

2024
**ANNUAL
REPORT**

TriCity Bankshares Corporation

Dear Fellow Shareholders,

As we conclude another year, it is my honor to report on the continued success and growth of Tri City National Bank in 2024. This year we have continued to stay true to our mission of delivering value to our customers, our employees, and our shareholders, while being a responsible and engaged member of the communities we serve. Together, we are building a bank that is resilient, forward-looking, and deeply committed to making a positive impact.

In 2024, our bank achieved a strong and stable financial performance, thanks to our strategic initiatives, diligent risk management, and a disciplined approach to growth. As of December 31, 2024, our total assets stood at \$1.91 billion. It wasn't that long ago, as of December 31, 2018, our total assets were \$1.41 billion. We have come a long way since then, which is a testament to our ability to manage through an evolving economic landscape while remaining focused on long-term sustainability.

As of year end, our Tier 1 Capital Ratio — the primary regulatory capital measure — stood at 11.04%, a five-year high. The increase was primarily driven by repayment of all our borrowings. Liquidity ratios have all improved over the last year and core net income has also improved. We are pleased to report that Tri City's strong financial position only became stronger in 2024, which provides us with the flexibility to navigate future challenges while continuing to support our customers' needs.

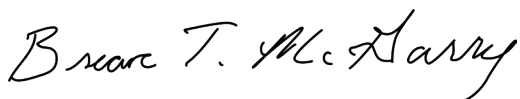
Over the last year, we have expanded our range of services and invested in technology. We introduced a suite of new digital banking tools designed to improve the user experience, streamline financial management, and ensure that our customers have access to banking services when and where they need them. We also made significant investments in the modernization of our branches to ensure that we provide the highest levels of customer service and convenience.

Our commitment to being a relationship-driven bank has never wavered. While we continue to adopt new technologies and enhance our online capabilities, we believe that the human element of banking is irreplaceable. Our bankers are dedicated to building lasting relationships with our customers and providing personalized solutions that meet their unique financial needs. We understand that banking is about more than just transaction — it is about trust, integrity, and providing our customers with the tools they need to succeed.

Our efforts have not gone unnoticed. Tri City National Bank was honored to be named Southeastern Wisconsin's Best Bank by the Milwaukee Journal Sentinel's readers, reflecting our dedication to excellence in banking. Furthermore, our President, Lakshmy Nair, was featured in MKElifestyle magazine and recognized by the Milwaukee Business Journal as one of the "business leaders you should watch" in 2024, underscoring her leadership and vision.

As we move forward, we remain committed to our mission of being the hometown bank that fuels your success. We will continue to adapt to the evolving financial landscape, leveraging our strengths to meet the changing needs of our customers and communities. Our focus will be on sustainable growth, innovation, and maintaining the trust that has been placed in us for over six decades.

Thank you for your continued support.
Sincerely,



Brian T. McGarry

Chairman of the Board and Chief Executive Officer
Tri City Bankshares Corporation

2024 HIGHLIGHTS



Winner of three Top Choice Awards from the Milwaukee Journal Sentinel:

- Best Bank
- Best Mortgage Lending Company
- Best Financial Planning Services



Oak Creek Branch Remodel:

This project modernized the branch with colors, furniture and texture that matches our brand today. Notable additions include private spaces to better conduct relationship banking, a hospitality area with coffee for customers, and a private lunchroom for our bankers.



We Give Where We Live:

- WKLH Miracle Marathon
- Habitat for Humanity Community Build
- Federal Home Loan Bank Grants
- Revitalize Milwaukee Block Build
- Forest Home Cemetery Cleanup



WHAT WE'VE BUILT

GOOGLE REVIEWS



4.5 on
Google Business
across 1,000+
reviews!



"It is a pleasure doing banking at Tri City National Bank in Kenosha on Washington Road. I have done banking there for many years. It is always a pleasure to come to this branch to do my banking business. I have the opportunity at least once a week to interact with the branch staff. Crystal, Becky, Guivini, Heidi, and Rachel are amazing bankers."



"The staff are five stars. They are very professional and knowledgeable about every situation of business banking, and very polite when handling any problem. I enjoy banking at this branch and everyone knows my name. I want to thank Carson Leedom, George Black, Shontea Burris, Mitchell Beard, Natasha Hayes, Natasha Johnson, Candance Jackson, and Haylee Selby."



"I cannot say enough about our new bank! Tri City Corporate and our local branch in South Milwaukee have made us feel like we actually matter! I can't say that for some of the larger banks we have been with in the past. Everyone is great, but a special shout out to Aleta, Pella, Randy, and Vanessa!"



"I love this branch on 109th and Greenfield. All of the tellers are awesome; they are very helpful, polite, and have great customer service skills. Sharon, the branch manager, is a beautiful person inside and out. She is very helpful and polite. She helped me close my personal account and open another one with them. Thank you all for good customer service that is an A+."



"I often come in to get quarters from this location. It's an extra drive and I don't mind per the professionalism and friendliness of this bank. The manager, Ms. Lueretha, is always so kind and helpful. They've given me more than enough care and consideration over time, and I'd be happy to bank with them! 5 stars!!"

HOMETOWN HOME BUYERS



Tri City National Bank customers closed on 207 first mortgage loans in 2024.

IN THE NEWS

President **LAKSHMY NAIR** was honored as a Woman of Influence by the Milwaukee Business Journal



Senior Vice President **BOB PRANGE** was presented the Heartsaver Hero Award from the American Heart Association

Assistant Vice President **BOBBIE LEWIS** received a prestigious invite to the New York Stock Exchange



Senior Vice President **IVAN GAMBOA** was named Power Broker by the Milwaukee Business Journal

Financial Performance Highlights



Figure 1.1

Total assets dropped from recent highs due to the Corporation repaying borrowings using cash held at the Fed. The Corporation is 30% larger than it was 5 years ago and continues to target long-term asset growth. (Figure 1.1)

2024 was a year of modest loan growth for the Corporation. Market rates remained elevated compared to recent years, causing a decline in loan demand in the Corporation’s geographic region. Its lending team remained vigilant in its pursuit of credit-worthy loans, despite the weaker loan demand seen in the market. (Figure 1.2)

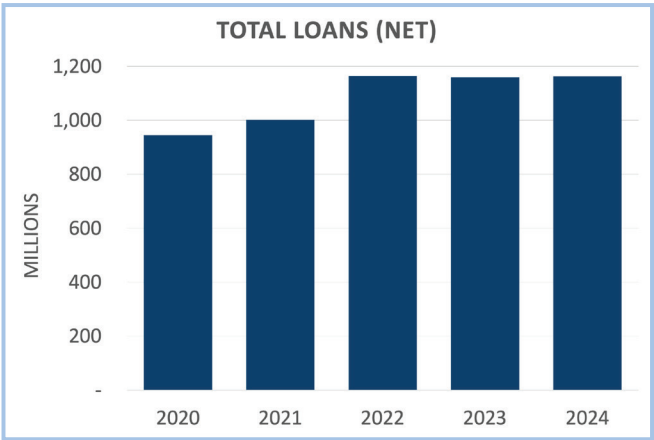


Figure 1.2

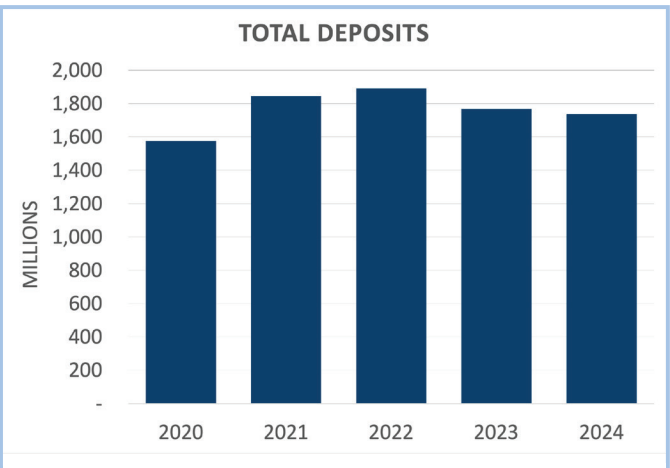


Figure 1.3

Deposit levels stabilized in 2024, but a migration of deposits into higher earning CDs continued. The influx of deposits gained during the pandemic began to wane as consumer spending increased at record levels and inflation remained elevated. The Corporation took a proactive approach to CD rate specials and money market rates to protect its core deposit base (Figure 1.3)

Financial Performance Highlights

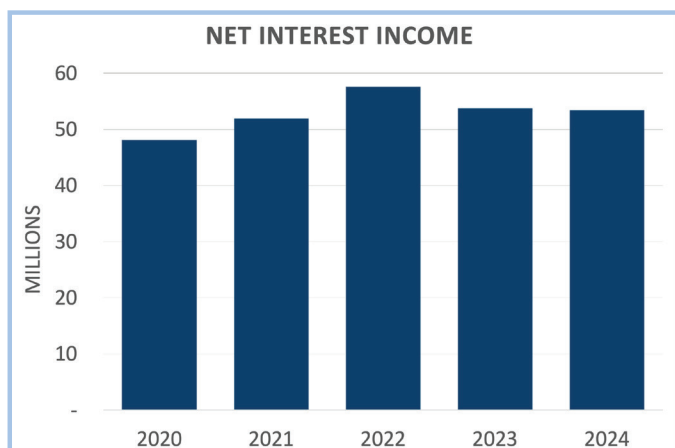


Figure 2.1

Net Interest Income was stable in 2024 despite a Federal Reserve tightening cycle in 2023, leading to higher rates across the entire U.S. Treasury curve. (Figure 2.1)

The Corporation is well positioned to maintain Net Interest Income in a variety of interest rate scenarios. Asset liability management practices and partners are as strong and as important as ever. A prolonged, inverted yield curve provides challenges to banks, but the Corporation is well positioned to benefit from a higher interest rate environment in the long term.

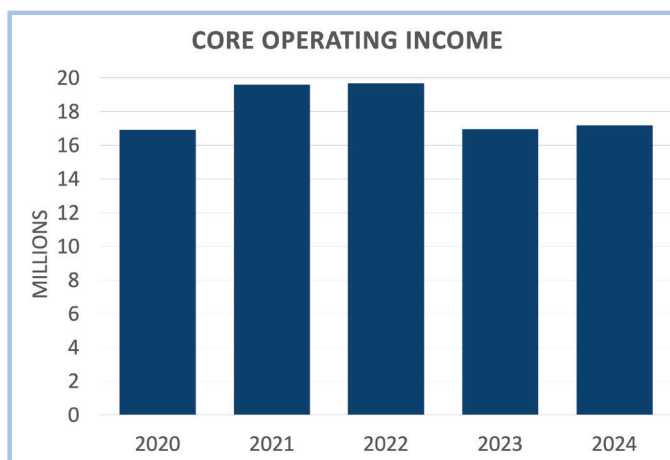


Figure 2.2

The Corporation has always taken a simple approach to its balance sheet structure. It takes local deposits and lends them to local businesses. This straightforward approach prevents unnecessary risk that causes banks to find trouble over the long term. As of December 31, 2024, the Corporation had no borrowings.

The Corporation has always judged itself on its Core Operating Income. It takes pride in maintaining consistent core operating income in all macroeconomic environments. The Corporation was able to increase its core operating income from the prior year due to its conservative lending practices, solid core deposit base, and liquidity position. (Figure 2.2)

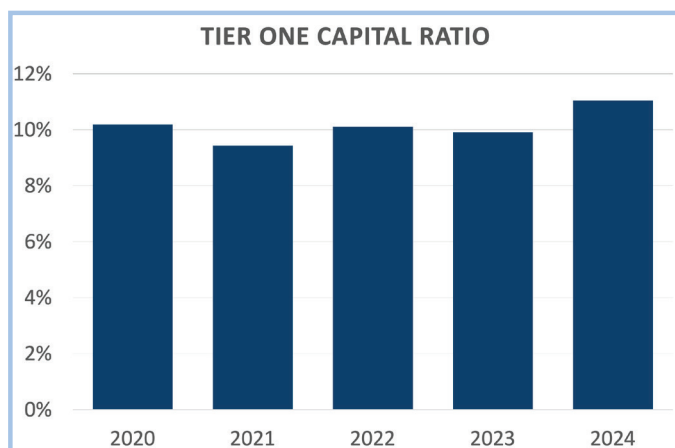


Figure 2.3

Tier 1 Capital is of the utmost importance to the Corporation. The Corporation has been able to maintain capital ratios to be considered Well Capitalized by regulators. As of December 31, 2024, the Corporation's Tier 1 capital is at a 5-year high. (Figure 2.3)

Financial Performance Highlights

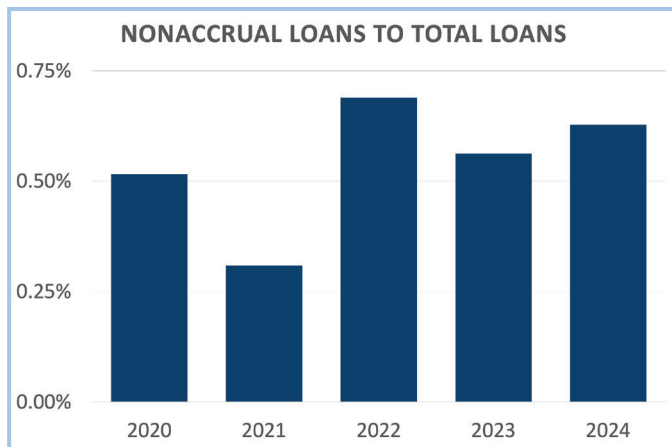


Figure 3.1

The Corporation has always fostered a strong credit quality culture. Each new loan is carefully underwritten to meet the appropriate lending standards.

