

2025

Annual Report

TriCity Bankshares Corporation 

TriCity Bankshares Corporation

Dear Fellow Shareholders,

As we close out another year, I am proud to reflect on the continued progress and strength of Tri City National Bank in 2025. Throughout the year, we remained committed to our mission of creating trust and opportunity for our customers, supporting our employees, and delivering results for our shareholders; while also serving as responsible and active members of the communities we call home. Together, we are shaping a forward-looking, resilient organization dedicated to making a meaningful and lasting impact.

At Tri City National Bank, we spend a great deal of time thinking about the future – how economic conditions may evolve, how regulatory and policy changes could shape our industry, and how advances in technology will continue to transform the way customers interact with their financial institutions.

Those topics matter; however, the future of any bank ultimately comes down to the people.

One of the most important questions I regularly ask our leadership team is this: Who will lead this institution in the years ahead? Who will be our customers, our advocates in the community and the leaders who will guide this bank five, ten, and twenty years from now?

Tri City National Bank has served communities across southeastern Wisconsin for decades. That longevity reflects the strength of our relationships and the trust our customers place in us. But enduring institutions do not rely on history alone – they constantly renew themselves by engaging the next generation of customers, employees, and community leaders.

We have made it a priority to listen closely to younger professionals in our communities and within our organization. Their perspectives on technology, service, and community engagement are shaping how we think about the future of banking. Just as important, they are helping us ensure that Tri City remains relevant, innovative, and deeply connected to the communities we serve.

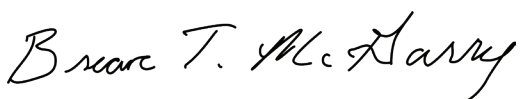
Developing future leadership inside the bank is equally critical. Strong organizations are built by people who are given the opportunity to grow, take on responsibility, and contribute their ideas. We believe that when talented individuals see banking not simply as a job, but as a long-term career, they bring greater commitment, creativity, and energy to their work.

This is why leadership development and mentorship remain important priorities for our management team. We are focused on identifying rising talent within our organization and giving those individuals the tools, experience, and opportunities they need to grow into future leaders.

There is also a practical reality every CEO must recognize: none of us will sit in our chairs forever. The long-term strength of any institution depends on the quality of the people who will succeed us.

At Tri City National Bank, we are fortunate to have a talented team and a strong culture built around serving our customers and communities. By continuing to invest in the next generation of bankers and leaders, we are positioning this institution to remain strong, relevant, and successful for many years to come.

Thank you for your continued confidence and support.
Sincerely,



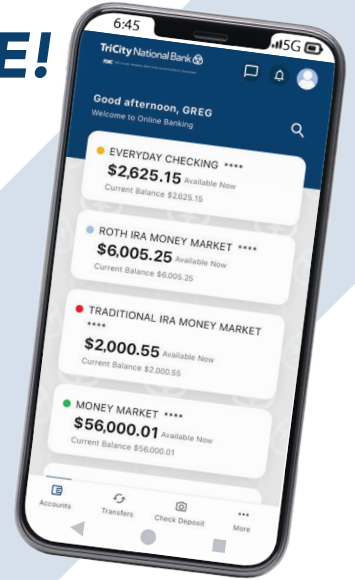
Brian T. McGarry

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

2025 HIGHLIGHTS

NEW DIGITAL BANKING GOES LIVE!

Tri City launched an entirely new digital banking platform in 2025. The new experience pairs the latest features — account aggregation, spending categorization, savings goals, and a virtual chat with a banker — with a sleek interface and upgraded security features. Whether customers visit a branch, call the Customer Care team, or bank digitally, they are sure to have an unparalleled customer service experience.



WEST ALLIS CUSTOMERS ENJOY A REMODELED BRANCH

Bank customers who visit the West Allis branch near Market Square are now enjoying a beautifully remodeled branch. A renovation completed in 2025 showcases a fresh look, updated brand colors and a warm, inviting place to conduct in-person banking. The elevated experience offers a coffee bar and other unique touches to compliment the team of hometown bankers.



WE GIVE WHERE WE LIVE

We believe in being a financial partner to our neighbors and building strong communities one relationship at a time. That's why we invest in our communities through loans to businesses and consumers, through monetary donations, and through donating our time and talents.



100+

Local organizations who receive annual support from Tri City

\$150K

Given to charitable organizations and community groups

400

Hours bankers spent volunteering across Southeastern Wisconsin

WHAT OTHERS SAY

GOOGLE REVIEWS

4.5



on Google Business across 1,000+ reviews!



