



Statement of Condition

December 31, 2023

TriCity Bankshares Corporation 

Dividend Announcement

The Board of Directors declared a dividend of \$0.18 per share payable on February 8, 2024, to shareholders as of the record date of January 29, 2024.

The Corporation has a long history of maintaining capital ratios in excess of the levels required to be considered well capitalized and maintained that position through December 31, 2023.

The Board will continue to monitor earnings, on-going regulatory requirements, economic outlooks and other factors when approving future dividends.

INCOME STATEMENT (unaudited)

	Twelve Months Ended		Three Months Ended	
	12.31.23	12.31.22	12.31.23	12.31.22
Interest Income	\$68,733,641	\$59,453,479	\$18,633,238	\$16,471,292
Interest Expense	\$15,453,609	\$1,860,863	\$5,352,993	\$931,329
Net Interest Income	\$53,280,032	\$57,592,616	\$13,280,245	\$15,539,963
Non-Interest Income	\$14,925,145	\$18,272,474	\$3,867,853	\$5,302,311
Less: Provision for Credit Losses	\$(455,211)	-	-	-
Non-Interest Expense	\$53,823,196	\$55,166,736	\$13,714,601	\$15,022,341
Income Before Income Taxes	\$14,837,192	\$20,698,354	\$3,433,497	\$5,819,933
Income Tax Expense	\$1,020,733	\$3,232,798	\$336,608	\$985,798
Change in Tax Law	\$7,358,444	-	-	-
Total Income Tax Expense	\$8,379,177	\$3,232,798	\$336,608	\$985,798
Net Income	\$6,458,015	\$17,465,556	\$3,096,889	\$4,834,135
Net Income Per Common Share	\$0.73	\$1.96	\$0.35	\$0.54
Dividends Per Common Share	\$0.72	\$0.60	\$0.18	\$0.21

BALANCE SHEET DECEMBER 31, 2023 & 2022 (unaudited)

Assets	2023	2022	Liabilities & Equity	2023	2022
Cash & Due from Banks	\$193,710,617	\$51,082,746	Non-Interest Bearing Deposits	\$402,033,044	\$506,586,090
Federal Funds Sold	\$1,066,930	\$2,102,042	Interest Bearing Deposits	\$1,366,339,127	\$1,384,754,808
Security Investments	\$608,976,750	\$691,594,252	Total Deposits	\$1,768,372,171	\$1,891,340,898
Total Loans	\$1,173,609,721	\$1,177,931,968	Borrowings	\$150,000,000	-
Allowance for Credit Losses	\$(14,579,234)	\$(13,707,262)	Lease Liability	\$12,134,163	\$12,716,723
Net Loans	\$1,159,030,487	\$1,164,224,706	Other Liabilities	\$4,724,204	\$5,868,534
Bank Premises & Equipment	\$19,940,303	\$20,361,893	Total Liabilities	\$1,935,230,538	\$1,909,926,155
Right of Use Lease Asset	\$12,134,163	\$12,716,723	Common Stock	\$8,904,915	\$8,904,915
Cash Surrender Value of Life Insurance	\$44,961,863	\$43,984,163	Additional Paid-in Capital	\$26,543,470	\$26,543,470
Other Assets	\$38,922,275	\$52,429,917	Unrealized Loss on Security Investments	\$(62,404,762)	\$(77,300,851)
			Retained Earnings	\$170,469,227	\$170,422,753
Total Assets	\$2,078,743,388	\$2,038,496,442	Total Stockholders' Equity	\$143,512,850	\$128,570,287
			Total Liabilities & Equity	\$2,078,743,388	\$2,038,496,442

Management Comments

The Corporation posted net income of \$6.5 million for the year ended December 31, 2023, a decrease of \$11.0 million or 63.0%, compared to the year ended December 31, 2022. See comments in subsequent paragraphs for an explanation of how a Wisconsin tax law change impacted earnings. Earnings per share decreased to \$0.73 for the year 2023 compared to \$1.96 for the year 2022.