Nonaccrual loans remain at low levels, despite a rapid raise in loan rates increasing the cost of borrowing to consumers. (Figure 3.1)

Past due loans greater than 30 days also remain at historically low levels. The Corporation takes a proactive approach to working with its customers who are late with loan payments. (Figure 3.2)

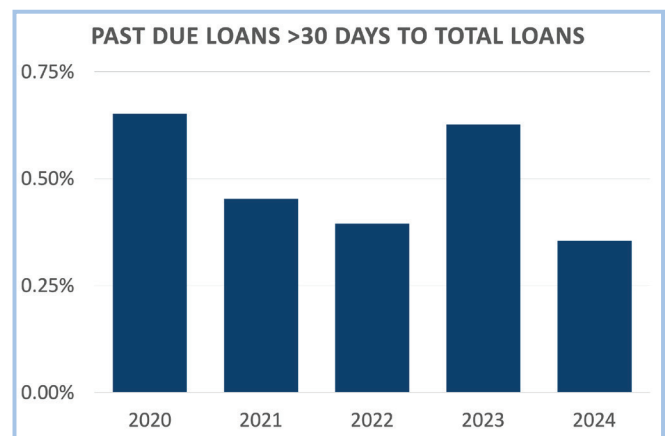


Figure 3.2

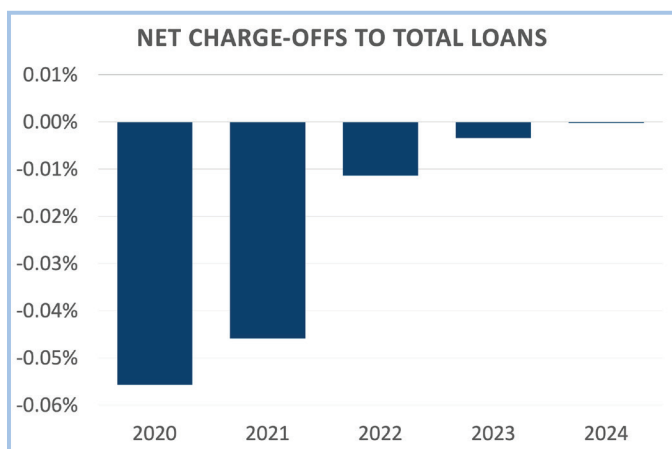


Figure 3.3

For the sixth consecutive year, the Corporation has had negative charge offs on loans. (Figure 3.3)

Selected Financial Data

Results of Operations	2020	2021	2022	2023	2024
Interest Income	\$51,067,127	\$52,878,074	\$59,453,479	\$68,733,641	\$76,556,194
Interest Expense	\$1,446,834	\$943,952	\$1,860,863	\$15,453,609	\$23,588,442
Net Interest Income	\$49,620,293	\$51,934,122	\$57,592,616	\$53,280,032	\$52,967,752
Provision (recapture) for credit losses on loans (PCL)	\$1,500,000	-	-	\$(455,211)	\$(425,000)
Net Interest Income after PCL	\$48,120,293	\$51,934,122	\$57,592,616	\$53,735,243	\$53,392,752
Core noninterest income	\$17,341,854	\$17,839,230	\$15,842,595	\$14,925,145	\$15,907,626
Non-core noninterest income	\$1,029,396	\$268,441	\$2,429,879	-	\$1,378,031
Core noninterest expense	\$48,136,600	\$49,930,269	\$52,683,398	\$51,696,207	\$52,114,410
Non-core noninterest expense	\$1,619,796	\$1,869,312	\$2,483,338	\$2,126,989	\$4,757,035
Income before income tax expense	\$16,735,147	\$18,242,212	\$20,698,354	\$14,837,192	\$13,806,964
Deferred tax adjustment from change in tax law	-	-	-	\$7,336,616	-
Income taxes	\$2,518,795	\$2,883,643	\$3,232,798	\$1,042,561	\$2,079,814
Total income tax expense	\$2,518,795	\$2,883,643	\$3,232,798	\$8,379,177	\$2,079,814
Net income	\$14,216,352	\$15,358,569	\$17,465,556	\$6,458,015	\$11,727,150
Balance Sheet Data					
Assets	\$1,796,413,636	\$2,054,498,528	\$2,038,496,442	\$2,078,743,388	\$1,907,150,025
Security investments	\$558,509,399	\$820,639,129	\$691,594,252	\$608,976,750	\$476,198,208
Total loans	\$958,247,553	\$1,014,652,367	\$1,177,931,968	\$1,173,609,721	\$1,177,751,681
Allowance for credit losses on loans	\$(13,106,919)	\$(13,572,773)	\$(13,707,262)	\$(14,579,234)	\$(14,157,647)
Total loans, net	\$945,140,634	\$1,001,079,594	\$1,164,224,706	\$1,159,030,487	\$1,163,594,034
Deposits	\$1,574,587,154	\$1,844,378,881	\$1,891,340,898	\$1,768,372,171	\$1,738,134,282
Borrowings	-	-	-	\$150,000,000	-
Total Tier One capital	\$183,020,518	\$193,748,531	\$205,871,138	\$205,917,612	\$210,637,530
Total stockholders' equity	\$191,103,531	\$191,631,640	\$128,570,287	\$143,512,850	\$153,554,733
Net loans to deposits	60.02%	54.28%	61.56%	65.54%	66.95%
Per Share Data					
Earnings per share	\$1.60	\$1.72	\$1.96	\$0.73	\$1.32
Cash dividends paid	\$0.52	\$0.52	\$0.60	\$0.72	\$0.72
Book value per share	\$21.46	\$21.52	\$14.44	\$16.12	\$17.24
Shares outstanding	8,904,915	8,904,915	8,904,915	8,904,915	8,904,915
Performance Ratios					
Return on average assets	0.87%	0.78%	0.85%	0.32%	0.60%
Return on average equity	7.78%	8.03%	10.91%	4.75%	7.90%
Interest on earning assets	3.39%	2.91%	3.11%	3.71%	4.14%
Cost of funds	0.10%	0.05%	0.10%	0.84%	1.28%
Net interest margin	3.30%	2.86%	3.02%	2.88%	2.86%
Core noninterest income to average assets	1.06%	0.91%	0.77%	0.75%	0.81%
Core noninterest expense to average assets	2.94%	2.55%	2.59%	2.61%	2.64%
Efficiency Ratio	71.89%	71.56%	71.74%	75.80%	75.66%
Capital Ratios					
Total equity to total assets	10.64%	9.33%	6.31%	6.90%	8.05%
Tier One capital ratio	10.19%	9.43%	10.10%	9.91%	11.04%
Asset Quality Ratios					
Nonaccrual loans to total loans	0.52%	0.31%	0.69%	0.56%	0.63%
Past due loans >30 days to total loans	0.65%	0.45%	0.39%	0.63%	0.35%
Net charge-offs to total loans	-0.06%	-0.05%	-0.01%	0.00%	0.00%
Other real estate owned to total assets	0.00%	0.00%	0.00%	0.00%	0.00%
Allowance for credit losses to total loans	1.37%	1.34%	1.16%	1.24%	1.20%

Independent Auditors' Report

To the Board of Directors and Stockholders of
Tri City Bankshares Corporation

Opinion

We have audited the consolidated financial statements of Tri City Bankshares Corporation and its subsidiaries (the Corporation), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of income, comprehensive income, 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 the Corporation as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the Corporation's internal control over financial reporting as of December 31, 2024, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013 and our report dated March 26, 2025 expressed an unmodified opinion on the effectiveness of the Corporation's internal control over financial reporting.

Basis for Opinion

We conducted our audits in accordance with GAAS. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Corporation 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 Consolidated 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 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 Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated 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 auditors' 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.
- 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 Corporation'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.

A handwritten signature in black ink that reads "Baker Tilly US, LLP". The signature is written in a cursive, flowing style.

Milwaukee, Wisconsin
March 26, 2025

TRI CITY BANKSHARES CORPORATION

CONSOLIDATED BALANCE SHEETS

As of December 31, 2024 and 2023

ASSETS

	2024	2023
Cash and due from banks	\$ 150,501,120	\$ 193,710,617
Federal funds sold	1,966,188	1,066,930
Total Cash and Cash Equivalents	152,467,308	194,777,547
Securities available for sale, at fair value	476,198,208	608,976,750
Loans, less allowance for credit losses of \$14,157,647 and \$14,579,234 as of 2024 and 2023, respectively	1,163,594,034	1,159,030,487
Premises and equipment - net	20,337,755	19,940,303
Right of use lease asset	11,532,624	12,134,163
Bank owned life insurance	47,237,774	44,961,864
Accrued interest receivable and other assets	35,782,322	38,922,274
TOTAL ASSETS	\$ 1,907,150,025	\$ 2,078,743,388

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Deposits		
Demand	\$ 393,321,685	\$ 402,043,867
Interest bearing	1,180,303,264	1,248,144,306
Certificates of deposit	164,509,333	118,183,998
Total Deposits	1,738,134,282	1,768,372,171
Short-term borrowings	-	150,000,000
Lease liability	11,532,624	12,134,163
Accrued interest payable and other liabilities	3,928,386	4,724,204
Total Liabilities	1,753,595,292	1,935,230,538

STOCKHOLDERS' EQUITY

Cumulative preferred stock, \$1 par value 200,000 shares authorized, no shares issued	-	-
Common stock, \$1 par value, 15,000,000 shares authorized, 8,904,915 shares issued and outstanding in 2024 and 2023	8,904,915	8,904,915
Additional paid-in-capital	26,543,470	26,543,470
Accumulated other comprehensive loss	(57,082,797)	(62,404,762)
Retained earnings	175,189,145	170,469,227
Total Stockholders' Equity	153,554,733	143,512,850

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,907,150,025	\$ 2,078,743,388
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See accompanying notes to consolidated financial statements

TRI CITY BANKSHARES CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
INTEREST INCOME		
Loans	\$ 58,929,994	\$ 53,703,270
Investment securities		
Taxable	9,129,702	10,485,788
Tax exempt	1,440,569	1,760,621
Federal funds sold and due from banks	7,036,143	2,764,636
Other	19,786	19,326
Total interest income	<u>76,556,194</u>	<u>68,733,641</u>
INTEREST EXPENSE		
Deposits	17,138,771	10,054,654
Other borrowings	6,449,671	5,398,955
Total interest expense	<u>23,588,442</u>	<u>15,453,609</u>
Net interest income before provision for (recapture of) credit losses	52,967,752	53,280,032
Provision for (recapture of) credit losses	(425,000)	(455,211)
Net interest income after provision for (recapture of) credit losses	<u>53,392,752</u>	<u>53,735,243</u>
NONINTEREST INCOME		
Service charges on deposits	5,419,077	4,376,178
Debit card interchange	4,465,532	5,027,638
ATM	378,678	667,443
Merchant services	686,319	721,090
Loan servicing income	467,427	470,040
Net gain on sale of loans	542,515	464,262
Increase in cash surrender value of bank owned life insurance	1,776,331	977,701
Bank owned life insurance death benefits	305,751	-
Gain on sale of premises and equipment	1,072,280	-
Other income	2,171,747	2,220,793
Total noninterest income	<u>17,285,657</u>	<u>14,925,145</u>
NONINTEREST EXPENSES		
Salaries and employee benefits	30,890,542	30,606,225
Net occupancy costs	4,236,482	4,406,964
Furniture and equipment expenses	2,926,178	2,888,971
Data processing and telecommunications expense	5,262,817	4,632,754
Professional fees	2,441,961	2,912,268
Advertising and promotional	1,086,277	1,132,220
FDIC and other regulatory assessments	1,152,821	1,170,872
New Markets Tax Credits investment amortization	-	1,672,838
Office supplies	671,454	615,792
Loss on sale of securities	4,757,035	454,151
Other expense	3,445,878	3,330,141
Total noninterest expense	<u>56,871,445</u>	<u>53,823,196</u>
Total income before taxes	13,806,964	14,837,192
Less: Income tax expense	2,079,814	8,379,177
NET INCOME	<u>\$ 11,727,150</u>	<u>\$ 6,458,015</u>

See accompanying notes to consolidated financial statements

TRI CITY BANKSHARES CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
NET INCOME	\$ 11,727,150	\$ 6,458,015
Other comprehensive income, net of tax:		
Securities available for sale:		
Net unrealized holding gains arising during the period	2,083,456	18,787,868
Reclassification adjustment for loss in net income	4,757,035	454,151
Tax effect	<u>(1,518,526)</u>	<u>(4,345,930)</u>
Total other comprehensive income, net of tax:	<u>5,321,965</u>	<u>14,896,089</u>
COMPREHENSIVE INCOME	<u>\$ 17,049,115</u>	<u>\$ 21,354,104</u>

