737,798
Federal funds sold	**9,157,388**	8,182,826
Total cash and cash equivalents	**52,908,979**	59,531,543
Securities available-for-sale, at estimated fair value	**154,288,095**	155,773,069
Federal Home Loan Bank stock, at cost	**401,400**	401,400
Other investments	**105,466**	349,184
Loans, net of estimated allowance for credit losses of of $4,940,623 in 2024 and $4,931,337 in 2023	**263,684,470**	244,310,974
Interest receivable	**1,975,038**	1,840,761
Deferred income taxes, net	**6,057,300**	5,545,505
Premises and equipment, net	**8,482,056**	7,623,672
Foreclosed assets, net	**42,436**	-
Other assets	**905,506**	461,110
TOTAL ASSETS	**$ 488,850,746**	$ 475,837,218

TWIN CITIES FINANCIAL SERVICES, INC., AND CBBC BANK

	2024	2023
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	**$ 113,265,935**	$ 114,607,894
Interest-bearing	**303,362,324**	294,553,661
Total deposits	**416,628,259**	409,161,555
Securities sold under repurchase agreements	**12,497,661**	11,968,483
Reciprocal deposits	**6,280,249**	4,757,787
Interest payable	**340,842**	127,179
Accounts payable and accrued liabilities	**804,168**	751,481
TOTAL LIABILITIES	**436,551,179**	426,766,485
COMMITMENTS AND CONTINGENCIES - Notes K and L		
STOCKHOLDERS' EQUITY		
Common stock, $1 par value; 100,000,000 shares authorized; 548,037 shares issued and 547,060 outstanding at December 31, 2024, and 545,226 shares issued and outstanding at December 31, 2023	**548,037**	545,226
Additional paid-in capital	**13,177,313**	13,011,464
Retained earnings	**62,488,716**	58,099,185
Accumulated other comprehensive loss	**(23,844,408)**	(22,585,142)
Common stock held in treasury, at cost; 977 shares at December 31, 2024, and no shares at December 31, 2023	**(70,091)**	-
TOTAL STOCKHOLDERS' EQUITY	**52,299,567**	49,070,733
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 488,850,746**	$ 475,837,218

See accompanying notes to consolidated financial statements.

TWIN CITIES FINANCIAL SERVICES, INC., AND CBBC BANK

	2024	2023
INTEREST INCOME		
Loans, including fees	**$ 15,660,223**	$ 13,247,890
Securities:		
Taxable	**6,246,303**	6,150,825
Tax-exempt	**832,628**	904,028
Federal funds sold	**456,768**	914,755
TOTAL INTEREST INCOME	**23,195,922**	21,217,498
INTEREST EXPENSE		
Interest on deposits	**6,225,227**	3,350,628
Interest on securities sold under repurchase agreements	**250,009**	271,984
TOTAL INTEREST EXPENSE	**6,475,236**	3,622,612
NET INTEREST INCOME	**16,720,686**	17,594,886
PROVISION FOR CREDIT LOSSES	**140,470**	244,600
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	**16,580,216**	17,350,286
NONINTEREST INCOME		
Service charges on deposit accounts	**1,498,009**	1,442,144
Loss on sale of investment securities	**(75,561)**	(855,084)
Other	**401,582**	194,116
TOTAL NONINTEREST INCOME	**1,824,030**	781,176
NONINTEREST EXPENSE		
Salaries and employee benefits	**5,732,105**	5,614,950
Occupancy	**623,008**	573,602
Equipment	**354,476**	360,960
Data processing	**1,197,694**	1,424,412
Advertising	**206,891**	264,357
Supplies	**160,535**	128,164
Communication	**214,007**	326,002
Banking agency assessments	**237,941**	201,244
Other operating	**2,115,666**	1,924,265
TOTAL NONINTEREST EXPENSE	**10,842,323**	10,817,956
INCOME BEFORE INCOME TAXES	**7,561,923**	7,313,506
INCOME TAX EXPENSE	**1,530,841**	1,440,715
NET INCOME	**$ 6,031,082**	$ 5,872,791