"**Meena** is **absolutely amazing** and works incredibly efficiently! She was able to get a car loan done within 4 hours the same day and always keeps us in the loop of things. Whenever we need something we always know Meena will know how to solve it!"



"I'm new to the area and bank but when I came in everything was so easy and they helped so much, especially the gentleman who helped me with the dropbox. kindness is hard to find these days so that was **greatly appreciated.**"



"**Dominique** was **patient, thorough, all smiles**, I came in to cash a check and walked out with a brand new account. friendly professional, highly recommend."



"**Tri City Bank** is a **very home town bank!** I just saved hrs of time with Brittany talking me through my problem. Again, shout out to Brittany, thank you for your help <3"

HOMETOWN SUPPORT FROM YOUR HOMETOWN BANK



Bankers volunteered their time at the **Salvation Army**



Bankers cleaned graves at **Forest Home Cemetery & Arboretum**



Bankers sorted meal packs at **Feeding America Eastern Wisconsin**



Bankers organized at the **Ronald McDonald House**

IN THE NEWS



IVAN GAMBOA,

Chief Commercial Lending Officer,

was named a Notable Latino Leader by the BizTimes. Gamboa serves as Board Chair for Carmen Schools of Science and Technology and was instrumental in helping the school build a new \$55 million facility.



REBECCA HOLLANDER,

Mortgage Loan Officer,

was featured in the Federal Home Loan Bank of Chicago's Impact Report. Utilizing FHLB's Downpayment Plus program, Hollander secured a grant to make homeownership possible for the Anderer's family and their child with disabilities.



JOSH NARRAI,

Assistant Vice President | Commercial Lending,

was featured in an article by the Racine County Economic Development Corp. (RCEDC). Narrai paired a revolving loan fund with RCEDC assistance to help a small business with a needed expansion.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

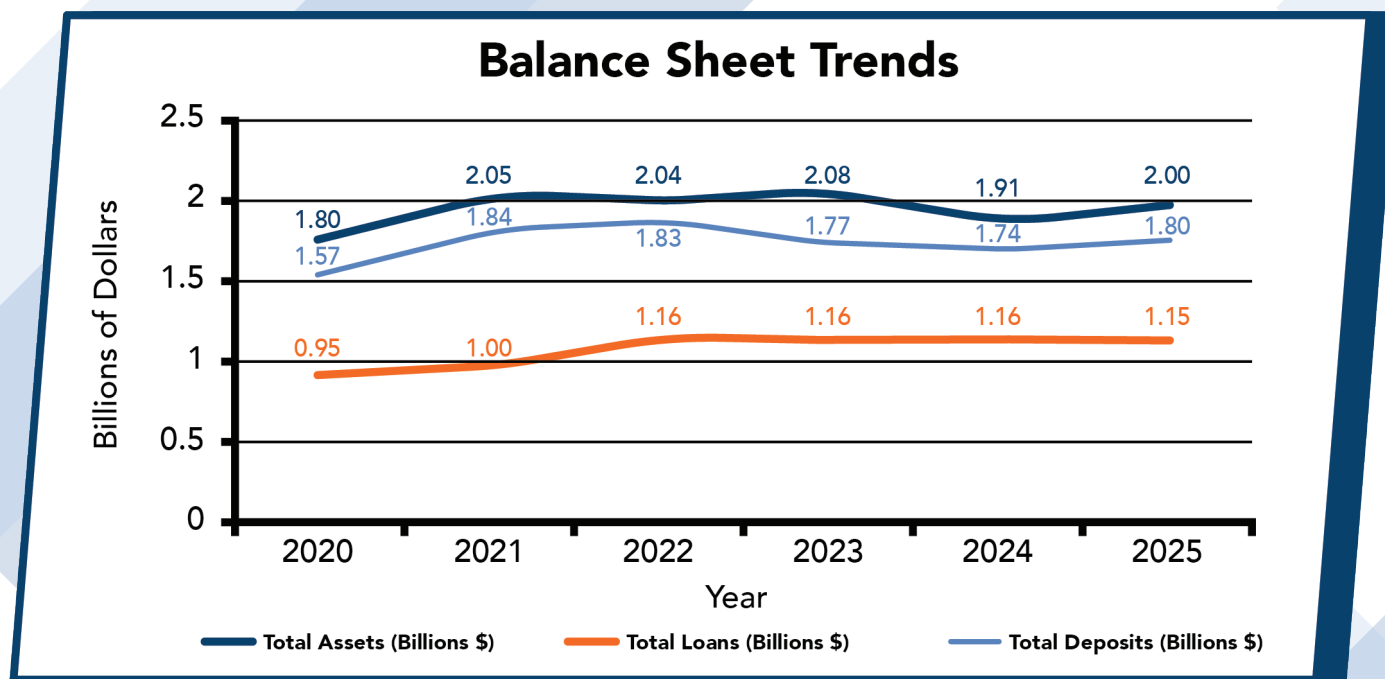
Tri City Bankshares Corporation
Year Ended December 31, 2025