See accompanying notes to consolidated financial statements

TRI CITY BANKSHARES CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2024 and 2023

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Retained Earnings</u>	<u>Total</u>
BALANCES - January 1, 2023	\$ 8,904,915	\$ 26,543,470	\$ (77,300,851)	\$ 170,422,753	\$ 128,570,287
Net income	-	-	-	6,458,015	6,458,015
Total other comprehensive loss	-	-	14,896,089	-	14,896,089
Cash dividends - (\$0.72 per share)	-	-	-	(6,411,541)	(6,411,541)
BALANCES - December 31, 2023	8,904,915	26,543,470	(62,404,762)	170,469,227	143,512,850
Net income	-	-	-	11,727,150	11,727,150
Total other comprehensive income	-	-	5,321,965	-	5,321,965
Adoption of ASU 2023-02	-	-	-	(595,691)	(595,691)
Cash dividends - (\$0.72 per share)	-	-	-	(6,411,541)	(6,411,541)
BALANCES - December 31, 2024	<u>\$ 8,904,915</u>	<u>\$ 26,543,470</u>	<u>\$ (57,082,797)</u>	<u>\$ 175,189,145</u>	<u>\$ 153,554,733</u>

See accompanying notes to consolidated financial statements

TRI CITY BANKSHARES CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 11,727,150	\$ 6,458,015
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	2,124,109	2,170,768
Amortization and accretion of servicing rights, premiums and discounts	3,199,545	3,733,536
Amortization of New Market Tax Credit investments	1,177,573	1,672,838
Net gain on sale of loans	(542,515)	(464,262)
Recapture of credit losses	(425,000)	(455,211)
Expense for deferred income taxes	54,863	7,217,495
Proceeds from sales of loans held for sale	23,298,700	12,895,665
Originations of loans held for sale	(22,848,789)	(12,547,879)
Net loss on sale of securities available for sale	4,757,035	454,151
Increase in cash surrender value of bank owned life insurance	(1,776,331)	(977,701)
Gain on bank owned life insurance death benefits	(305,751)	-
Gain on disposal of premises and equipment	(1,072,280)	(47,967)
Right of use lease asset amortization	601,539	582,560
Net change in:		
Accrued interest receivable and other assets	1,234,700	232,892
Lease liability	(601,539)	(582,560)
Accrued interest payable and other liabilities	(764,158)	(991,398)
Net cash flows from operating activities	<u>19,838,851</u>	<u>19,350,942</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in available for sale securities:		
Maturities, prepayments and calls	67,664,993	67,993,629
Purchases	-	(2,978,589)
Proceeds from sale	64,663,096	32,833,026
Net (increase) decrease in loans	(4,138,547)	5,649,430
Purchase of premises and equipment	(2,747,293)	(1,758,660)
Proceeds from sales of premises and equipment	1,262,572	57,449
Purchase of bank owned life insurance	(10,000,000)	-
Proceeds from surrender of bank owned life insurance	6,968,504	-
Proceeds from bank owned life insurance death benefits	827,015	-
Investment in FHLB Chicago	-	(174,200)
Net cash provided by investing activities	<u>124,500,340</u>	<u>101,622,085</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in deposits	(30,237,889)	(122,968,727)
Net (decrease) increase in borrowings	(150,000,000)	150,000,000
Dividends paid	(6,411,541)	(6,411,541)
Net cash flows (used in) provided by financing activities	<u>(186,649,430)</u>	<u>20,619,732</u>
Net change in cash and cash equivalents	(42,310,239)	141,592,759
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>194,777,547</u>	<u>53,184,788</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 152,467,308</u>	<u>\$ 194,777,547</u>

See accompanying notes to consolidated financial statements

TRI CITY BANKSHARES CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2024 and 2023
(continued)

	<u>2024</u>	<u>2023</u>
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid for interest	\$ 23,394,439	\$ 14,920,975
Cash paid for income taxes, net of refunds received	468,008	2,135,397
SUPPLEMENTAL NON-CASH DISCLOSURES		
Mortgage servicing rights resulting from sales of loans	92,604	116,476
Impact of adopting ASU 2023-02 to Retained Earnings	595,691	-

See accompanying notes to consolidated financial statements

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2024 and 2023

NOTE 1 - Summary of Significant Accounting Policies

The consolidated financial statements of Tri City Bankshares Corporation (the "Corporation") include the accounts of its wholly owned subsidiary, Tri City National Bank (the "Bank") (collectively, the "Corporation"). The Bank includes the accounts of its wholly owned subsidiaries, Tri City Capital Corporation, a Nevada investment subsidiary, Title Service of Southeast Wisconsin, Inc., a title company subsidiary, and TCNB Aurora Investment Fund LLC, TCNB Fire Loan Pool IF LLC, TCNB FCI Loan Pool IF LLC, TCNB Notre Dame IF LLC and TCNB St. Marcus IF LLC, subsidiaries to facilitate tax credit investments. All significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and conform to general practices within the banking industry.

The Corporation grants commercial, real estate and installment loans and accepts deposits primarily in Southeastern Wisconsin. The Corporation is subject to competition from other financial institutions and nonfinancial institutions providing financial products. Additionally, the Corporation is subject to the regulations of certain regulatory agencies and undergo periodic examination by those regulatory agencies.

Use of Estimates

In preparing consolidated financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of 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 on loans and securities, realizability of deferred taxes and fair values of financial instruments.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold, all of which mature within ninety days. The Corporation maintained amounts due from banks that exceeded federally insured limits as of December 31, 2024. The Corporation has not experienced any losses in such accounts.

Securities

Securities are classified as available for sale when the Corporation intends to hold them for an indefinite period of time but not necessarily to maturity. Securities available for sale are accounted for on a trade date basis and carried at fair value, with unrealized holding gains and losses excluded from net income and reported in accumulated other comprehensive income (loss), net of tax. Gains and losses on sales are recorded on the trade date and determined using the specific identification method. The Corporation records net gains (losses) on the sale of securities within noninterest income or noninterest expense on the consolidated statements of income.

Allowance for Credit Losses – Available for Sale Securities

For available for sale debt securities in an unrealized loss position, the Corporation first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of these criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available for sale that do not meet the aforementioned criteria, the Corporation evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers, among other factors, (1) the extent to which fair value is less than amortized cost, (2) the financial condition and near-term prospects of the issuer, including any changes in the rating of the security by a rating agency, and (3) adverse conditions specifically related to the security. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income, net of tax.

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2024 and 2023

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Allowance for Credit Losses – Available for Sale Securities (continued)

Changes in the allowance for credit losses on investments are recorded as a provision for, or recapture of, credit loss expense. Losses are charged against the allowance when management believes the security is uncollectible or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on available for sale securities totaled \$1,548,207 and \$2,135,376 as of December 31, 2024 and 2023, respectively, and is excluded from the estimate of credit losses.

Loans Held for Investment

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the amount of unpaid principal, reduced by an allowance for credit losses and any deferred fees or costs in originating loans. Interest income is accrued and credited to income on a daily basis based on the unpaid principal balance. Loan origination fees, net of certain direct loan origination costs, are deferred and recognized as an adjustment of the loan yield using an effective interest method. The accrual of interest income on loans is discontinued when, in the opinion of management, there is reasonable doubt as to the borrower's ability to meet payment of interest or principal when they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Cash collections are credited to the loan receivable balance and no interest income is recognized on those loans until the principal balance is current. Loans are returned to accrual status when the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Consistent with regulatory guidance, charge-offs are taken when specific loans, or portions thereof, are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. The Corporation's policy is to promptly charge these loans off in the period the uncollectible loss amount is reasonably determined. The Corporation promptly charges-off commercial and real estate loans, or portions thereof, when available information confirms that specific loans are uncollectible based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower's ability to adequately meet its obligations. All consumer loans 120 days or more past due and all other loans with principal and interest 180 days or more past due are reviewed for potential charge-off at least quarterly.

Occasionally, the Corporation modifies loans to borrowers experiencing financial difficulty by granting concessions that include principal forgiveness, term extension, an other-than-insignificant payment delay or interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charged off against the allowance for credit losses. Loans to borrowers experiencing financial difficulty that were modified may be on accrual or non-accrual status based upon the performance of the borrower and management's assessment of collectability.

In some cases, the Corporation provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. See Note 5 for additional information on loans to borrowers experiencing financial difficulty that were modified during the years ended December 31, 2024 and December 31, 2023.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized gains or losses are recognized through a valuation allowance by charges to income. All sales are made without recourse. The Corporation had no loans held for sale as of December 31, 2024 or 2023.

Allowance for Credit Losses on Loans

The allowance for credit losses on loans reflects management's best estimate of the lifetime credit losses in the loan portfolio at the balance sheet date. The estimated lifetime credit losses are the product of multiplying the Corporation's estimate of probability of default, loss given default, and the individual loan level exposure at default on a discounted basis. The Corporation estimates the lifetime expected credit loss using prepayment assumptions over the projected lifetime cash flow of these loans. Actual credit losses, net of recoveries, are deducted from the allowance for credit losses on loans. A provision or recapture for credit losses is recorded to maintain the allowance for credit losses on loans to a level that, in management's judgment, is appropriate to absorb the expected lifetime losses in the loan portfolio.

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2024 and 2023

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Allowance for Credit Losses on Loans (continued)

The Corporation applies a methodology that is designed to assess the appropriateness of the allowance for credit losses on loans within the Corporation's loan portfolio. The methodology measures the allowance for credit losses on a collective (segment) basis when similar characteristics exist, typically based on collateral type and source of repayment. The portfolio segments identified by the Corporation are commercial, construction and land development, commercial real estate, residential real estate, multifamily, and installment and consumer. These segments are further disaggregated, when appropriate, based on characteristics such as primary industry and occupancy classification that reflect a subset of risk characteristics that differ from the broader segment.

The methodology applied to the segments identified in the Corporation's loan portfolio focuses on the evaluation of several factors, including but not limited to: evaluation of facts and issues related to specific loans, management's ongoing review and grading of the loan portfolio, consideration of historical loan loss and delinquency experience in each segment, trends in past due and nonaccrual loans, the level of potential problem loans, the risk characteristics of the various classifications of loans, changes in the size and character of the loan portfolio, concentrations of loans to specific borrowers or industries, existing economic conditions and economic forecasts, the fair value of underlying collateral, and other quantitative and qualitative factors which could affect potential credit losses. A portion of the allowance for credit losses on loans is comprised of adjustments for qualitative factors not reflected in the quantitative model. Accrued interest receivable on loans totaled \$3,367,002 and \$3,265,330 as of December 31, 2024 and 2023, respectively, and is excluded from the estimate of credit losses.

The Corporation individually analyzes loans that do not share similar risk characteristics to other loans in the portfolio. Generally, nonaccrual loans are individually analyzed as such loans are considered to have unique risk characteristics. The allowance for credit losses on loans attributable to the loan is allocated based on management's estimate of the borrower's ability to repay the loan given the availability of collateral, other sources of cash flows, and evaluation of legal options available to the Corporation. The amount of expected loss is measured based upon the present value of expected discounted future cash flows, the fair value of the underlying collateral less applicable selling costs, or the observable market price of the loan. If foreclosure is probable or the loan is collateral dependent, impairment is measured using the fair value of the loan's collateral, less applicable selling costs.

Management believes that the allowance for credit losses on loans is appropriate. While management uses currently available information to recognize losses on loans, future adjustments to the allowance for credit losses may be necessary based on updated appraisals, updated commercial customer financial statements, rapidly deteriorating cash flow, and changes in economic conditions that affect our customers. In addition, various regulatory agencies periodically review the allowance for credit losses. These agencies may suggest adjustments to the allowance for credit losses based on their judgments of collectability based on information available to them at the time of their examination.

Allowance for Credit Losses on Unfunded Commitments

The Corporation is exposed to credit risk via contractual obligations to extend credit, unless that obligation is unconditionally cancellable by the Corporation. The Corporation analyzes estimated expected credit losses over the contract period in which the Corporation is exposed to credit risk. This analysis includes consideration of the likelihood that funding will occur, an estimate of expected credit losses on commitments expected to be funded over its estimated life and historical losses, among other factors. Based on this analysis, the Corporation determined estimated credit losses on unfunded commitments were immaterial and did not record a related allowance for credit losses on unfunded commitments as of December 31, 2024 and December 31, 2023.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Corporation, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2024 and 2023

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Mortgage Servicing Rights

The Corporation records a mortgage servicing right (“MSR”) asset when it continues to service borrower payments and perform maintenance activities on loans sold to secondary market investors. In the period in which the loan is sold to the secondary market investors, loan servicing income is increased by the value of the initial MSR.

The Corporation initially records servicing rights at the time of the sale of the loans to the secondary market investors. The Corporation uses the amortization method for the subsequent measurement of its MSR assets. Under the amortization method, the Corporation amortizes the value of its MSR assets in proportion to and over the expected life of the loan on a per loan basis. An impairment analysis is prepared on a quarterly basis by estimating the fair value of the MSR assets and comparing that value to the carrying amount. A valuation allowance is established when the carrying amount exceeds fair value. The fair value of the MSR asset is determined by using a discounted cash flow model, which estimates the present value of the future net cash flows of the servicing portfolio based on various factors, such as servicing costs, expected prepayment speeds and discount rates.