Net interest income before the provision for credit losses was \$53.3 million for the year 2023, a decrease of \$4.3 million or 7.5%, compared to the year 2022. The decrease was comprised of an increase of \$8.5 million in interest income on loans and an increase of \$1.8 million in interest income on amounts held at the Federal Reserve and other banks, offset by an increase of \$8.2 million in interest paid on deposits, an increase of \$5.4 million in interest paid on short-term borrowings and a decrease of \$1.0 million in interest income on investment securities. The Corporation's earning assets as of December 31, 2023, increased by \$53.8 million year over year with growth driven by an increase in cash partially offset by a decrease in the investment portfolio.

Non-interest income for the year 2023 was \$14.9 million, a decrease of \$3.3 million or 18.3%, compared to the year 2022. The reduction was comprised of a \$2.0 million decrease in income from non-accretable loan discounts, a \$0.5 million decrease in bank owned life insurance death benefit, a decrease of \$0.4 million in income from prepayment and other loan fees, a decrease of \$0.3 million in debit card interchange fees, and other net activity.

The provision for credit losses was a net benefit of \$0.5 million for the year 2023. No provision for credit losses was recorded in the year 2022. The net benefit was driven by the payoff of loans with significant specific allowances for credit losses offset by an increase in the provision for credit losses driven by economic conditions. The Corporation has recognized net recoveries on its allowance for credit losses in each of the past five years. The Corporation will continue to closely monitor loan portfolio activity and local market economic conditions as part of the analysis of the overall allowance for credit losses.

Non-interest expense for the year 2023 was \$53.8 million, a decrease of \$1.3 million or 2.4%, compared to the year 2022. The net activity consisted of a decrease in data processing expense of \$1.5 million and a decrease in amortization expense from new market tax credit investments of \$0.3 million, partially offset by an increase in salaries, employee benefits and hiring costs of \$0.3 million, an increase of \$0.3 million in regulatory agency assessments, and other net activity.

The Corporation's total assets as of December 31, 2023, were \$2.08 billion, an increase of \$40.2 million, or 2.0%, compared to December 31, 2022. Investments in securities decreased by \$82.6 million, driven by unrealized market value adjustments, principal cash inflows of \$66.1 million, and net sales of \$37.2 million in securities to redistribute funds to loans with more favorable yields. Net loans decreased by \$5.2 million or 0.4%. The reduction in deposits of \$123.0 million, or 6.5%, was further supported by an increase in short-term borrowings of \$150.0 million.

Total shareholders' equity for GAAP purposes was \$143.5 million as of December 31, 2023, an increase of \$14.9 million compared to December 31, 2022. The increase resulted from a \$6.4 million increase in retained earnings, net of dividends paid of \$6.4 million during the twelve-month period, and an increase of \$14.9 million in the unrealized market value of the security investment portfolio net of deferred taxes. The Corporation's Tier One Capital, the primary regulatory measure of strong capital, excludes unrealized gain or loss on the security investment portfolio, and it remained flat as of December 31, 2023 as compared to December 31, 2022 at \$205.9 million.

CHANGE IN STATE TAX LAW IMPACT

On July 1, 2023, the Wisconsin State Budget was signed into law and included language that provides financial institutions with an exemption from state taxable income for interest, fees, and penalties earned on Wisconsin-based business purpose or agriculture purpose loans for \$5 million or less, effective January 1, 2023. The impact to the Corporation is the elimination of state income tax expense as of January 1, 2023. The Corporation continues to recognize federal income tax expense, which resulted in income tax expense of \$0.7 million for the first nine months of 2023, a decrease of \$1.6 million, compared to the first nine months of 2022 when the Corporation recognized federal and state income tax expense. However, the elimination of state income tax expense also caused a valuation allowance to be recorded for state-related deferred tax assets. This resulted in a one-time income tax expense of \$7.4 million recorded as of the July 1, 2023. Of this expense, \$6.3 million relates to the state tax effect on unrealized losses on securities stranded in other comprehensive income. The \$6.3 million stranded in other comprehensive income will be recognized as an income tax benefit on a security-by-security basis as securities mature or are sold. Driven primarily by this one-time tax expense, total income tax expense for the first nine months of 2023 was \$8.0 million, an increase of \$5.8 million or 258%, compared to the first nine months of 2022. The effective tax rate increased from 15.1% in 2022 to 70.5% in 2023.