

Tri City Bankshares Corporation

Quarterly Financial Data

INCOME STATEMENT (unaudited)

	Twelve Months Ended		Three Months Ended	
	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2015</u>
Interest Income	\$ 44,091,245	\$ 40,830,614	\$ 11,600,600	\$ 10,276,464
Interest Expense	<u>1,241,042</u>	<u>1,146,131</u>	<u>324,348</u>	<u>285,791</u>
Net Interest Income	42,850,203	39,684,483	11,276,252	9,990,673
Noninterest Income	15,149,208	19,019,083	3,776,339	4,387,963
Less: Provision for Loan Losses	900,000	3,000,000	-	750,000
Noninterest Expense	<u>40,988,691</u>	<u>39,802,394</u>	<u>9,783,118</u>	<u>9,342,876</u>
Income Before Taxes	16,110,720	15,901,172	5,269,473	4,285,760
Income Tax Expense	<u>5,382,714</u>	<u>5,332,852</u>	<u>1,727,214</u>	<u>1,467,352</u>
Net Income	<u>\$ 10,728,006</u>	<u>\$ 10,568,320</u>	<u>\$ 3,542,259</u>	<u>\$ 2,818,408</u>
Net Income Per Share	\$ 1.20	\$ 1.19	\$ 0.40	\$ 0.32
Dividends Per Share	\$ 0.48	\$ 0.48	\$ 0.12	\$ 0.12

BALANCE SHEET (unaudited) December 31, 2016 and 2015

Assets	2016		2015		Liabilities & Equity	2016		2015	
Cash and Due from Banks	\$	128,622,650	\$	101,360,761	Noninterest Bearing Deposits	\$	267,485,080	\$	235,629,092
Total Investment Securities		440,788,027		446,840,309	Interest Bearing Deposits		<u>1,017,320,612</u>		<u>959,490,140</u>
Federal Funds Sold		2,464,348		1,164,295	Total Deposits		1,284,805,692		1,195,119,232
Total Loans		799,628,467		728,697,339	Other Liabilities		<u>4,309,060</u>		<u>3,402,681</u>
Allowance for Loan Losses		<u>(11,256,774)</u>		<u>(11,590,900)</u>	Total Liabilities		1,289,114,752		1,198,521,913
Net Loans		788,371,693		717,106,439	Common Stock		8,904,915		8,904,915
Bank Premises & Equipment		15,469,273		15,293,462	Additional Paid-In Capital		26,543,470		26,543,470
Cash surrender value of life insurance		37,256,129		36,156,447	Unrealized Gain (Loss) on Securities		(1,569,545)		469,013
Other Real Estate Owned		469,350		3,190,903	Retained Earnings		<u>104,307,608</u>		<u>97,853,961</u>
Other Assets		<u>13,859,730</u>		<u>11,180,656</u>	Total Stockholders' Equity		<u>138,186,448</u>		<u>133,771,359</u>
Total Assets		<u>\$ 1,427,301,200</u>		<u>\$ 1,332,293,272</u>	Total Liabilities & Equity		<u>\$ 1,427,301,200</u>		<u>\$ 1,332,293,272</u>

Management Comments

The Corporation posted net income of \$10.7 million during 2016, an increase of \$0.1 million, or 1.5%, from 2015. Earnings per share was \$1.20 during 2016 compared to \$1.19 in 2015.

Net interest income was \$42.9 million during 2016, an increase of \$3.2 million or 8.0% over the prior year. The increase was due to a \$2.4 million and \$0.9 million increase in interest income on loans and investments, respectively, which was partially offset by a \$0.1 million increase in interest paid on deposits. The increase in interest income on loans was due to continued loan growth and improved asset quality.

Noninterest income during 2016 was \$15.1 million, a decrease of \$3.9 million or 20.3% from the prior year, which was primarily due to three separate factors that occurred in 2015. The first factor was a \$2.9 million gain on sale of investments. The second factor was a \$0.2 million death benefit related to bank owned life insurance. The third factor was a \$0.7 million decline in the gain on sale of other real estate owned. Noninterest income benefited from an increase in secondary market mortgage loan activity during the last six months of 2016 resulting in an increase in the gain on the sale of loans.

The provision for loan losses decreased \$2.1 million to \$0.9 million during 2016 due to continued low levels of charge-offs net of recoveries.

Noninterest expense during 2016 was \$41.0 million, an increase \$1.2 million or 3.0% compared to 2015. The increase was primarily due to an increase in salary and benefits as management invested in additional experienced lending and compliance personnel. In addition, the bank has recently hired new leadership in the areas of human resources and information technology as management continues to focus on investing in both human capital and technology that will enhance the customer experience and drive operational efficiency. Operating earnings were positively affected by acquisition-related purchase accounting income of \$1.9 million for both 2015 and 2016.

The Corporation's total assets increased \$95.0 million, or 7.1%, from \$1,332.3 million at December 31, 2015 to \$1,427.3 million at December 31, 2016. The increase in total assets was due to an increase in both cash and due from banks and loans, which was partially offset by a decrease in investments. Total net loans increased \$71.3 million, or 9.9%, from \$717.1 million at December 31, 2015 to \$788.4 million at December 30, 2016. This increase is especially important as management has focused on redeploying the bank's excess liquidity into loans. The growth on the asset side of the balance sheet was supported by an \$89.7 million increase in core deposits. Total shareholders' equity also increased \$4.4 million due to an increase in retained earnings which, was partially offset by a decrease in the unrealized gain on securities from a \$0.5 million unrealized gain to \$1.6 million unrealized loss.

Dividend Announcement

The Board of Directors declared a dividend of \$0.12 per share payable on February 9, 2017 to shareholders as of the record date of January 30, 2017.

The Corporation has a long history of maintaining capital ratios in excess of the levels required to be considered well capitalized. This philosophy is unchanged. However, new capital rules for banks, which became effective January 1, 2015 have increased the capital required for this classification and added additional capital buffer requirements to be phased-in from now through 2019.

The Board of Directors firmly believes in maintaining a strong capital base for the Corporation. The Board will continue to monitor earnings, on-going regulatory requirements, and other factors when approving future dividends.