As of December 31, 2024 and 2023, the Corporation services real estate loans for investors in the secondary market, which are not included in the accompanying consolidated balance sheets, of approximately \$252 million and \$267 million, respectively. The related MSR assets were \$1,679,390 and \$1,861,838 as of December 31, 2024 and 2023, respectively, and are included in accrued interest receivable and other assets on the consolidated balance sheets. No valuation allowance was required as of December 31, 2024 and 2023, respectively.

Premises and Equipment - Net

Land is carried at cost. Depreciable assets are stated at cost less accumulated depreciation. Provisions for depreciation are computed on straight-line methods over the estimated useful lives of the assets, which range from 3 to 10 years for furniture and equipment and 15 to 40 years for buildings and lease-hold improvements. Repairs and maintenance costs are expensed as incurred.

New Markets Tax Credits

As part of its Community Reinvestment Act responsibilities and due to their favorable economics, the Corporation invests in tax credit-motivated projects primarily in the markets it serves. These projects are directed at tax credits issued under the federal New Markets Tax Credits program. As a result of the transactions, the Corporation has several Investment Fund subsidiaries. The Investment Fund subsidiaries are a limited partner in several community development entities (“CDEs”). The Corporation is not the general partner, does not have controlling ownership and is not the primary beneficiary in any of these limited partnerships and thus, the limited partnerships have not been consolidated. These investments were accounted for using the equity method of accounting through December 31, 2023. Effective January 1, 2024 these investments are accounted for using the proportional amortization method (“PAM”). The impact of the change in accounting methodology for 2023 and 2024 is included in Note 1 – Accounting Pronouncements Adopted – Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method. The investments are evaluated for impairment at the end of each reporting period (see Note 8 – New Market Tax Credits - Variable Interest Entities).

Federal Reserve Bank and FHLB Chicago Stocks

The Corporation is required to maintain Federal Reserve Bank (“FRB”) and Federal Home Loan Bank of Chicago (“FHLB Chicago”) stock as a member of both the FRB and FHLB Chicago, in amounts as required by these institutions. These equity securities are restricted in that they can only be sold back to the respective member institutions or another member institution at par. Therefore, they are less liquid than other investments and their fair value is equal to cost. The Corporation meets the minimum amount required by current regulations and the institutions.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Corporation has entered into 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, or related fees are incurred or received.

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2024 and 2023

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Derivative Financial Instruments

The Corporation offers interest rate swap products directly to qualified commercial borrowers. The Corporation economically hedges client derivative transactions by entering into offsetting interest rate swap contracts executed with a third party. The derivative contracts have mirror-image terms, which results in the positions' changes in fair value primarily offsetting through earnings each period. The credit risk and risk of non-performance embedded in the fair value calculations is different between the dealer counterparties and the commercial borrowers which may result in a difference in the changes in the fair value of the mirror-image swaps. The Corporation incorporates credit valuation adjustments to appropriately reflect both its own non-performance risk and the counterparty's risk in the fair value measurements. When evaluating the fair value of its derivative contracts for the effects of non-performance and credit risk, the Corporation considered the impact of netting and any applicable credit enhancements such as collateral postings, thresholds and guarantees.

As of December 31, 2024 and 2023, the aggregate amortizing notional value of interest rate swaps with various commercial borrowers was \$21.9 million and \$16.6 million, respectively. Commercial borrower swaps are completed independently with each borrower and are not subject to master netting arrangements. These commercial borrower swaps were reported on the consolidated balance sheets as a derivative asset and liability of \$536,332 and \$438,313 in accrued interest receivable and other assets and accrued interest payable and other liabilities as of December 31, 2024 and 2023, respectively. As of December 31, 2024 and 2023, no interest rate swaps were in default and therefore all values for the commercial borrower swaps are recorded on a gross basis on the consolidated balance sheets.

The offsetting interest rate swaps with a third party are collateralized by the pledge of security investments totaling \$550,753 and \$649,941 as of December 31, 2024 and 2023, respectively.

Advertising Costs

All advertising costs incurred by the Corporation are expensed in the period in which they are incurred and recorded in noninterest expense.

Income Taxes

The Corporation files a consolidated federal income tax return and combined state income tax returns. Income tax expense is recorded based on the liability method. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through income tax expense. The differences relate principally to the allowance for credit losses on loans, mortgage servicing rights, new markets tax credits investments, premises and equipment, and FICA payroll taxes. Valuation allowances are established when necessary to reduce deferred income tax assets to the amount expected to be realized. The Corporation also accounts for the uncertainty in income taxes related to the recognition and measurement of a tax position taken or expected to be taken in an income tax return. The Corporation elected ASU 2023-02 effective January 1, 2024, see Note 1 – Accounting Pronouncements Adopted – Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method. The Corporation follows the applicable accounting guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition related to the uncertainty in these income tax positions. It is the Corporation's policy to include interest and penalties in tax expense.

Earnings Per Share

Basic earnings per share is computed based upon the weighted average number of common shares outstanding during each year. The Corporation had no potentially dilutive shares outstanding during the periods ended December 31, 2024 and 2023.

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2024 and 2023

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Segment Reporting

The Company adopted ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures on January 1, 2024. Substantially all of the Corporation's operations occur through the Bank, with its community bank operating model structured whereby all banking locations serve a similar base of primarily commercial and consumer customers utilizing a company-wide offering of similar products and services managed through similar processes and technology platforms. The Corporation's one reportable segment is determined by our Chief Executive Officer, President and Chief Financial Officer, who are designated as the Chief Operating Decision Maker ("CODM"), based upon information provided about the Corporation's products and services offered through its community banking operations. Accounting policies for the community banking segment are those described in Note 1. The CODM assesses performance of the community banking segment and decides how to allocate resources based on net income as reported in the Corporation's consolidated statements of income. All categories of interest expense, provision for credit losses, and noninterest expense as disclosed in the Corporation's consolidated statements of income are considered significant to, and are primarily related to the community banking segment. The measure of segment assets is based on total assets as reported on the consolidated balance sheets. For the years ended December 31, 2024 and 2023, respectively, there were immaterial reconciling items between the community banking segment total assets and total assets as presented on the consolidated balance sheets.

Employee Benefit Plan

The Corporation has established a defined contribution 401(k) profit-sharing plan for qualified employees. The Corporation's policy is to fund contributions as accrued.

Bank Owned Life Insurance

The Corporation is the owner and primary beneficiary of life insurance policies on certain employees. Bank owned life insurance is reported at the cash surrender value of the policies, which represents the amount that can be realized under the policies as of the date of the Corporation's balance sheet. The earnings on the policies are recognized as a component of noninterest income. The policies can be liquidated, if necessary, with tax costs associated. The Corporation has historically held these policies and, accordingly, the Corporation has not provided for deferred income taxes on the earnings from the increase in cash surrender value. Any liquidation of policies are accounted for pursuant to the guidance in Accounting Standard Codification 325-30. Disclosures regarding the Corporation's bank owned life insurance activity are presented in Note 7 – Bank Owned Life Insurance.

Lease Reporting

The Corporation leases various banking facilities under operating lease agreements in accordance with Topic 842 - Leases. The Corporation has elected to apply the practical expedient to account for lease and non-lease components in contracts in which the Corporation is a lessee as a single lease component. The Corporation reports right of use lease assets representing our right to use an underlying asset for the lease term, and reports lease liabilities representing our obligation to make lease payments arising from the lease.

Lease assets and liabilities are determined based on the present value of remaining minimum lease payments, including all extension options, discounted using the Corporation's incremental borrowing rate as of the date of adoption, and any subsequent lease extensions or commencements. Since the rates inherent in the leases are generally not available, the Corporation uses the FHLB Chicago advance fixed rate for the appropriate lease term as the discount rate. Disclosures regarding the Corporation's leasing activity are presented in Note 15 – Leases.

Revenue Recognition

The Corporation generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers. The main types of revenue contracts included in non-interest income within the consolidated statements of income are as follows:

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2024 and 2023

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Revenue Recognition (continued)

- **Service charges on deposits** - Service charges on deposits consist of transaction-based fees, account maintenance fees, and overdraft services fees for various retail and business checking customers. Transaction-based fees, which include services such as wire transfer fees and statement rendering fees, are recognized at the time the transaction is executed as that is the point in time the Corporation fulfills the customer's request. All deposit liabilities are considered to have one-day terms and therefore related fees are recognized as non-interest income at the time when the services are provided to the customer. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Corporation satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn directly from the customer's account balance.
- **Debit Card Interchange Income** - The Corporation earns interchange fees from debit cardholder transactions conducted through VISA payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.
- **ATM Income** - The Corporation earns income on automated teller machine ("ATM") transactions. This income includes fees when noncustomers use the Corporation's ATM network, when the Corporation's customers use other ATM networks and interchange income on transaction activity that occurs on the Corporation's ATM network. Income from these activities are recognized concurrently when the transactions occurs.
- **Merchant Services Income** - The Corporation earns merchant services income for selling and servicing merchant card processing to customers. The Corporation uses a third party to process the credit/debit cards at point of sale. The Corporation receives monthly payments for servicing the merchant terminals, which is earned over the course of the month, representing the period over which the Corporation satisfies the performance obligation. A per transaction fee and a percent of the overall transaction amount makes up the monthly merchant service fee collected from each customer. In addition, merchant services sell merchant terminal machines which is recognized at the time of sale.
- **Gain/Losses on Sale of OREO** - The Corporation records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Corporation finances the sale of OREO to the buyer, the Corporation assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Corporation adjusts the transaction prices and related gain (loss) on sale if a significant financing component is present. No gains or losses on sale of OREO were recorded in 2024 or 2023.
- **Other Noninterest Income** - The main items in this revenue category are other loan closing related fees, prepayment fees and title fees which are all recognized at the time the transaction is executed as that is the point in time the Corporation fulfills the customer's request. Also included in other income are financial advisory fees which are contractually agreed with each customer and earned over time as the Corporation provides the contracted monthly or quarterly services.

Reclassifications

Certain items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or stockholders' equity.

Subsequent Events

Subsequent events were evaluated through March 26, 2025, the date the consolidated financial statements were available to be issued.

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2024 and 2023

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Accounting Pronouncements Adopted

Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method

In March 2023, the FASB issued ASU 2023-02, *Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*. The amendments in this update allows reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. Reporting entities may elect to apply the proportional amortization method on a tax-credit-program-by-tax-credit-program basis. The amendments require that a reporting entity electing to apply the proportional amortization method disclose certain information in annual and interim reporting periods. The amendments in this update are effective for fiscal years beginning on or after December 15, 2024, including interim periods within those fiscal years. Early adoption of the standard was permitted, and the Corporation adopted this guidance effective January 1, 2024 on a modified retrospective basis. The application of PAM accounting results in the tax credit investment being amortized in proportion to the allocation of tax credits and other benefits in each period and net presentation within the income tax line item.

The table below illustrates the impact of the adoption of ASU 2023-02 on the reporting and disclosures of the Corporation's New Market Tax Credit accounting:

	Retrospective Adjustment for change from Equity Method to Prospective Amortization Method
	<u>2024</u>
Decrease in Other Assets:	
Reduction in NMTC investments	\$ (758,678)
Amortization of NMTC investments	(364,440)
Federal income tax expense	370,247
Federal income tax payable	157,180
Retained earnings	595,691

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2024 and 2023

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Accounting Pronouncements Adopted (continued)

Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosure

On January 1, 2024, the Corporation adopted ASU 2023-07, Segment Reporting - Improvements to Reportable Segment Disclosures (Topic 280). This ASU requires disclosure of incremental segment information on an annual basis for all public business entities, including entities with one reportable segment. Such incremental disclosures include information about significant segment expenses, how a CODM measures a segment's profit or loss, and qualitative information about how a CODM assesses segment performance. The Company adopted the provisions of the ASU effective January 1, 2024. As the Company has only one reportable segment (community banking segment), this ASU did not have a material effect on the Corporation's consolidated financial statements.

Accounting Pronouncements for Future Adoption

Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures

In November 2024, the FASB issued ASU 2024-03 - *Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures*. The amendments in this update require public business entities to disclose additional information about specific expense categories in the notes to financial statements. The amendments in this update are effective for fiscal years beginning after December 15, 2026, and are to be applied prospectively, with retrospective reporting required for any comparative reporting periods. The Corporation is currently evaluating the impact on its disclosures.

Income Taxes – Improvements to Income Tax Disclosures

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. The ASU is designed to improve transparency and effectiveness of income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. The amendments in this update are effective for fiscal years beginning after December 15, 2025, and are to be applied on a prospective basis. Early adoption is permitted. The Corporation is currently evaluating the impact on its disclosures.

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 - Fair Value of Financial Instruments

The accounting guidance for fair value measurements and disclosures establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy favors the transparency of inputs to the valuation of an asset or liability as of the measurement date and thereby favors use of Level 1 if appropriate information is available, otherwise Level 2, and finally Level 3 if a Level 2 input is not available. The three levels are defined as follows.

- Level 1 — Fair value is based upon quoted prices (unadjusted) for identical assets or liabilities in active markets in which the Corporation can participate.
- Level 2 — Fair value is based upon quoted prices for similar (i.e., not identical) assets and liabilities in active markets, and other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 — Fair value is based upon financial models using primarily unobservable inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input within the valuation hierarchy that is significant to the fair value measurement.