OVERVIEW

Management's Discussion and Analysis provides an evaluation of the financial condition and results of operations of Tri City Bankshares Corporation (the "Corporation") for the year ended December 31, 2025, compared to the year ended December 31, 2024. This discussion should be read in conjunction with the consolidated financial statements and related notes.

During 2025, the Corporation operated in an economic environment characterized by elevated interest rates, continued deposit competition, and moderate loan demand. Despite these conditions, the Corporation reported improved profitability, maintained strong capital and liquidity, and continued to demonstrate sound asset quality.

FINANCIAL CONDITION



TOTAL ASSETS

Total assets increased to \$2.00 billion at December 31, 2025, compared to \$1.91 billion at December 31, 2024. The increase in total assets was primarily attributable to higher balances in cash and cash equivalents, reflecting management's emphasis on maintaining strong liquidity amid market uncertainty. Securities available for sale also increased modestly during the year, while net loans declined slightly.

Management continues to prioritize balance sheet flexibility and liquidity while evaluating opportunities for profitable asset deployment consistent with the Corporation's risk profile.

LOANS

Net loans declined modestly during 2025, reflecting continued softness in loan demand driven by higher borrowing costs and cautious borrower sentiment. Payoffs and amortization exceeded loan originations during the year, particularly within certain commercial real estate categories.

Management maintained a disciplined lending approach throughout the year, emphasizing credit quality, appropriate risk-adjusted returns, and underwriting standards. Loan pricing and structure remained selective as the Corporation focused on maintaining portfolio quality rather than pursuing volume in a competitive lending environment.