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

TWIN CITIES FINANCIAL SERVICES, INC., AND CBBC BANK

		2024		2023
EARNINGS PER COMMON SHARE OUTSTANDING	**$**	**11.03**	$	10.78
OTHER COMPREHENSIVE INCOME NET OF INCOME TAXES:				
Change in fair value on securities available-for-sale, net of taxes	**$**	**(1,315,075)**	$	3,003,978
Net loss on sale of investment securities reclassified from other comprehensive income into net income, net of taxes		**55,809**		631,565
Total other comprehensive income (loss)		**(1,259,266)**		3,635,543
COMPREHENSIVE INCOME	**$**	**4,771,816**	$	9,508,334

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, 2023,	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
Cash dividends ($3.00 per share)	-	-	-	(1,641,551)	-	-	(1,641,551)
Issuance of 2,811 shares of common stock in connection with employee stock purchase plans	2,811	2,811	165,849	-	-	-	168,660
Treasury stock acquired (5,504 shares)	-	-	-	-	-	(393,846)	(393,846)
Treasury stock sold (4,527 shares)	-	-	-	-	-	323,755	323,755
Net income	-	-	-	6,031,082	-	-	6,031,082
Other comprehensive loss	-	-	-	-	(1,259,266)	-	(1,259,266)
BALANCES, December 31, 2024	548,037	$ 548,037	$ 13,177,313	$ 62,488,716	$ (23,844,408)	$ (70,091)	$ 52,299,567

See Accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

TWIN CITIES FINANCIAL SERVICES, INC., AND CBBC BANK

	2024	*2023*
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 6,031,082**	$ 5,872,791
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	**140,470**	244,600
Depreciation	**374,519**	360,957
Realized loss on sale of investment securities	**75,561**	855,084
Net accretion and amortization of investment securities	**495,170**	575,959
Deferred income tax (benefit) expense	**(177,053)**	(100,996)
Net change in:		
Interest receivable	**(134,277)**	(80,002)
Other assets	**(444,396)**	25,075
Interest payable	**213,663**	115,318
Accounts payable and accrued liabilities	**52,687**	(52,201)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**6,627,426**	7,816,585
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in available-for-sale securities:		
Maturities, prepayments, and calls	**8,443,256**	6,881,013
Sales	**1,799,512**	14,137,590
Purchases	**(10,922,533)**	(5,837,004)
Activities in other investments:		
Maturities and calls	**243,718**	488,707
Loan originations and principal collections, net	**(19,556,402)**	(23,569,563)
Additions to premises and equipment	**(1,232,903)**	(550,322)
Proceeds from the sale of Federal Home Loan Bank stock	**-**	522,300
NET CASH USED IN INVESTING ACTIVITIES	**(21,225,352)**	(7,927,279)

See accompanying notes to consolidated financial statements.

TWIN CITIES FINANCIAL SERVICES, INC., AND CBBC BANK

	2024	*2023*
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits (non-time deposits)	**(38,508,395)**	(45,822,847)
Net change in time deposits	**45,975,099**	41,078,216
Net change in securities sold under repurchase agreements	**529,178**	3,772,953
Net change in reciprocal deposits	**1,522,462**	4,757,787
Issuance of common stock	**168,660**	113,237
Cash dividends	**(1,641,551)**	(1,499,372)
Purchase of treasury stock	**(393,846)**	(15,000)
Proceeds from sale of treasury stock	**323,755**	15,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	**7,975,362**	2,399,974
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(6,622,564)**	2,289,280
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**59,531,543**	57,242,263
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 52,908,979**	$ 59,531,543
SUPPLEMENTAL INFORMATION:		
Cash paid during the year for:		
Interest	**$ 6,261,573**	$ 3,507,294
Income taxes	**$ 1,509,000**	$ 1,546,000
SUPPLEMENTAL SCHEDULE OF NON-CASH ACTIVITIES:		
Loans moved to foreclosed assets	**$ 42,436**	$ -
Change in unrealized gain/loss on securities available-for-sale	**$ 1,594,008**	$ 4,601,953
Change in unrealized gain/loss on securities available-for-sale, net of tax effects and reclassification adjustments for realized gain/loss	**$ 1,259,266**	$ 3,635,543

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 the 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 credit 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.

TWIN CITIES FINANCIAL SERVICES, INC., AND CBBC BANK

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 not any Certificates of deposit that exceeded the FDIC insurance limit at December 31, 2024 and 2023.

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 that approximates the interest method, if significant. At December 31, 2024 and 2023, net deferred loan fees of $292,645 and $347,101, 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 non-accrual 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 non-accrual 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 non-accrual, 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 non-accrual 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: 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, 2024, 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.