Securities available for sale - The fair value of securities available for sale is determined by obtaining market price quotes from independent third parties wherever such quotes are available. Where such quotes are not available, management utilizes independent third-party valuation analysis to support these estimates and judgments in determining fair value. The subsequent table presents, for the periods noted, the Corporation's fair value of securities available for sale in accordance with the fair value hierarchy described above.

Individually evaluated loans - The Corporation does not record loans held for investment at fair value on a recurring basis. However, from time to time, a particular loan may be considered individually evaluated and an allowance for credit losses established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered individually evaluated. Once a loan is identified as individually evaluated, management measures impairment in accordance with relevant accounting guidance. The fair value of individually evaluated loans is estimated using either the fair value of collateral method or the present value of future cash flows method. Those individually evaluated loans requiring an allowance represent loans for which the fair value of the expected repayments or collateral does not exceed the recorded investments in such loans. For individually evaluated loans, the significant unobservable inputs include the present value of expected future cash flows discounted at the loans effective interest rate, the underlying collateral for collateral-dependent loans, or the estimated liquidity of the note, resulting in an average discount of approximately 16.7% as of December 31, 2024 and 40.8% as of December 31, 2023 for those individually evaluated loans requiring an allowance. The Corporation records these individually evaluated loans as nonrecurring level 3 in the fair value hierarchy.

Mortgage servicing rights - The fair value of MSRs is estimated using third-party information for selected asset price tables for servicing cost and servicing fees applied to the Corporation's portfolio of serviced loans and is categorized as level 2 in the fair value hierarchy.

Interest rate swaps - Values of these instruments are obtained through an independent pricing source utilizing information which may include market observed quotations for swaps, SOFR rates, forward rates and rate volatility and are categorized as level 2 in the fair value hierarchy.

The methods described above may produce a fair value estimate that may not be indicative of net realizable value or reflective of future fair values. Further, while the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different estimates of fair values of the same financial instruments as of the reporting date.

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NOTE 2 - Fair Value of Financial Instruments (cont.)

Financial instruments measured at fair value on a recurring basis for 2024 and 2023 are summarized below:

Assets	Balance at 12/31/2024	Level 1	Level 2	Level 3
Securities available for sale				
Obligations of state and political subdivision	\$ 87,129,435	\$ -	\$ 87,129,435	\$ -
Collateralized mortgage obligations	118,696,347	-	118,696,347	-
Mortgage-backed securities	260,546,191	-	260,546,191	-
U.S. GSE agencies	9,826,235	-	9,826,235	-
Total securities available for sale	<u>\$ 476,198,208</u>	<u>\$ -</u>	<u>\$ 476,198,208</u>	<u>\$ -</u>

Interest rate swaps - other assets	\$ 536,332	\$ -	\$ 536,332	\$ -
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Liabilities

Interest rate swaps - other liabilities	\$ 536,332	\$ -	\$ 536,332	\$ -
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Assets	Balance at 12/31/2023	Level 1	Level 2	Level 3
Securities available for sale				
Obligations of state and political subdivision	\$ 139,880,867	\$ -	\$ 139,880,867	\$ -
Collateralized mortgage obligations	140,020,782	-	140,020,782	-
Mortgage-backed securities	314,551,231	-	314,551,231	-
U.S. GSE agencies	14,523,870	-	14,523,870	-
Total securities available for sale	<u>\$ 608,976,750</u>	<u>\$ -</u>	<u>\$ 608,976,750</u>	<u>\$ -</u>

Interest rate swaps - other assets	\$ 438,313	\$ -	\$ 438,313	\$ -
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Liabilities

Interest rate swaps - other liabilities	\$ 438,313	\$ -	\$ 438,313	\$ -
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Financial instruments measured at fair value on a non-recurring basis for 2024 and 2023 are summarized below:

	Balance at 12/31/2024	Level 1	Level 2	Level 3
Individually evaluated loans with a related allowance, net	\$ 1,628,661	\$ -	\$ -	\$ 1,628,661

	Balance at 12/31/2023	Level 1	Level 2	Level 3
Individually evaluated loans with a related allowance, net	\$ 372,614	\$ -	\$ -	\$ 372,614

TRI CITY BANKSHARES CORPORATION
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NOTE 2 - Fair Value of Financial Instruments (cont.)

The estimated fair values of financial instruments as of December 31:

		2024		2023	
	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
FINANCIAL ASSETS					
Cash and due from banks	1	\$ 150,501,120	\$ 150,501,120	\$ 193,710,617	\$ 193,710,617
Federal funds sold	2	1,966,188	1,966,188	1,066,930	1,066,930
Available for sale securities	2	476,198,208	476,198,208	608,976,750	608,976,750
Federal reserve stock	2	337,540	337,540	322,100	322,100
FHLB Chicago stock	2	3,120,700	3,120,700	3,120,700	3,120,700
Loans held for investment	3	1,163,594,034	1,142,305,701	1,159,030,487	1,132,738,826
Bank owned life insurance	2	47,237,774	47,237,774	44,961,864	44,961,864
Mortgage servicing rights, net	2	1,679,390	2,782,667	1,861,838	3,104,229
Interest rate swaps	2	536,332	536,332	438,313	438,313
Accrued interest receivable	2	4,915,210	4,915,210	5,400,706	5,400,706
FINANCIAL LIABILITIES					
Deposits	2	\$ 1,738,134,282	\$ 1,737,291,234	\$ 1,768,372,171	\$ 1,766,498,920
Interest rate swaps	2	536,332	536,332	438,313	438,313
Accrued interest payable	2	757,360	757,360	563,357	563,357

The estimated fair value of fee income on letters of credit outstanding as of December 31, 2024 and December 31, 2023 is insignificant. Loan commitments on which the committed interest rate is less than the current market rate are also insignificant at December 31, 2024 and December 31, 2023.

NOTE 3 - Cash and Due from Banks

The Corporation is generally required to maintain vault cash and reserve balances with the FRB based upon a percentage of deposits. The reserve requirements were set at zero as of December 31, 2024 or December 31, 2023.

TRI CITY BANKSHARES CORPORATION
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NOTE 4 - Available for Sale Securities

The following table presents the amortized costs and fair values of available for sale securities as of December 31:

2024				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Obligations of states and political subdivisions	\$ 104,522,692	\$ -	\$ (17,393,257)	\$ 87,129,435
Collateralized mortgage obligations	139,075,167	-	(20,378,820)	118,696,347
Mortgage-backed securities	302,369,577	-	(41,823,386)	260,546,191
U.S. GSE agencies	10,000,000	-	(173,765)	9,826,235
Totals	<u>\$ 555,967,436</u>	<u>\$ -</u>	<u>\$ (79,769,228)</u>	<u>\$ 476,198,208</u>

2023				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Obligations of states and political subdivisions	\$ 159,843,297	\$ 4,633	\$ (19,967,063)	\$ 139,880,867
Collateralized mortgage obligations	162,763,221	-	(22,742,439)	140,020,782
Mortgage-backed securities	358,370,535	-	(43,819,304)	314,551,231
U.S. GSE agencies	15,000,000	-	(476,130)	14,523,870
Totals	<u>\$ 695,977,053</u>	<u>\$ 4,633</u>	<u>\$ (87,004,936)</u>	<u>\$ 608,976,750</u>

The amortized cost and fair value of available for sale securities as of December 31, 2024, by contractual maturity are shown below. Expected maturities will differ from contractual maturities for collateralized mortgage obligations and mortgage-backed securities because borrowers or issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

2024		
	Amortized Cost	Fair Value
Due within one year or less	\$ 12,330,134	\$ 12,129,972
Due after one year but less than 5 years	16,182,021	14,756,178
Due after 5 years but less than 10 years	51,342,160	42,411,660
Due over 10 years	34,668,377	27,657,860
	<u>114,522,692</u>	<u>96,955,670</u>
Collateralized mortgage obligations	139,075,167	118,696,347
Mortgage backed securities	302,369,577	260,546,191
Totals	<u>\$ 555,967,436</u>	<u>\$ 476,198,208</u>

Available for sale securities with an amortized cost of \$460,318,937 and \$520,829,998 at December 31, 2024 and December 31, 2023, respectively, were pledged as collateral on borrowings, public deposits and for other purposes as required or permitted by law.

The following table presents the proceeds from sales of securities and the associated gains and losses recorded within noninterest expense on the consolidated statements of income:

	2024	2023
Proceeds	\$ 64,663,096	\$ 32,833,026
Gross gains	-	25,931
Gross losses	4,757,035	480,082

TRI CITY BANKSHARES CORPORATION
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NOTE 4 - Available for Sale Securities (cont.)

The following table presents the portion of the Corporation's available for sale securities portfolio which has gross unrealized losses, reflecting the length of time that individual securities have been in a continuous unrealized loss position as of December 31:

	2024					
	Continuous unrealized losses existing for 12 months or less		Continuous unrealized losses existing for greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of states and political subdivisions	\$ -	\$ -	\$ 85,901,783	\$ (17,393,257)	\$ 85,901,783	\$ (17,393,257)
Collateralized mortgage obligations	2,538,818	(54,359)	116,157,529	(20,324,461)	118,696,347	(20,378,820)
Mortgage-backed securities	18,045	(30)	260,528,146	(41,823,356)	260,546,191	(41,823,386)
U.S. GSE agencies	-	-	9,826,235	(173,765)	9,826,235	(173,765)
Totals	<u>\$ 2,556,863</u>	<u>\$ (54,389)</u>	<u>\$ 472,413,693</u>	<u>\$ (79,714,839)</u>	<u>\$ 474,970,556</u>	<u>\$ (79,769,228)</u>

	2023					
	Continuous unrealized losses existing for 12 months or less		Continuous unrealized losses existing for greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of states and political subdivisions	\$ -	\$ -	\$ 137,508,111	\$ (19,967,063)	\$ 137,508,111	\$ (19,967,063)
Collateralized mortgage obligations	2,811,370	(6,328)	137,209,412	(22,736,111)	140,020,782	(22,742,439)
Mortgage-backed securities	101,225	(804)	314,450,006	(43,818,500)	314,551,231	(43,819,304)
U.S. GSE agencies	-	-	14,523,870	(476,130)	14,523,870	(476,130)
Totals	<u>\$ 2,912,595</u>	<u>\$ (7,132)</u>	<u>\$ 603,691,399</u>	<u>\$ (86,997,804)</u>	<u>\$ 606,603,994</u>	<u>\$ (87,004,936)</u>

The Corporation reviews its investment portfolio on a quarterly basis for indications of impairment due to credit and noncredit-related factors. This review includes analyzing the extent to which the fair value has been lower than the amortized cost, the market liquidity for the investment, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer, and the Corporation's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

As of December 31, 2024 and December 31, 2023, the Corporation did not consider the unrealized losses on its securities available for sale to be attributable to credit-related factors. The Corporation's investments are issued by U.S. government agencies, which are implicitly guaranteed by the U.S. government, state or local governments with a history of no credit losses and no recent significant changes to financial condition or ratings of securities by ratings agencies. The unrealized losses on impaired securities are the result of changes in interest rates. As a result, there was no allowance for credit losses required on available for sale securities in an unrealized loss position as of December 31, 2024 and December 31, 2023.

TRI CITY BANKSHARES CORPORATION
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NOTE 5 – Loans

Major classifications of loans are as follows as of December 31:

	<u>2024</u>	<u>2023</u>
Commercial	\$ 23,546,749	\$ 26,842,334
Real Estate		
Construction	43,938,096	46,948,758
Commercial	646,478,339	654,788,064
Residential	200,719,846	193,495,674
Multifamily	257,621,978	247,208,907
Installment and other	<u>5,446,673</u>	<u>4,325,984</u>
	1,177,751,681	1,173,609,721
Less:		
Allowance for loan losses	<u>(14,157,647)</u>	<u>(14,579,234)</u>
Net loans	<u>\$ 1,163,594,034</u>	<u>\$ 1,159,030,487</u>

TRI CITY BANKSHARES CORPORATION
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NOTE 5 – Loans (cont.)

The following table presents the contractual aging of the recorded investment in loans as of December 31:

2024						
	Current	Days Past Due			Total	Total
	Loans	30-59	60-89	Over 90	Loans	Loans
Commercial	\$ 23,424,158	\$ -	\$ 51,021	\$ 71,570	\$ 122,591	\$ 23,546,749
Real Estate						
Construction	43,938,096	-	-	-	-	43,938,096
Commercial	644,550,069	168,900	1,683,979	75,391	1,928,270	646,478,339
Residential	198,634,236	1,104,310	750,844	230,456	2,085,610	200,719,846
Multifamily	257,621,978	-	-	-	-	257,621,978
Installment and other	5,406,455	37,755	2,149	314	40,218	5,446,673
Total loans	<u>\$ 1,173,574,992</u>	<u>\$ 1,310,965</u>	<u>\$ 2,487,993</u>	<u>\$ 377,731</u>	<u>\$ 4,176,689</u>	<u>\$ 1,177,751,681</u>

2023						
	Current	Days Past Due			Total	Total
	Loans	30-59	60-89	Over 90	Loans	Loans
Commercial	\$ 26,684,452	\$ 157,882	\$ -	\$ -	\$ 157,882	\$ 26,842,334
Real Estate						
Construction	46,948,758	-	-	-	-	46,948,758
Commercial	654,788,064	-	-	-	-	654,788,064
Residential	186,317,771	1,396,665	193,827	5,587,411	7,177,903	193,495,674
Multifamily	247,208,907	-	-	-	-	247,208,907
Installment and other	4,304,078	21,906	-	-	21,906	4,325,984
Total loans	<u>\$ 1,166,252,030</u>	<u>\$ 1,576,453</u>	<u>\$ 193,827</u>	<u>\$ 5,587,411</u>	<u>\$ 7,357,691</u>	<u>\$ 1,173,609,721</u>

Commercial loans deemed to be inadequately collateralized and past due 90 days or more for principal or interest are placed in a non-accrual status. Residential real estate loans are not subject to these guidelines if well-secured, as deemed by the Senior Loan Committee, and in the process of collection.