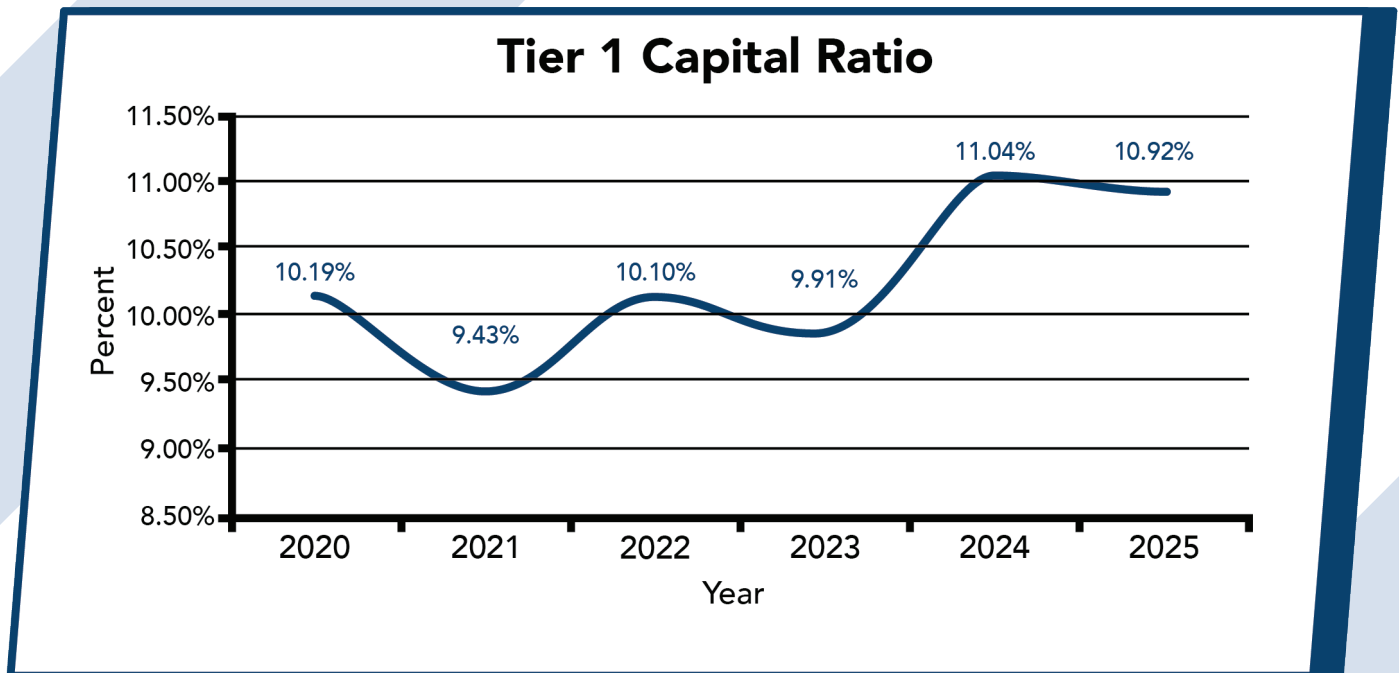
DEPOSITS AND FUNDING

Total deposits increased to \$1.80 billion at December 31, 2025, compared to \$1.74 billion at December 31, 2024. Deposit growth was observed across several product categories, although deposit mix continued to shift toward higher-cost interest-bearing accounts and certificates of deposit.

Competition for deposits remained elevated throughout 2025. Management actively managed deposit pricing to retain core customer relationships while balancing funding costs and net interest margin objectives.

CAPITAL

Total stockholders' equity increased to \$184.9 million at December 31, 2025, compared to \$153.6 million at December 31, 2024. The increase was primarily attributable to net income and a significant improvement in accumulated other comprehensive income due to reduced unrealized losses in the securities portfolio.



The Corporation's Tier 1 capital ratio was 10.9%, maintaining its "Well Capitalized" regulatory classification and providing financial flexibility to support operations, absorb potential stress, and return value to shareholders.

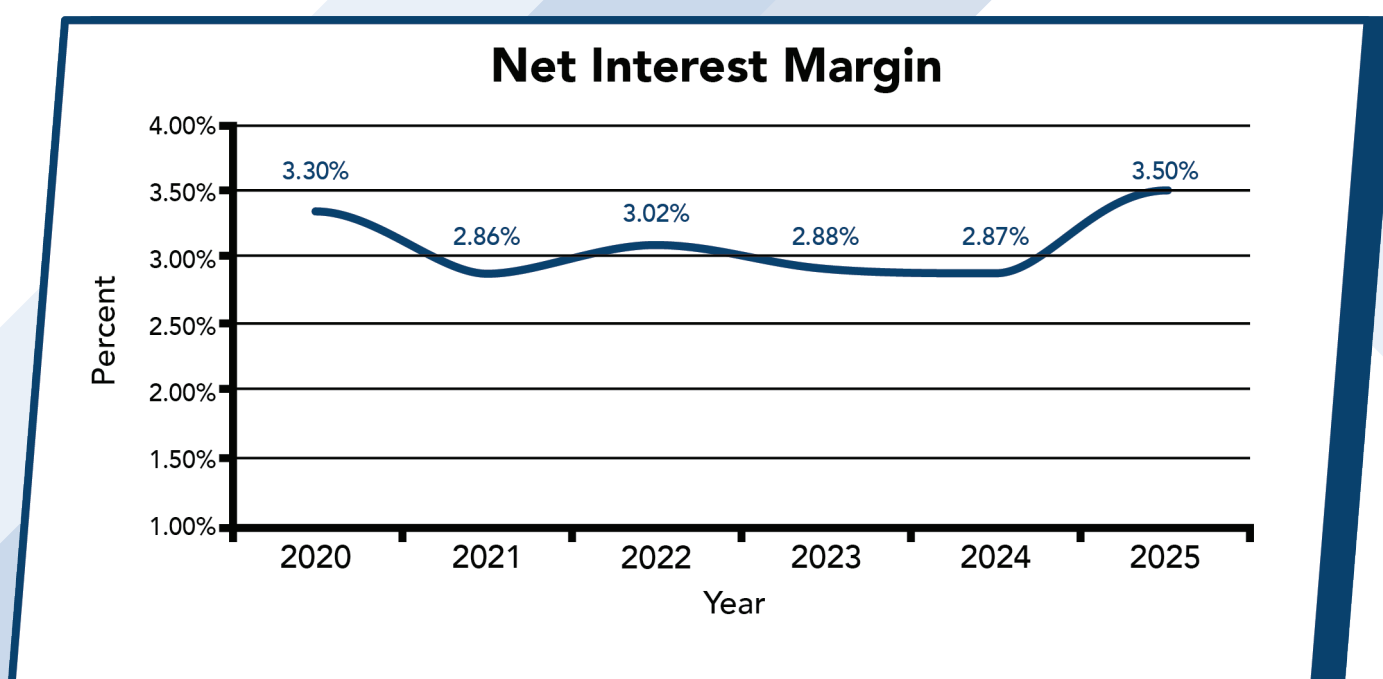
RESULTS OF OPERATIONS

NET INTEREST INCOME

Net interest income increased to \$61.7 million in 2025, compared to \$53.1 million in 2024. The increase was driven primarily by higher earning asset yields resulting from loan and securities repricing in a higher interest rate environment.