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 credit 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. Foreclosed assets amounted to $42,436 as of December 31, 2024, and are comprised entirely of vacant land. There were no foreclosed assets as of December 31, 2023. As of December 31, 2024, the Bank had no consumer mortgage loans collateralized by residential real estate properties 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, 2021 through 2024, and the state of Tennessee for the years ended December 31, 2021 through 2024.

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 546,910 and 544,795 for the years ended December 31, 2024 and 2023, 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).

Reclassifications: Certain reclassifications have been made to the 2023 amounts to conform to the 2024 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, 2024:				
Mortgage-backed securities	$ 55,075,431	$ 12,446	$ 6,882,567	$ 48,205,310
Collateralized mortgage obligations and real estate mortgage investment conduits	16,260,478	20,229	899,523	15,381,184
Corporate	250,305	-	-	250,305
Small business administration securities	928,668	4,535	-	933,203
State and municipal securities	111,956,007	32,469	22,470,383	89,518,093
	$ 184,470,889	$ 69,679	$ 30,252,473	$ 154,288,095
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
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

The components of amortized cost for debt securities on the consolidated balance sheets exclude accrued interest receivable since the Bank elected to present accrued interest receivable separately on the consolidated balance sheets. As of December 31, 2024 and 2023, total accrued interest receivable on debt securities was $1,091,821 and $1,088,742, 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, 2024, by contractual maturity, are as follows:

	Amortized Cost	Fair Value
Available-for-sale:		
One year or less	$ 1,510,385	$ 1,502,613
Due after one year through five years	21,875,717	20,888,568
Due after five years through ten years	12,001,894	10,294,236
Due in more than ten years	92,828,489	72,213,860
	128,216,485	104,899,277
Mortgage-backed securities	55,075,431	48,205,310
Corporate	250,305	250,305
Small business administration securities	928,668	933,203
	$ 184,470,889	$ 154,288,095

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

At December 31, 2024 and 2023, debt securities with a carrying value of approximately $30,331,000 and $33,683,000, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. At December 31, 2024 and 2023, the carrying amount of debt securities pledged to secure repurchase agreements was approximately $11,849,000 and $13,523,000, 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, 2024:					
Mortgage-backed securities	$ 58,185	$ 2,499,970	$ 6,824,382	$ 42,283,345	$ 6,882,567
Collateralized mortgage obligations and real estate mortgage investment conduits	72,684	6,556,635	826,839	6,735,302	899,523
State and municipal securities	4,095	295,905	22,466,288	87,603,325	22,470,383
	$ 134,964	$ 9,352,510	$ 30,117,509	$ 136,621,972	$ 30,252,473
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

Because the Bank currently does not intend to sell those securities that have an unrealized loss at December 31, 2024, 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, 2024 and 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, 2024 and 2023. As such, no provision for credit losses for available-for-sale securities was recognized during the years ended December 31, 2024 and 2023. These securities will continue to be monitored as a part of the Bank's ongoing evaluation of credit quality.

During 2024, available-for-sale securities of approximately $1,800,000 were sold, and net unrealized losses, net of tax, of approximately $56,000 were reclassified from accumulated other comprehensive income into net income.

NOTE C--LOANS AND ESTIMATED ALLOWANCE FOR CREDIT LOSSES

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

	2024	*2023*
Loans		
Real estate:		
Commercial	$ 177,328,707	$ 147,127,379
Construction and land development	20,355,166	41,524,683
Residential	45,581,592	37,073,773
Total Real Estate	243,265,465	225,725,835
Commercial	23,401,408	21,014,869
Consumer	1,958,220	2,501,607
Total Loans	268,625,093	249,242,311
Less: Allowance for credit losses	4,940,623	4,931,337
Loans, net	$ 263,684,470	$ 244,310,974

The components of amortized cost for loans on the consolidated balance sheets exclude accrued interest receivable as the Bank elected to present accrued interest receivable separately on the consolidated balance sheets. As of December 31, 2024 and 2023, total accrued interest receivable on loans was $883,217 and $752,019, 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, the 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.

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, 2024 and 2023, by loan classification and the allocation of allowance for credit losses.