TRI CITY BANKSHARES CORPORATION
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NOTE 5 – Loans (cont.)

The following table presents the recorded investment in nonaccrual loans and loans past due ninety days or more and still accruing by class of loans as of December 31:

	2024	
	Nonaccrual	Past due 90 days or more and accruing
Commercial	\$ 168,618	\$ -
Real Estate		
Construction	-	-
Commercial	1,610,146	-
Residential	5,614,218	-
Multifamily	-	-
Installment and other	-	314
Total Loans	<u>\$ 7,392,982</u>	<u>\$ 314</u>

	2023	
	Nonaccrual	Past due 90 days or more and accruing
Commercial	\$ 48,246	\$ -
Real Estate		
Construction	-	-
Commercial	-	-
Residential	6,555,853	-
Multifamily	-	-
Installment and other	-	-
Total Loans	<u>\$ 6,604,099</u>	<u>\$ -</u>

TRI CITY BANKSHARES CORPORATION
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NOTE 5 – Loans (cont.)

Management uses an internal asset classification system as part of managing overall credit quality as a means of identifying problem and potential problem assets. A Special Mention loan has potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan at a future date. An asset is classified Substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. Assets classified as Doubtful have all the weaknesses inherent in those classified Substandard 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. Assets that do not currently expose the Corporation to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses that may or may not be within the control of the customer are classified as “Pass.” Residential Real Estate and Installment and Other loans are not rated and are included in groups of homogeneous loans with similar risk and loss characteristics. The following table presents the risk category of loans by class of loans based on the most recent analysis performed by origination year as of December 31:

		2024							
		Term Loans Amortized Cost Basis by Origination Year							
	Rev Loans Converted to Term	Rev Loans Amortized Cost Basis	2024	2023	2022	2021	2020	Prior	Total
Commercial:									
Risk rating									
Pass	\$ -	\$ 2,354,159	\$ 2,682,681	\$ 5,335,684	\$ 4,897,173	\$ 2,245,120	\$ 262,303	\$ 5,557,963	\$ 23,335,083
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	79,541	89,076	43,049	-	-	211,666
Doubtful	-	-	-	-	-	-	-	-	-
Total commercial	\$ -	\$ 2,354,159	\$ 2,682,681	\$ 5,415,225	\$ 4,986,249	\$ 2,288,169	\$ 262,303	\$ 5,557,963	\$ 23,546,749
Construction Real Estate:									
Risk rating									
Pass	\$ -	\$ 9,718,109	\$ 22,125,159	\$ 5,504,630	\$ 5,543,383	\$ 20,966	\$ 232,961	\$ 792,888	\$ 43,938,096
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total construction real estate	\$ -	\$ 9,718,109	\$ 22,125,159	\$ 5,504,630	\$ 5,543,383	\$ 20,966	\$ 232,961	\$ 792,888	\$ 43,938,096
Commercial Real Estate:									
Risk rating									
Pass	\$ 233,112	\$ 14,152,635	\$ 62,850,633	\$ 42,989,245	\$ 163,398,365	\$ 114,563,958	\$ 66,033,670	\$ 160,284,202	\$ 624,272,708
Special mention	-	-	-	-	3,391,773	-	-	-	3,391,773
Substandard	-	926,385	-	495,482	4,627,950	1,105,230	-	11,658,811	18,813,858
Doubtful	-	-	-	-	-	-	-	-	-
Total commercial real estate	\$ 233,112	\$ 15,079,020	\$ 62,850,633	\$ 43,484,727	\$ 171,418,088	\$ 115,669,188	\$ 66,033,670	\$ 171,943,013	\$ 646,478,339
Multifamily Real Estate:									
Risk rating									
Pass	\$ -	\$ 1,274,134	\$ 26,654,367	\$ 18,994,332	\$ 126,452,200	\$ 35,233,021	\$ 7,134,259	\$ 41,879,665	\$ 257,621,978
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total multifamily real estate	\$ -	\$ 1,274,134	\$ 26,654,367	\$ 18,994,332	\$ 126,452,200	\$ 35,233,021	\$ 7,134,259	\$ 41,879,665	\$ 257,621,978
Residential Real Estate:									
Risk rating									
Performing	\$ 105,123	\$ 35,388,325	\$ 23,064,506	\$ 22,464,270	\$ 41,267,314	\$ 26,946,443	\$ 9,682,326	\$ 36,292,444	\$ 195,105,628
Nonperforming	-	-	-	-	4,296	-	5,010,624	603,594	5,618,514
Total residential real estate	\$ 105,123	\$ 35,388,325	\$ 23,064,506	\$ 22,464,270	\$ 41,271,610	\$ 26,946,443	\$ 14,692,950	\$ 36,896,038	\$ 200,724,142
Installment & Other:									
Risk rating									
Performing	\$ -	\$ 130,302	\$ 3,153,245	\$ 1,578,358	\$ 498,404	\$ 8,406	\$ 11,565	\$ 66,079	\$ 5,446,359
Nonperforming	-	-	314	-	-	-	-	-	314
Total installment & other	\$ -	\$ 130,302	\$ 3,153,559	\$ 1,578,358	\$ 498,404	\$ 8,406	\$ 11,565	\$ 66,079	\$ 5,446,673

TRI CITY BANKSHARES CORPORATION
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NOTE 5 – Loans (cont.)

		2023							
		Term Loans Amortized Cost Basis by Origination Year							
	Rev Loans Converted to Term	Rev Loans Amortized Cost Basis	2023	2022	2021	2020	2019	Prior	Total
Commercial:									
Risk rating									
Pass	\$ -	\$ 1,756,935	\$ 6,852,343	\$ 7,462,383	\$ 4,129,213	\$ 721,719	\$ 222,882	\$ 5,613,417	\$ 26,758,892
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	35,196	-	48,246	-	-	-	83,442
Doubtful	-	-	-	-	-	-	-	-	-
Total commercial	\$ -	\$ 1,756,935	\$ 6,887,539	\$ 7,462,383	\$ 4,177,459	\$ 721,719	\$ 222,882	\$ 5,613,417	\$ 26,842,334
Construction Real Estate:									
Risk rating									
Pass	\$ -	\$ 5,988,432	\$ 8,781,550	\$ 21,285,805	\$ 6,943,311	\$ 577,708	\$ 458,908	\$ 2,113,044	\$ 46,148,758
Special mention	-	-	-	-	800,000	-	-	-	800,000
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total construction real estate	\$ -	\$ 5,988,432	\$ 8,781,550	\$ 21,285,805	\$ 7,743,311	\$ 577,708	\$ 458,908	\$ 2,113,044	\$ 46,948,758
Commercial Real Estate:									
Risk rating									
Pass	\$ 760,366	\$ 15,281,687	\$ 48,488,143	\$ 170,162,631	\$ 128,201,894	\$ 71,754,731	\$ 67,796,767	\$ 133,074,511	\$ 634,760,364
Special mention	-	-	-	-	9,852	-	3,231,793	-	3,241,645
Substandard	-	750,000	-	3,422,387	823,528	-	8,019,693	3,770,447	16,786,055
Doubtful	-	-	-	-	-	-	-	-	-
Total commercial real estate	\$ 760,366	\$ 16,031,687	\$ 48,488,143	\$ 173,585,018	\$ 129,035,274	\$ 71,754,731	\$ 79,048,253	\$ 136,844,958	\$ 654,788,064
Multifamily Real Estate:									
Risk rating									
Pass	\$ -	\$ 1,334,897	\$ 20,931,707	\$ 126,229,019	\$ 36,670,447	\$ 9,109,587	\$ 12,531,694	\$ 40,401,556	\$ 247,208,907
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total multifamily real estate	\$ -	\$ 1,334,897	\$ 20,931,707	\$ 126,229,019	\$ 36,670,447	\$ 9,109,587	\$ 12,531,694	\$ 40,401,556	\$ 247,208,907
Residential Real Estate:									
Risk rating									
Performing	\$ 904,452	\$ 26,821,411	\$ 29,486,501	\$ 41,125,777	\$ 30,159,107	\$ 13,061,417	\$ 7,908,339	\$ 38,377,269	\$ 186,939,821
Nonperforming	-	129,664	-	-	-	5,377,411	85,596	963,182	6,555,853
Total residential real estate	\$ 904,452	\$ 26,951,075	\$ 29,486,501	\$ 41,125,777	\$ 30,159,107	\$ 18,438,828	\$ 7,993,935	\$ 39,340,451	\$ 193,495,674
Installment & Other:									
Risk rating									
Performing	\$ 88,315	\$ 162,478	\$ 3,021,374	\$ 881,307	\$ 54,987	\$ 77,281	\$ 11,379	\$ 117,178	\$ 4,325,984
Nonperforming	-	-	-	-	-	-	-	-	-
Total installment & other	\$ 88,315	\$ 162,478	\$ 3,021,374	\$ 881,307	\$ 54,987	\$ 77,281	\$ 11,379	\$ 117,178	\$ 4,325,984

The following table presents the gross charge offs by origination year at December 31:

	2024							
		Gross Charge Offs Amortized Cost Basis by Origination Year						
	Rev Loans Amortized Cost Basis	2024	2023	2022	2021	2020	Prior	Total
Commercial	\$ -	\$ -	\$ 48,896	\$ -	\$ -	\$ -	\$ -	\$ 48,896
Real Estate								
Construction	-	-	-	-	-	-	-	-
Commercial	-	-	-	-	-	-	-	-
Residential	-	-	-	-	-	-	20,473	20,473
Multifamily	-	-	-	-	-	-	-	-
Installment and other	-	-	-	4,296	-	-	-	4,296
Total gross charge offs	\$ -	\$ -	\$ 48,896	\$ 4,296	\$ -	\$ -	\$ 20,473	\$ 73,665

TRI CITY BANKSHARES CORPORATION
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As of and for the Years Ended December 31, 2024 and 2023

NOTE 5 – Loans (cont.)

	Rev Loans Amortized Cost Basis	2023 Gross Charge Offs Amortized Cost Basis by Origination Year						Total
		2023	2022	2021	2020	2019	Prior	
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Real Estate								
Construction	-	-	-	-	-	-	-	-
Commercial	-	-	-	-	-	-	512	512
Residential	-	-	-	-	-	-	-	-
Multifamily	-	-	-	-	-	-	-	-
Installment and other	-	-	-	-	-	-	3,690	3,690
Total gross charge offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,202	\$ 4,202

The Corporation has identified \$7.7 million of loans as individually evaluated as of December 31, 2024, compared to \$6.6 million of loans as impaired as of December 31, 2023. The Corporation evaluates loans placed on the watch list for impairment. A summary of the details regarding individually evaluated loans as of December 31 follows:

	2024	2023
Loans for which there was a related allowance for credit loss	\$ 1,954,489	\$ 629,028
Individually evaluated loans with no related allowance	5,702,633	6,000,320
Total individually evaluated loans	<u>\$ 7,657,122</u>	<u>\$ 6,629,348</u>

The Corporation had two residential real estate loans with a carrying value of \$233,969 for which foreclosure proceedings have commenced as of December 31, 2024, compared to no residential real estate loans for which foreclosure proceedings had commenced as of December 31, 2023.

The following table presents the amortized cost basis of individually evaluated collateral-dependent loans by class of loans as of December 31, 2024 and December 31, 2023. All collateral-dependent loans as of December 31 in both 2024 and 2023 are secured by commercial vehicles or commercial or residential real estate, as noted in the table below.

	2024	2023
Vehicle loans:		
Commercial	\$ 71,570	\$ -
Real Estate loans:		
Construction	-	-
Commercial	1,336,703	-
Residential	5,047,144	5,530,948
Multifamily	-	-
Installment and other loans	-	-
Total	<u>\$ 6,455,417</u>	<u>\$ 5,530,948</u>

TRI CITY BANKSHARES CORPORATION
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NOTE 5 – Loans (cont.)

