

Tri City Bankshares Corporation

Quarterly Financial Data

INCOME STATEMENT (unaudited)

	Nine Months Ended		Three Months Ended	
	<u>9/30/2016</u>	<u>9/30/2015</u>	<u>9/30/2016</u>	<u>9/30/2015</u>
Interest Income	\$ 32,490,646	\$ 30,554,152	\$ 10,809,618	\$ 10,335,240
Interest Expense	<u>916,694</u>	<u>860,337</u>	<u>314,572</u>	<u>282,964</u>
Net Interest Income	31,573,952	29,693,815	10,495,046	10,052,276
Noninterest Income	11,372,871	14,631,120	3,931,892	3,753,888
Less: Provision for Loan Losses	900,000	2,250,000	300,000	750,000
Noninterest Expense	<u>31,205,575</u>	<u>30,459,520</u>	<u>10,466,119</u>	<u>10,050,894</u>
Income Before Taxes	10,841,248	11,615,415	3,660,819	3,005,270
Income Tax Expense	<u>3,655,500</u>	<u>3,865,500</u>	<u>1,205,000</u>	<u>986,500</u>
Net Income	<u>\$ 7,185,748</u>	<u>\$ 7,749,915</u>	<u>\$ 2,455,819</u>	<u>\$ 2,018,770</u>
Net Income Per Share	\$ 0.81	\$ 0.87	\$ 0.28	\$ 0.23
Dividends Per Share	\$ 0.36	\$ 0.36	\$ 0.12	\$ 0.12

BALANCE SHEET (unaudited) September 30, 2016 and 2015

Assets	2016		2015		Liabilities & Equity	2016		2015	
Cash and Due from Banks	\$	96,693,711	\$	146,043,240	Noninterest Bearing Deposits	\$	273,420,574	\$	252,777,796
Total Investment Securities		458,791,351		365,917,089	Interest Bearing Deposits		<u>949,363,506</u>		<u>890,403,133</u>
Federal Funds Sold		1,888,944		1,440,515	Total Deposits		1,222,784,080		1,143,180,929
Total Loans		767,895,982		715,258,550	Other Liabilities		<u>16,669,237</u>		<u>4,983,341</u>
Allowance for Loan Losses		<u>(11,447,256)</u>		<u>(13,367,512)</u>	Total Liabilities		1,239,453,317		1,148,164,270
Net Loans		756,448,726		701,891,038	Common Stock		8,904,915		8,904,915
Bank Premises & Equipment		15,576,852		15,454,544	Additional Paid-In Capital		26,543,470		26,543,470
Cash surrender value of life insurance		36,982,675		35,874,596	Unrealized Gain on Securities		4,512,893		1,811,332
Other Real Estate Owned		1,971,553		3,871,955	Retained Earnings		<u>101,833,940</u>		<u>96,104,146</u>
Other Assets		<u>12,894,723</u>		<u>11,035,156</u>	Total Stockholders' Equity		<u>141,795,218</u>		<u>133,363,863</u>
Total Assets		<u>\$ 1,381,248,535</u>		<u>\$ 1,281,528,133</u>	Total Liabilities & Equity		<u>\$ 1,381,248,535</u>		<u>\$ 1,281,528,133</u>

Management Comments

The Corporation posted net income of \$7.2 million for the first nine months of 2016, a decrease of \$0.6 million, or 7.3%, from the first nine months of 2015. Earnings per share decreased to \$0.81 for the nine months ended September 30, 2016 compared to \$0.87 for the same period in 2015.

Net interest income was \$31.6 million for the first nine months of 2016, an increase of \$1.9 million or 6.3% over the prior year. The increase was due to a \$1.5 million and \$0.4 million increase in interest income on loans and investments, respectively, which was partially offset by a slight increase in interest paid on deposits. The increase in interest income on loans was due to continued loan growth as interest rates remain at historical lows.

Noninterest income for the first nine months of 2016 was \$11.4 million, a decrease of \$3.3 million or 22.3% from the prior year, which was primarily due to two separate one-time events in the second quarter of 2015. The first event was a \$2.9 million gain on sale of investments. The second event was a \$0.2 million death benefit related to bank owned life insurance. Noninterest income benefited from an increase in secondary market mortgage loan activity during the third quarter of 2016 resulting in an increase in the gain on the sale of loans.

The provision for loan losses decreased \$1.4 million to \$0.9 million during the first nine months of 2016 due to continued low levels of charge-offs net of recoveries.

Noninterest expense for the first nine months of 2016 was \$31.2 million, an increase \$0.7 million or 2.5% from the first nine months of 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 \$1.7 million during the first nine months of both 2015 and 2016.

The Corporation's total assets increased \$99.7 million, or 7.8%, from \$1,281.5 million at September 30, 2015 to \$1,381.2 million at September 30, 2016. The increase in total assets was due to an increase in both investments and loans, which was partially offset by a decrease in cash and due from banks. Total net loans increased \$54.6 million, or 7.8%, from \$701.9 million at September 30, 2015 to \$756.5 million at September 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 a \$79.6 million increase in core deposits. Total shareholders' equity also increased \$8.4 million due to an increase in both retained earnings and the unrealized gain on securities.

Dividend Announcement

The Board of Directors declared a dividend of \$0.12 per share payable on November 10, 2016 to shareholders as of the record date of October 31, 2016.

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 Bank. The Board will review earnings, on-going regulatory requirements, and other factors when approving dividends, just as they have done every quarter throughout our history.