The Corporation's total funding costs lowered to 1.00% in 2025 compared to 1.28% in 2024. This is a testament to the strong core funding base the Corporation continues to maintain and grow. The Corporation had no material borrowings as of year end 2025.

The Corporation's net interest margin expanded to 3.50%, reflecting effective asset-liability management and balance sheet sensitivity to higher interest rates. A notable increase over 2.87% in the prior year.



PROVISION FOR CREDIT LOSSES

The Corporation recorded a \$250,000 provision for credit losses in 2025, compared to a \$425,000 recapture in 2024. The provision reflects management's assessment of current portfolio risk, loan composition, economic conditions, and forward-looking factors. Overall credit metrics remained stable during the year.

NONINTEREST INCOME

Total noninterest income declined modestly compared to the prior year, primarily due to lower non-core income items recorded in 2025, including bank-owned life insurance death benefits and gains on asset sales. Core fee income categories, including service charges and card-related income, remained relatively stable.

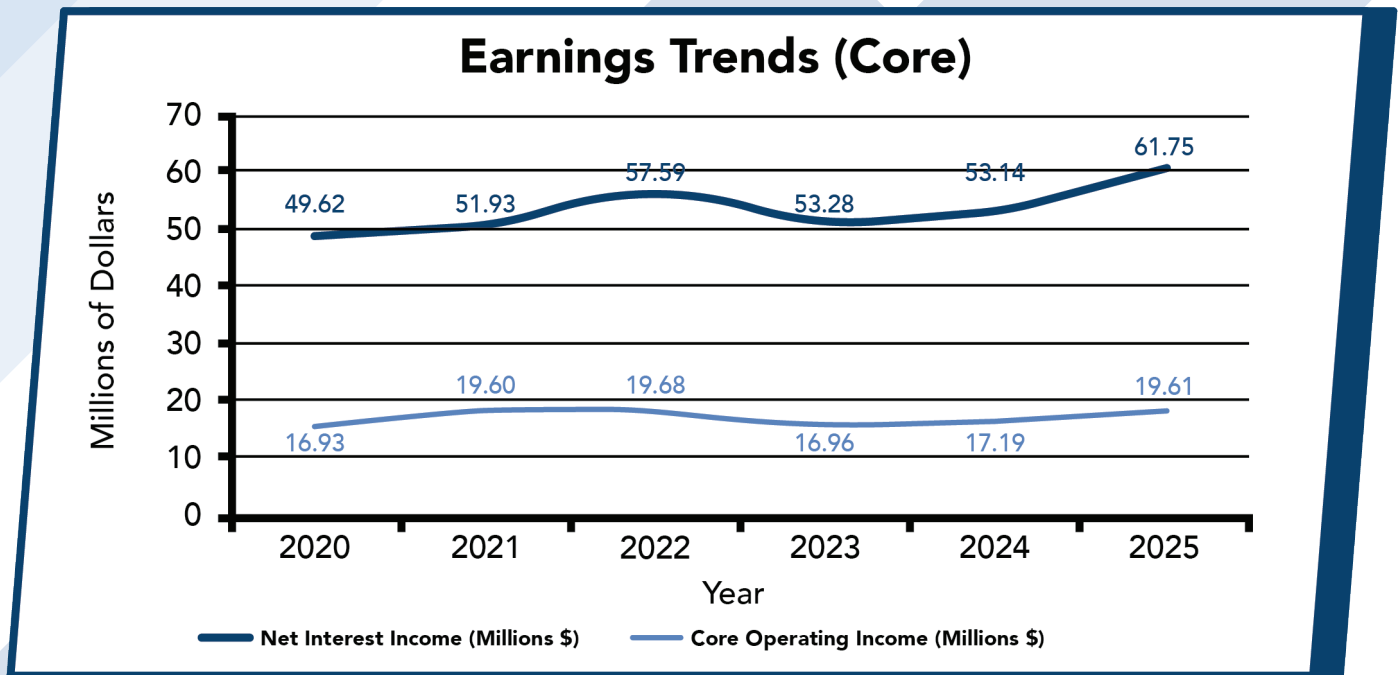
Management continues to view recurring fee income as an important component of diversified revenue, though net interest income remains the primary earnings driver.