	Real Estate					*Additional*	
		Construction and				*Qualitative*	
	Commercial	*Land Development*	*Residential*	*Commercial*	*Consumer*	*Reserve*	*Total*
Allowance for Credit Losses:							
Balance at January 1, 2023	$ 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 loan 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
Loans charged off	-	-	-	-	-	(136,177)	(136,177)
Recoveries on loans	-	-	-	-	4,993	-	4,993
Estimated provision for credit losses	323,412	(355,782)	70,000	21,235	(16,608)	98,213	140,470
Balance at December 31, 2024	$ 2,051,993	$ 338,303	$ 388,130	$ 319,289	$ 52,226	$ 1,790,682	$ 4,940,623

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		
	Real Estate	***Financial Assets and Equipment***	***Individually Assessed Allowance for Credit Loss***
As of December 31, 2024:			
Commercial real estate	$ 2,683,124	$ -	$ 27,671
Construction and land development	-	-	-
Residential real estate	402,987	-	42,436
Commercial	-	-	-
Consumer	22,115	-	7,599
Total	$ 3,108,226	$ -	$ 77,706
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

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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, 2024:						
Commercial real estate	$ -	$ -	$ -	$ -	$ 177,328,707	$ 177,328,707
Construction and land development	-	-	-	-	20,355,166	20,355,166
Residential real estate	-	11,838	36,260	48,098	45,533,494	45,581,592
Commercial	-	-	-	-	23,401,408	23,401,408
Consumer	-	21,673	-	21,673	1,936,547	1,958,220
Total	$ -	$ 33,511	$ 36,260	$ 69,771	$ 268,555,322	$ 268,625,093
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

There were no past-due loans 90 days or more still accruing interest as of December 31, 2024 and 2023.

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, 2024:					
Commercial real estate	$ 18,333	$ 17,907	$ -	$ -	$ 104
Construction and land development	-	-	-	-	-
Residential real estate	151,234	149,951	-	-	164
Commercial	-	-	-	-	-
Consumer	-	22,115	-	-	62
Total	$ 169,567	$ 189,973	$ -	$ -	$ 330
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

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:

- 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, 2024:						
Grade:						
Loss	$ -	$ -	$ -	$ -	$ -	$ -
Doubtful	-	-	-	-	-	-
Substandard	2,519,512	-	240,550	11,900	43,789	2,815,751
Special mention	3,459,598	-	-	-	-	3,459,598
Non-classified	171,349,597	20,355,166	45,341,042	23,389,508	1,914,431	262,349,744
Total	$ 177,328,707	$ 20,355,166	$ 45,581,592	$ 23,401,408	$ 1,958,220	$ 268,625,093

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	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

There was one modification of a residential loan with a balance of $25,020 to a debtor experiencing financial difficulty during the year ended December 31, 2024. There were no modifications during the year ended December 31, 2023.

There were no loans pledged as collateral to secure FHLB advances at December 31, 2024 and 2023, 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, 2024 and 2023, the Bank had $70,040 and $74,417 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:

	2024	2023
Land	$ 2,066,308	$ 2,066,308
Buildings	10,334,449	9,262,383
Furniture and equipment	3,485,594	2,945,169
Construction in Progress	20,000	399,588
	15,906,351	14,673,448
Accumulated depreciation	(7,424,295)	(7,049,776)
	$ 8,482,056	$ 7,623,672

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, 2024 and 2023.

NOTE F--DEPOSITS

Deposits as of December 31 are summarized as follows:

	2024	*2023*
Non-interest bearing demand	$ 113,265,935	$ 114,607,894
Interest-bearing demand deposits	97,837,556	121,209,995
Savings	73,825,622	87,619,619
Time deposits under $250,000	86,326,451	54,519,071
Time deposits $250,000 and over	45,372,695	31,204,976
	$ 416,628,259	$ 409,161,555

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

Year Ending December 31,	
2025	$ 125,979,943
2026	4,977,055
2027	169,071
2028	364,335
2029	208,742
	$ 131,699,146

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, 2024 and 2023, the Bank could apply to borrow, with a maximum of approximately $48,820,000 and $40,796,000, respectively, based on existing collateral value. Each borrowing requires a subsequent review of the Bank's creditworthiness, and the Bank is not guaranteed to qualify to borrow the maximum amount. As of December 31, 2024 and 2023, the Bank had no funds drawn under this credit arrangement.