The following table presents the activity in the allowance for credit losses by portfolio class for each of the years ended December 31:

	2024						
	Commercial	Construction Real Estate	Commercial Real Estate	Residential Real Estate	Multifamily Real Estate	Installment & Other	Total
Allowance for credit losses:							
Beginning Balance	\$ 72,154	\$ 827,883	\$ 7,351,894	\$ 3,054,538	\$ 3,221,076	\$ 51,689	\$ 14,579,234
Charge-offs	(48,896)	-	-	(20,473)	-	(4,286)	(73,655)
Recoveries	-	-	20,666	52,206	-	4,196	77,068
Provision (recapture)	178,552	(24,305)	(2,298,871)	(730,882)	2,435,992	14,514	(425,000)
Ending Balance	<u>\$ 201,810</u>	<u>\$ 803,578</u>	<u>\$ 5,073,689</u>	<u>\$ 2,355,389</u>	<u>\$ 5,657,068</u>	<u>\$ 66,113</u>	<u>\$ 14,157,647</u>
Loans:							
Recorded Investment	\$ 23,546,749	\$ 43,938,096	\$ 646,478,339	\$ 200,719,846	\$ 257,621,978	\$ 5,446,673	\$ 1,177,751,681
Allowance for credit losses:							
Individually evaluated for credit losses	-	-	325,828	-	-	-	325,828
Collectively evaluated for credit losses	201,810	803,578	4,747,861	2,355,389	5,657,068	66,113	13,831,819
Total allowance for credit losses	201,810	803,578	5,073,689	2,355,389	5,657,068	66,113	14,157,647
Ending Balance	<u>\$ 23,344,939</u>	<u>\$ 43,134,518</u>	<u>\$ 641,404,650</u>	<u>\$ 198,364,457</u>	<u>\$ 251,964,910</u>	<u>\$ 5,380,560</u>	<u>\$ 1,163,594,034</u>
Ending Balance:							
Individually evaluated for credit losses	\$ 79,541	\$ -	\$ 2,227,933	\$ 5,349,648	\$ -	\$ -	\$ 7,657,122
Collectively evaluated for credit losses	23,467,208	43,938,096	644,250,406	195,370,198	257,621,978	5,446,673	1,170,094,559
Total ending balance	<u>\$ 23,546,749</u>	<u>\$ 43,938,096</u>	<u>\$ 646,478,339</u>	<u>\$ 200,719,846</u>	<u>\$ 257,621,978</u>	<u>\$ 5,446,673</u>	<u>\$ 1,177,751,681</u>

	2023						
	Commercial	Construction Real Estate	Commercial Real Estate	Residential Real Estate	Multifamily Real Estate	Installment & Other	Total
Allowance for credit losses:							
December 31, 2022 balance	\$ 139,962	\$ 327,110	\$ 11,105,056	\$ 1,178,498	\$ 935,716	\$ 20,920	\$ 13,707,262
Cumulative effect of CECL adoption	(53,881)	349,249	(3,589,451)	1,845,189	2,732,541	3,163	1,286,810
January 1, 2023 balance	86,081	676,359	7,515,605	3,023,687	3,668,257	24,083	14,994,072
Charge-offs	-	-	(512)	-	-	(3,690)	(4,202)
Recoveries	-	-	13,538	29,317	1,511	209	44,575
Provision and re-allocations	(13,927)	151,524	(176,737)	1,534	(448,692)	31,087	(455,211)
Ending Balance	<u>\$ 72,154</u>	<u>\$ 827,883</u>	<u>\$ 7,351,894</u>	<u>\$ 3,054,538</u>	<u>\$ 3,221,076</u>	<u>\$ 51,689</u>	<u>\$ 14,579,234</u>
Loans:							
Recorded Investment	\$ 26,842,334	\$ 46,948,758	\$ 654,788,063	\$ 193,495,673	\$ 247,208,907	\$ 4,325,986	\$ 1,173,609,721
Allowance for credit losses:							
Individually evaluated for credit losses	-	-	256,414	-	-	-	256,414
Collectively evaluated for credit losses	72,154	827,883	7,095,480	3,054,538	3,221,076	51,689	14,322,820
Total allowance for credit losses	72,154	827,883	7,351,894	3,054,538	3,221,076	51,689	14,579,234
Ending Balance	<u>\$ 26,770,180</u>	<u>\$ 46,120,875</u>	<u>\$ 647,436,169</u>	<u>\$ 190,441,135</u>	<u>\$ 243,987,831</u>	<u>\$ 4,274,297</u>	<u>\$ 1,159,030,487</u>
Ending Balance:							
Individually evaluated for credit losses	\$ -	\$ -	\$ 629,028	\$ 6,000,320	\$ -	\$ -	\$ 6,629,348
Collectively evaluated for credit losses	26,842,334	46,948,758	654,159,035	187,495,353	247,208,907	4,325,986	1,166,980,373
Total ending balance	<u>\$ 26,842,334</u>	<u>\$ 46,948,758</u>	<u>\$ 654,788,063</u>	<u>\$ 193,495,673</u>	<u>\$ 247,208,907</u>	<u>\$ 4,325,986</u>	<u>\$ 1,173,609,721</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 5 – Loans (cont.)

Certain directors and executive officers of the Corporation and their related interests had loans outstanding in the aggregate amounts of \$3.0 million as of December 31, 2023, which were repaid in full during 2024. There are no director and executive officer loans outstanding as of December 31, 2024. Certain affiliated parties of the Corporation were investors in loan participations of the Corporation on loans with affiliated parties, totaling \$1.0 million as of December 31, 2023. The participations represent investments by the affiliated parties in a portion of the affiliated party loans aggregate amounts described above. The participations were repaid in full during 2024 in conjunction with the repayment of the underlying loans, and there was no outstanding balance of loan participations with affiliated parties as of December 31, 2024.

Residential and commercial real estate loans approximating \$254.1 million and \$253.8 million as of December 31, 2024 and 2023, respectively, were pledged as collateral on lines of credit, public deposits and for other purposes as required or permitted by law.

During the years ended December 31, 2024 and December 31, 2023, loan modifications granted to borrowers experiencing financial difficulty were not material.

NOTE 6 - Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation as of December 31 and are summarized as follows:

	2024	2023
Land	\$ 6,342,625	\$ 6,427,044
Buildings and leasehold improvements	38,076,417	37,979,261
Furniture and equipment	21,951,507	21,372,970
Total	<u>66,370,549</u>	<u>65,779,275</u>
Less: Accumulated depreciation	<u>(46,032,794)</u>	<u>(45,838,972)</u>
Net Premises and Equipment	<u>\$ 20,337,755</u>	<u>\$ 19,940,303</u>

NOTE 7 – Bank Owned Life Insurance

Bank owned life insurance is reported at the cash surrender value (“CSV”) of the policies, which represents the amount that can be realized under the policies as of the date of the Corporation’s balance sheet. The amount of bank owned life insurance as of December 31 is summarized as follows:

	2024	2023
Bank owned life insurance	\$ <u>47,237,774</u>	\$ <u>44,961,864</u>

During 2024, the Corporation surrendered policies with a CSV amount of \$8,947,476. As of December 31, 2024, \$1,980,410 of the amount surrendered is due from the underlying insurance carrier and is included in accrued interest receivable and other assets. The Corporation incurred income taxes of \$520,592 from the surrender of the policies, which includes a \$167,333 tax penalty.

The Corporation purchased \$10,000,000 in new bank owned life insurance policies, which includes a CSV enhancement of \$525,000 provided by the underlying insurance carrier that is included in the current CSV amounts.

During 2024, the Corporation also completed Section 1035 exchanges of policies with a CSV value of \$12,140,393. There were no income or tax implications associated with the exchanges.

The Corporation recognized CSV increases of \$1,776,331, including the \$525,000 enhancement, and \$977,701 for the years ended December 31, 2024 and December 31, 2023, respectively.

The Corporation also recognized a gain of \$305,751 from death benefits received under one insurance policy in the year ended December 31, 2024.

TRI CITY BANKSHARES CORPORATION
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NOTE 8 – New Markets Tax Credits - Variable Interest Entities

The Corporation invests in CDEs that are designed to generate a return primarily through the realization of New Markets Tax Credits. The CDEs are formed as limited partnerships and limited liability companies in which the Corporation invests as a limited partner/investor member through equity contributions. The economic performance of the CDEs, which are variable interest entities (“VIEs”), is subject to the performance of their underlying loans. The Corporation has determined that it is not the primary beneficiary of any CDE as it lacks the power to direct the activities that most significantly impact the economic performance of the underlying loans or to affect their ability to operate in compliance with the rules and regulations necessary for the qualification of tax credits generated by equity investments. This power is held by the general partners and managing members who exercise full and exclusive control of the operations of the VIEs.

As of December 31, 2024 and 2023, the carrying amounts of these investments in CDEs that generate the tax credits, included in accrued interest receivable and other assets in the consolidated balance sheets, totaled \$3.6 million and \$5.9 million, respectively. The Corporation adopted ASU 2023-02 effective January 1, 2024, see Note 1 – Accounting Pronouncements Adopted – Accounting for Investments in TaxCredit Structures Using the Proportional Amortization Method. The risk of loss in these investments is tied to the ability of the CDE to operate in compliance within the rules and regulations necessary for the qualification of the tax credits generated by equity investments. As of December 31, 2024 and 2023 there are no compliance issues associated with these entities.

NOTE 9 – Accrued Interest Receivable and Other Assets

A summary of accrued interest receivable and other assets as of December 31 is as follows:

	2024	2023
Accrued interest receivable	\$ 4,915,210	\$ 5,400,706
Federal Reserve Bank stock	337,540	322,100
Mortgage servicing rights	1,679,390	1,861,838
Interest rate swaps	536,332	438,313
Investment in New Markets Tax Credit CDEs	3,614,847	5,855,904
Investment in FHLB Chicago stock	3,120,700	3,120,700
Receivable for proceeds from bank owned life insurance policy surrender	1,980,410	-
Security investment maturity receivable	46,585	72,063
Current income taxes	1,107,537	1,313,247
Deferred income taxes	25,043,454	26,058,741
Deferred income tax valuation allowance	(8,126,953)	(7,336,615)
Prepaid expenses and other assets	1,527,270	1,815,277
Total	\$ 35,782,322	\$ 38,922,274

NOTE 10 - Deposits

The distribution of deposits as of December 31 is as follows:

	2024	2023
Noninterest bearing demand accounts	\$ 393,321,685	\$ 402,043,867
Interest bearing demand accounts	588,136,768	657,669,575
Money Market accounts	325,932,079	297,818,614
Savings accounts	266,234,417	292,656,117
Certificates of Deposit	164,509,333	118,183,998
Total	\$ 1,738,134,282	\$ 1,768,372,171

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2024 and 2023

NOTE 10 – Deposits (cont.)

The aggregate amount of time deposits, each with a minimum denomination of \$250,000, was \$35,220,045 and \$23,927,469 as of December 31, 2024 and 2023, respectively.

Scheduled maturities of time deposits as of December 31 are:

	2024	2023
Due within one year	\$ 155,555,161	\$ 103,769,376
After one year but within two years	5,308,831	6,640,635
After two years but within three years	2,109,334	2,690,583
After three years but within four years	1,161,073	3,898,096
After four years but within five years	374,934	1,185,308
Total	<u>\$ 164,509,333</u>	<u>\$ 118,183,998</u>

Deposits from the Corporation's directors and related parties as of December 31, 2024 and December 31, 2023 amounted to \$15.0 million and \$10.7 million, respectively.

NOTE 11 – Accrued Interest Payable and Other Liabilities

A summary of accrued interest payable and other liabilities as of December 31 is as follows:

	2024	2023
Accrued interest payable	\$ 757,360	\$ 563,357
Real estate and personal property taxes payable	605,439	827,859
Medical and dental self insurance reserves	540,000	795,129
Interest rate swaps	536,332	438,313
Other liabilities	1,489,255	2,099,546
Total	<u>\$ 3,928,386</u>	<u>\$ 4,724,204</u>

NOTE 12 - Other Borrowings

The Corporation has the ability to borrow (purchase) federal funds of up to \$65,000,000 under revolving lines-of-credit. Such borrowings bear interest at the lender bank's announced daily federal funds rate and mature daily. There were no federal funds purchased outstanding as of December 31, 2024 or 2023.

The Corporation may also borrow through the Federal Reserve Bank Discount Window short term funds up to the amount of U.S. Government sponsored entity securities or qualified municipal securities pledged. The Corporation pledged eligible securities totaling \$186,595,095 and \$4,933,320 and had the ability to borrow funds of up to \$167,935,586 and \$4,439,988 as of December 31, 2024 and 2023, respectively.

Additionally, the Corporation had the ability to borrow through the Federal Reserve Bank's Bank Term Funding Program (BTFP) pursuant to the terms of the program, which was created in March 2023 and was closed to new borrowings in March 2024. Borrowings from the BTFP are collateralized by securities issued or fully guaranteed by certain U.S. government agencies with such assets valued at par value and may be paid at any time until the maturity date without penalty. All principal and interest is due upon maturity. In 2023, the Corporation pledged qualifying securities, and therefore had the ability to borrow funds of up to, an aggregate par value of \$239,549,065 as of December 31, 2023. The Corporation had outstanding borrowings from the BTFP of \$150,000,000 as of December 31, 2023, maturing in December 2024 at a fixed interest rate of 4.83%. Subsequently, on January 16, 2024, the Corporation refinanced the borrowings within the BTFP to reduce the fixed interest rate to 4.76% and extend the maturity date to January 2025. The borrowings were paid in full in December 2024. As of December 31, 2024, the pledged securities are available as pledged collateral under the general Federal Reserve Bank Discount Window program.