RESULTS OF OPERATIONS (CONT.)

NONINTEREST EXPENSE

Noninterest expense increased during 2025, reflecting higher personnel costs, technology investments, and operating expenses associated with maintaining service levels and infrastructure. The Corporation also recognized losses on the sale of securities as part of ongoing balance sheet repositioning.

Management continues to assess expense levels relative to revenue growth and operational needs while investing in systems and personnel to support long-term performance.



NET INCOME

Net income increased to \$14.6 million in 2025, compared to \$11.7 million in 2024. The increase in net income was driven primarily by higher net interest income, partially offset by higher operating expenses and provisioning costs. The Corporation judges itself on before tax core operating income. Core operating income excludes acquisition related purchase accounting, gain(loss) on sale of securities or property and bank owned life insurance death benefits. Core operating income has increased to \$19.61 million in 2025 compared to \$17.19 in 2024.

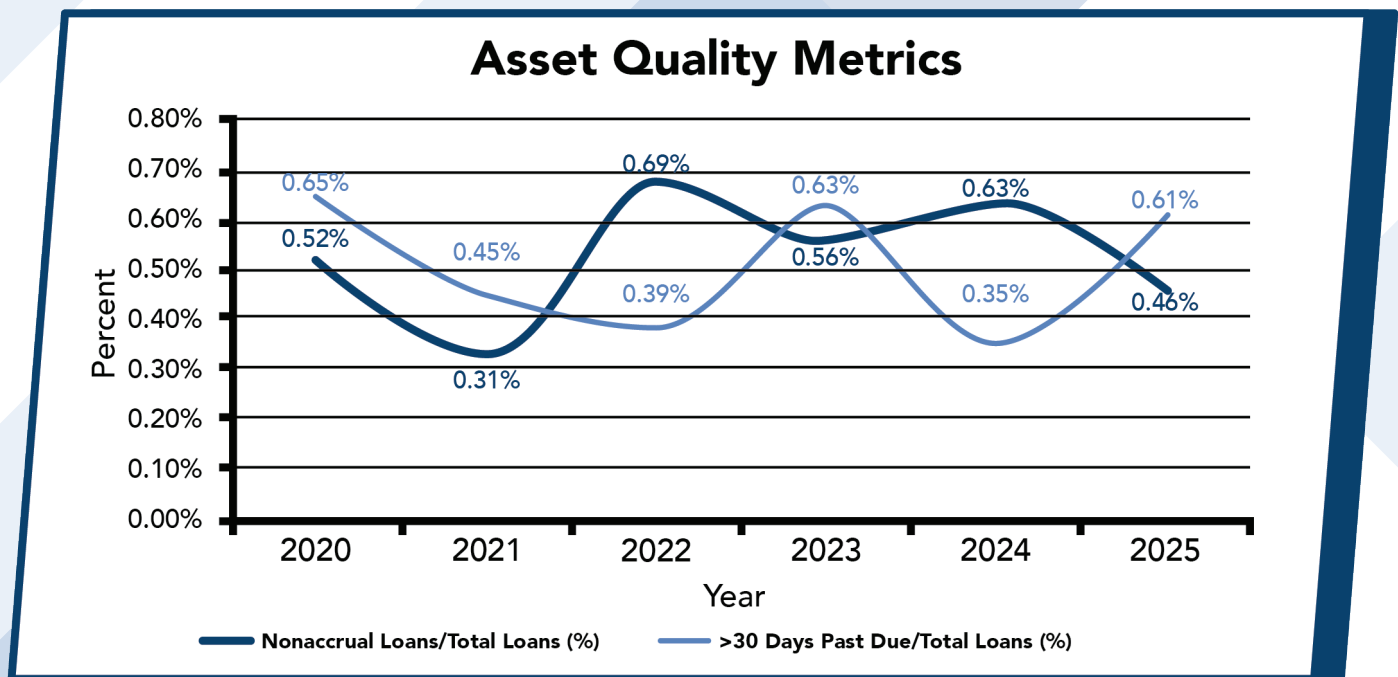
Earnings per share increased to \$1.64, compared to \$1.32 in the prior year.

ASSET QUALITY

Asset quality remained strong throughout 2025, supported by conservative underwriting standards and proactive credit monitoring.