Additionally, as of December 31, 2024 and 2023, the Bank had borrowing capacity with the FHLB of approximately $20,703,000 and $20,299,000, respectively. As of December 31, 2024 and 2023, 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 $6,000 and $7,000 as compensation expense related to this plan as of December 31, 2024 and 2023, respectively. These amounts are included in accounts payable and accrued liabilities in the consolidated balance sheets as of December 31, 2024 and 2023.

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, 2024 and 2023.

The Company also has a defined contribution profit-sharing plan covering all eligible employees. Profit sharing expense for 2024 and 2023 was $166,750 and $150,000, respectively.

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, 2024 and 2023, securities sold under repurchase agreements amounted to $12,497,661 and $11,968,483, respectively, and securities with a fair value of $9,995,956 and $11,348,816 at December 31, 2024 and 2023, 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:

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	2024	2023
Current income tax expense	$ 1,681,164	$ 1,541,711
Deferred income tax (benefit) expense	(150,323)	(100,996)
Total income tax expense	$ 1,530,841	$ 1,440,715
Income tax expense computed at statutory rates (26.1%)	$ 1,976,343	$ 1,906,419
Increase (decrease) in income taxes from:		
Tax exempt interest income	(444,407)	(472,271)
Other	(1,095)	6,567
	$ 1,530,841	$ 1,440,715

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:

	2024	2023
Deferred tax assets:		
Unrealized gain/loss on securities available-for-sale	$ 6,338,387	$ 6,003,645
Other	244,864	74,494
Total deferred tax assets	$ 6,583,251	$ 6,078,139
Deferred tax liabilities:		
Allowance for loan losses	$ 267,360	$ 299,733
Premises and equipment depreciation	120,219	94,924
FHLB stock dividends	55,421	55,033
Accrued expenses	17,856	17,635
Gain or loss on sale of assets	63,658	63,999
Non-accrual loan interest	1,437	1,310
Total deferred tax liabilities	525,951	532,634
Net deferred tax assets	$ 6,057,300	$ 5,545,505

The Bank has no federal and state net operating loss carryforwards at December 31, 2024.

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.

The Bank had unfunded commitments of approximately $38,755,000 as of December 31, 2024. There were no unfunded commitments as of December 31, 2023.

The Bank has available lines of credit with certain correspondent financial institutions totaling approximately $43,400,000 and $43,900,000 at December 31, 2024 and 2023, respectively. No amounts were drawn on these lines of credit as of December 31, 2024 and 2023.

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:* 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, 2024 and 2023, 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, 2024

	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	$ 154,288,095	$ -	$ 154,288,095	$ -

Assets Measured at Fair Value on a Nonrecurring Basis as of December 31, 2024

	Total	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
Collateral dependent loans	$ 3,030,520	$ -	$ -	$ 3,030,520

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	$ -

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)
Impaired loans	$ 2,429,573	$ -	$ -	$ 2,429,573

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 require 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, 2024 and 2023. Management believes that the Bank meets all capital adequacy requirements to which it is subject as of December 31, 2024 and 2023.

As of December 31, 2024 and 2023, 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, 2024:						
Total risk-based capital (to risk-weighted assets)	$ 79,569,662	22.7%	$ 28,093,760	8.0%	$ 35,117,200	10.0%
Tier 1 capital (to risk-weighted assets)	$ 75,172,662	21.4%	$ 21,070,320	6.0%	$ 28,093,760	8.0%
Common equity tier 1 capital (to risk-weighted assets)	$ 75,172,662	21.4%	$ 15,802,740	4.5%	$ 22,826,180	6.5%
Tier 1 capital (to average total assets)	$ 75,172,662	13.8%	$ 21,824,400	4.0%	$ 27,280,500	5.0%
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%

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, 2024, financial statements.

CERTIFIED PUBLIC ACCOUNTANTS

PYA, P.C.
One Cherokee Mills
2220 Sutherland Avenue
Knoxville, TN 37919
(865) 673-0844 | pyapc.com

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, 2024 and 2023; 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, 2024 and 2023, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 12, 2025

PYA
CERTIFIED PUBLIC ACCOUNTANTS

PYA, P.C.
One Cherokee Mills
2220 Sutherland Avenue
Knoxville, TN 37919
(865) 673-0844 | pyapc.com

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, 2024 and 1899, and have issued our report thereon dated February 12, 2025, 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, 2024, 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 12, 2025