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 12 – Other Borrowings (cont.)

The Bank is a member of the FHLB Chicago. As a member, the Bank has the ability to borrow funds from FHLB Chicago pursuant to a variety of advance programs and the terms of an Advances, Collateral Pledge and Security Agreement between the parties. Any advance would be collateralized by first mortgage loans and securities pledged by the Bank, FHLB Chicago capital stock held by the Bank, and all deposit accounts held by the Bank at the FHLB Chicago. The Bank had the ability to borrow funds of up to \$136,107,100 and \$176,260,589 as of December 31, 2024 and 2023, respectively. The Bank had multifamily loans and securities of \$305,027,029 and \$308,495,994 pledged as collateral to FHLB Chicago as of December 31, 2024 and 2023, respectively. There were no borrowings outstanding from the FHLB Chicago as of December 31, 2024 and 2023, respectively.

NOTE 13 - Income Taxes

Income tax expense (benefit) consists of the following components for the year ending December 31:

	<u>2024</u>	<u>2023</u>
Current income taxes		
Federal	\$ 2,034,651	\$ 1,156,321
State	<u>(9,700)</u>	<u>5,361</u>
Total current income taxes	<u>2,024,951</u>	<u>1,161,682</u>
Deferred income taxes		
Federal	445,447	(275,834)
State	<u>(390,584)</u>	<u>7,493,329</u>
Total deferred income taxes	<u>54,863</u>	<u>7,217,495</u>
Total income taxes	<u>\$ 2,079,814</u>	<u>\$ 8,379,177</u>

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2024 and 2023

NOTE 13 – Income Taxes (cont.)

The net deferred income tax assets in the accompanying consolidated balance sheets include the following amounts of deferred income tax assets and liabilities as of December 31:

	2024	2023
Deferred income tax assets:		
Allowance for loan losses	\$ 3,856,685	\$ 4,029,643
Reserve for health plan	120,221	114,303
Non-accrual interest	15,076	97,874
Lease liability	3,141,602	3,305,467
Loss carryforwards	1,930,849	719,887
New Markets Tax Credit investments	535,223	410,961
Unrealized loss on securities available for sale	21,729,921	23,699,740
Other	6,810	40,861
Total deferred income tax assets before valuation allowance	31,336,387	32,418,736
Valuation allowance	<u>(8,126,953)</u>	<u>(7,336,616)</u>
Net deferred income tax assets	<u>23,209,434</u>	<u>25,082,120</u>
Deferred income tax liabilities:		
Depreciation	(1,733,537)	(1,521,500)
Right of use lease asset	(3,141,602)	(3,305,467)
Mortgage servicing rights	(457,483)	(507,184)
New Markets Tax Credit investments	(655,074)	(697,297)
Other	<u>(305,237)</u>	<u>(328,546)</u>
Total deferred income tax liabilities	<u>(6,292,933)</u>	<u>(6,359,994)</u>
Net deferred income tax asset	<u>\$ 16,916,501</u>	<u>\$ 18,722,126</u>

The Corporation has state net operating loss carryforwards of approximately \$29,287,000 and \$10,121,000 as of December 31, 2024 and 2023, respectively. The net operating loss carryforwards begin to expire in 2031.

Realization of the deferred income tax asset over time is dependent upon the Corporation generating sufficient taxable income in future periods. In determining that realization of the deferred income tax asset recorded was more likely than not, the Corporation gave consideration to a number of factors including its recent earnings history, its expectations for earnings in the future, and where applicable, the expiration dates associated with tax carryforwards and tax law changes. A valuation allowance is required if it is more likely than not that some portion of the deferred tax asset will not be realized.

On July 1, 2023, Wisconsin's Governor signed the State Budget, retroactive to January 1, 2023, which included language that provides financial institutions with an exemption from state income for interest, fees, and penalties earned on business or agriculture purpose loans where the borrower resides, or is located, in the State of Wisconsin and that are \$5 million or less at the time of loan origination. The Corporation has earned significant revenue from eligible loans and expects to be in a taxable loss position for Wisconsin income tax purposes for the tax years beginning after December 31, 2022. As a result, the Corporation recorded a valuation allowance of \$8,126,953 and \$7,336,616 as of December 31, 2024 and 2023, respectively, against all Wisconsin deferred tax assets, for which realization cannot be considered more likely than not at this time, resulting in a corresponding increase in income tax expense. The change in valuation allowance in 2024 is a result of the impact of the Wisconsin law.

Of this valuation allowance, \$5,934,893 and \$6,325,477 as of December 31, 2024 and 2023, respectively, relate to the state income tax effect on unrealized losses on AFS securities, which became stranded in accumulated other comprehensive income. The Corporation will release the stranded income tax effect into income tax expense on a security-by-security basis as the underlying securities are disposed or mature. The amount released into income in 2024 was \$390,584.

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 13 - Income Taxes (cont.)

A roll forward of the tax valuation allowance is as follows:

	2024	2023
Tax valuation allowance as of January 1	\$ 7,336,616	\$ -
Provision for income taxes	803,985	8,232,658
Other comprehensive income	(60,708)	(896,042)
Adoption of ASU 2023-02	47,060	-
Tax valuation allowance as of December 31	<u>\$ 8,126,953</u>	<u>\$ 7,336,616</u>

A reconciliation of statutory federal income taxes based upon income before taxes to the provision for federal and state income taxes is as follows:

	2024		2023	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Federal income taxes at statutory rate	\$ 2,899,461	21.00%	\$ 3,115,811	21.00%
Adjustments for:				
Tax exempt interest on municipal obligations	(302,520)	-2.19%	(369,731)	-2.49%
Increase in taxes resulting from state income taxes, net of federal tax benefit	719,947	5.21%	942,510	6.35%
Wisconsin commercial loan exemption, net of federal benefit	(1,924,232)	-13.94%	(1,678,547)	-11.31%
Valuation allowance	803,985	5.82%	8,232,658	55.49%
Increase in cash surrender value of life insurance	(373,030)	-2.70%	(205,317)	-1.38%
Tax on surrender of bank owned life insurance	520,592	3.77%	-	-
New markets tax credits	(235,375)	-1.70%	(1,772,190)	-11.94%
Other - net	(29,017)	-0.21%	113,983	0.77%
Income tax expense	<u>\$ 2,079,811</u>	<u>15.06%</u>	<u>\$ 8,379,177</u>	<u>56.49%</u>

As of December 31, 2024 and 2023, the Corporation had no uncertain tax positions. The Corporation's policy is to record interest and penalties related to income tax liabilities in income tax expense. The Corporation, along with its subsidiaries, files U.S. federal and Wisconsin income tax returns. The Corporation's federal tax returns for 2021 and prior and its 2020 and prior year Wisconsin tax returns are no longer subject to examination by tax authorities.

NOTE 14 - Employee Benefit Plan

The Corporation has a contributory defined-contribution 401(k) retirement plan. Effective December, 2024, the plan covers all employees of the Corporation. Previously it covered substantially all employees who attained the age of 21. Participants may contribute a portion of their compensation (up to IRS limits) to the plan. The Corporation may make regular and matching contributions to the plan each year. In 2024 and 2023, the Corporation provided a dollar-for-dollar match of employee contributions up to 5% of their compensation. The Corporation recorded contribution expense of \$971,216 and \$930,432 in 2024 and 2023, respectively.

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NOTE 15 – Leases

The Corporation leases various banking facilities under operating lease agreements from various companies. The majority of the agreements include renewal options. The Corporation includes lease renewal options in the lease term and determination of right of use lease assets and lease liabilities, given it is reasonably certain the Corporation will exercise the options. The discount rate used to capitalize the operating leases is the FHLB Chicago advance fixed rate as of commencement, or the date of any subsequent lease extension, considering the remaining lease term including all renewal options. The right of use lease asset and lease liability amount as of December 31, 2024 and 2023 is \$11,532,624 and \$12,134,163, respectively. The Corporation had no lease remeasurements in 2024 and 2023. Right of use lease amortization in 2024 and 2023 was \$601,539 and \$582,650 respectively. As of December 31, 2024, the weighted-average remaining lease term is 19.1 years and the weighted average discount rate used in the determination of lease liabilities is 4.50%. As of December 31, 2023, the weighted-average remaining lease term is 19.7 years and the weighted average discount rate used in the determination of lease liabilities is 4.46%.

Rental amounts under the operating lease agreements are subject to annual escalation based upon increases in the Consumer Price Index. Aggregate rental expense under all leases amounted to \$1,278,379 and \$1,215,478 in 2024 and 2023 respectively, with no significant amounts associated with variable escalation adjustments. The rental expense amounts include \$917,127 and \$878,881 respectively, for four of the facilities leased from a company held by a major shareholder of the Corporation.

Contractual lease payment obligations, including all unexecuted options, for each of the next five years and thereafter, in addition to a reconciliation to the Corporation's lease liability are as follows as of December 31, 2024:

2025	\$ 1,056,279
2026	1,009,300
2027	1,009,300
2028	1,009,300
2029	1,009,300
Thereafter	<u>12,608,535</u>
Total lease payments	17,702,014
Less interest	<u>(6,169,390)</u>
Present value of lease payments	<u>\$ 11,532,624</u>

Contractual lease payments do not reflect annual escalation increases based on the Consumer Price Index.

Office space at certain facilities is leased to unrelated third parties under operating lease agreements. The terms of the agreements vary, with some being month to month arrangements, some including lessee renewal options, and some having fixed or variable Consumer Price Index escalation provisions. Rental income included in net occupancy costs was \$1,022,503 and \$1,054,263 for the years ended December 31, 2024 and 2023, respectively.

Contractual third party lessee payment obligations to the Corporation, excluding all unexecuted options, for each of the next five years and thereafter are as follows as of December 31, 2024:

2025	\$ 647,280
2026	410,383
2027	327,739
2028	223,178
2029	68,734
Thereafter	<u>36,400</u>
Total lessee payments	<u>\$ 1,713,714</u>

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NOTE 16 - Commitments and Contingencies

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, financial guarantees and standby letters of credit. They involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized on the consolidated balance sheets.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Corporation uses the same credit policies in making commitments and issuing letters of credit as they do for on-balance-sheet instruments.

A summary of the contract or notional amount of the Corporation's exposure to off-balance sheet risk as of December 31, are as follows:

	2024	2023
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 153,047,238	\$ 151,267,980
Standby letters of credit	12,699,254	5,805,556
	<u>\$ 165,746,492</u>	<u>\$ 157,073,536</u>

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. Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

NOTE 17 - Stockholders' Equity

Dividends declared by the Bank that exceed the retained net income for the most current year plus retained net income for the preceding two years must be approved by federal regulatory agencies.

Under Federal Reserve regulations, the Bank is limited as to the amount it may lend to its affiliates, including the Corporation. Such loans are required to be collateralized by investments defined in the regulations. In addition, the maximum amount available for transfer from the Bank to the Corporation in the form of loans is limited to 10% of the Bank's stockholders' equity in the case of any one affiliate or 20% in the case of all affiliates.

NOTE 18 - Regulatory Capital Requirements

Banks and bank holding companies are subject to regulatory requirements administered by federal banking agencies. The Corporation is a small bank holding company pursuant to Federal Reserve Bank regulations. Management believes the Corporation has complied with all other reporting requirements.

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt correction action regulations involve quantitative measures of assets, liabilities and certain off balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet minimum capital requirements can initiate certain mandatory and additional discretionary regulatory action, that if undertaken, could have a direct material effect on the Corporation's financial statements. Management believes as of December 31, 2024 the Bank meets all capital adequacy requirements to which it is subject.

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NOTE 18 - Regulatory Capital Requirements (cont.)

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. As of December 31, 2024 and 2023, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that Management believes have changed the Bank's classification.

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (the "CBLR framework"), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Bank as of June 30, 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to Section 4012 of the CARES Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to Section 4012 of the CARES Act.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital, but rather, only requires a Tier 1 capital to quarterly average assets ("leverage") ratio. The net unrealized gain or loss on securities available for sale is not included in computing the leverage ratio. Qualifying banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than the required minimums will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the agencies' capital rules and will be considered to have met the well capitalized ratio requirements for purposes of Section 38 of the Federal Deposit Insurance Act. Under the interim final rules the community bank leverage ratio minimum requirement is 9% for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the Bank maintains a leverage ratio of greater than 8%.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction. As of December 31, 2024 and December 31, 2023 the Bank was a qualifying community banking organization as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

Actual and required capital amounts and ratios as of December 31, 2024 and December 31, 2023 under the CBLR framework are presented below.

	Actual		To Be Well Capitalized Under CBLR Framework Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio
As of December 31, 2024				
Tier 1 capital (to quarterly average assets)	\$ 210,594,810	10.8%	\$ 174,805,830	9.0%
	Actual		To Be Well Capitalized Under CBLR Framework Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio
As of December 31, 2023				
Tier 1 capital (to quarterly average assets)	\$ 205,464,169	10.3%	\$ 180,250,350	9.0%

NOTE 19 - Concentration of Credit Risk

Practically all of the Corporation's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Bank's market area of Southeastern Wisconsin. Although the Corporation has a diversified loan portfolio, the ability of its debtors to honor its contracts is dependent on the economic conditions of this market area. The concentration of credit by type of loan is set forth in Note 5.