- **Nonaccrual loans declined to 0.46% of total loans**
- **Loans past due more than 30 days totaled 0.61% of total loans**
- **Net charge-offs remained minimal**

Management continues to monitor credit conditions closely, particularly within commercial real estate portfolios, and believes the allowance for credit losses remains appropriate at December 31, 2025.



LIQUIDITY AND INTEREST RATE RISK

Liquidity remained strong during 2025, supported by elevated cash balances, stable deposit funding, and access to contingent liquidity sources. The Corporation continues to manage interest rate risk through asset-liability modeling and balance sheet positioning.

Management believes the Corporation is well positioned to operate under a range of future interest rate scenarios, though prolonged rate volatility or economic weakness could affect loan demand, deposit behavior, and margin performance.

OUTLOOK

Looking ahead, management remains focused on disciplined growth, prudent risk management, and consistent profitability. While economic and interest rate uncertainty persists, the Corporation enters 2026 with strong capital, ample liquidity, and a conservative balance sheet positioned to support long-term performance.

Selected Financial Data

Results of Operations	2021	2022	2023	2024	2025
Interest Income	\$52,878,074	\$59,453,479	\$68,733,641	\$76,725,735	\$79,398,771
Interest Expense	\$943,952	\$1,860,863	\$15,453,609	\$23,588,442	\$17,653,551
Net Interest Income	\$51,934,122	\$57,592,616	\$53,280,032	\$53,137,293	\$61,745,220
Provision (recapture) for credit losses on loans (PCL)	-	-	\$(455,211)	\$(425,000)	\$250,000
Net Interest Income after PCL	\$51,934,122	\$57,592,616	\$53,735,243	\$53,562,293	\$61,495,220
Core noninterest income	\$17,839,230	\$15,842,595	\$14,925,145	\$15,919,416	\$15,268,896
Non-core noninterest income	\$268,441	\$2,429,879	-	\$1,378,031	\$1,702
Core noninterest expense	\$49,930,269	\$53,192,736	\$52,150,358	\$52,295,741	\$57,159,519
Non-core noninterest expense	\$1,869,312	\$1,974,000	\$1,672,838	\$4,757,035	\$2,257,950
Income before income tax expense	\$18,242,212	\$20,698,354	\$14,837,192	\$13,806,964	\$17,348,349
Deferred tax adjustment from change in tax law	-	-	\$7,336,616	-	-
Income taxes	\$2,883,643	\$3,232,798	\$1,042,561	\$2,079,814	\$2,702,136
Total income tax expense	\$2,883,643	\$3,232,798	\$8,379,177	\$2,079,814	\$2,702,136
Net income	\$15,358,569	\$17,465,556	\$6,458,015	\$11,727,150	\$14,646,213
Balance Sheet Data					
Assets	\$2,054,498,528	\$2,038,496,442	\$2,078,743,388	\$1,907,150,025	\$2,004,766,850
Security investments	\$820,639,129	\$691,594,252	\$608,976,750	\$476,198,208	\$495,011,282
Total loans	\$1,014,652,367	\$1,177,931,968	\$1,173,609,721	\$1,177,751,681	\$1,165,718,112
Allowance for credit losses on loans	\$(13,572,773)	\$(13,707,262)	\$(14,579,234)	\$(14,157,647)	\$(14,332,578)
Total loans, net	\$1,001,079,594	\$1,164,224,706	\$1,159,030,487	\$1,163,594,034	\$1,151,385,534
Deposits	\$1,844,378,881	1,891,340,898	\$1,768,372,171	\$1,738,134,282	\$1,804,173,908
Borrowings	-	-	\$150,000,000	-	\$693,000
Total Tier One capital	\$193,748,531	\$205,871,138	\$205,917,612	\$210,637,530	\$218,872,204
Total stockholders' equity	\$191,631,640	\$128,570,287	\$143,512,850	\$153,554,733	\$184,909,880
Net loans to deposits	54.28%	61.56%	65.54%	66.95%	63.82%
Per Share Data					
Earnings per share	\$1.72	\$1.96	\$0.73	\$1.32	\$1.64
Cash dividends paid	\$0.52	\$0.60	\$0.72	\$0.72	\$0.72
Book value per share	\$21.52	\$14.44	\$16.12	\$17.24	\$20.76
Shares outstanding	8,904,915	8,904,915	8,904,915	8,904,915	8,904,915
Performance Ratios					
Return on average assets	0.78%	0.85%	0.32%	0.60%	0.77%
Return on average equity	8.03%	10.91%	4.75%	7.90%	8.65%
Interest on earning assets	2.91%	3.11%	3.71%	4.15%	4.50%
Cost of funds	0.05%	0.10%	0.84%	1.28%	1.00%
Net interest margin	2.86%	3.02%	2.88%	2.87%	3.50%
Core noninterest income to average assets	0.91%	0.77%	0.75%	0.81%	0.80%
Core noninterest expense to average assets	2.55%	2.59%	2.61%	2.65%	2.99%
Efficiency Ratio	71.56%	72.43%	76.46%	75.73%	74.22%
Capital Ratios					
Total equity to total assets	9.33%	6.31%	6.90%	8.05%	9.22%
Tier One capital ratio	9.43%	10.10%	9.91%	11.04%	10.92%
Asset Quality Ratios					
Nonaccrual loans to total loans	0.31%	0.69%	0.56%	0.63%	0.46%
Past due loans >30 days to total loans	0.45%	0.39%	0.63%	0.35%	0.61%
Net charge-offs to total loans	-0.05%	-0.01%	0.00%	0.00%	0.01%
Other real estate owned to total assets	0.00%	0.00%	0.00%	0.00%	0.00%
Allowance for credit losses to total loans	1.34%	1.16%	1.24%	1.20%	1.23%

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, 2025 and 2024, 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, 2025 and 2024, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the 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 consolidated 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, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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.

Baker Tilly US, LLP

Milwaukee, Wisconsin
March 24, 2026

TRI CITY BANKSHARES CORPORATION

CONSOLIDATED BALANCE SHEETS

As of December 31, 2025 and 2024

ASSETS

	<u>2025</u>	<u>2024</u>
Cash and due from banks	\$ 249,262,029	\$ 150,501,120
Federal funds sold	2,120,889	1,966,188
Total Cash and Cash Equivalents	<u>251,382,918</u>	<u>152,467,308</u>
Securities available for sale, at fair value	495,011,282	476,198,208
Loans, less allowance for credit losses of \$14,332,578 and \$14,157,647 as of 2025 and 2024, respectively	1,151,385,534	1,163,594,034
Premises and equipment - net	20,169,523	20,337,755
Right of use lease asset	11,393,337	11,532,624
Bank owned life insurance	48,944,196	47,237,774
Accrued interest receivable and other assets	26,480,060	35,782,322
TOTAL ASSETS	<u>\$ 2,004,766,850</u>	<u>\$ 1,907,150,025</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Deposits		
Demand	\$ 413,240,202	\$ 393,321,685
Interest bearing	1,201,367,363	1,180,303,264
Certificates of deposit	189,566,343	164,509,333
Total Deposits	<u>1,804,173,908</u>	<u>1,738,134,282</u>
Short-term borrowings	693,000	-
Lease liability	11,393,337	11,532,624
Accrued interest payable and other liabilities	3,596,725	3,928,386
Total Liabilities	<u>1,819,856,970</u>	<u>1,753,595,292</u>

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 2025 and 2024	8,904,915	8,904,915
Additional paid-in-capital	26,543,470	26,543,470
Accumulated other comprehensive loss	(33,962,324)	(57,082,797)
Retained earnings	183,423,819	175,189,145
Total Stockholders' Equity	<u>184,909,880</u>	<u>153,554,733</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 2,004,766,850</u>	<u>\$ 1,907,150,025</u>

See accompanying notes to consolidated financial statements

TRI CITY BANKSHARES CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2025 and 2024

	2025	2024
INTEREST INCOME		
Loans	\$ 64,131,097	\$ 59,099,535
Investment securities		
Taxable	8,188,946	9,129,702
Tax exempt	903,392	1,440,569
Federal funds sold and due from banks	6,175,336	7,036,143
Other	-	19,786
Total interest income	79,398,771	76,725,735
INTEREST EXPENSE		
Deposits	17,640,335	17,138,771
Other borrowings	13,216	6,449,671
Total interest expense	17,653,551	23,588,442
Net interest income before provision for (recapture of) credit losses	61,745,220	53,137,293
Provision for (recapture of) credit losses	250,000	(425,000)
Net interest income after provision for (recapture of) credit losses	61,495,220	53,562,293
NONINTEREST INCOME		
Service charges on deposits	5,446,625	5,844,091
Card and payment fees	4,737,440	4,998,438
Mortgage banking income	1,146,947	1,018,517
Merchant services income	607,082	686,319
Investment services income	453,735	435,116
Increase in CSV of life insurance	1,704,469	1,776,331
BOLI death benefit	-	305,751
Gain on sale of assets	1,702	1,072,280
Other noninterest income	1,172,598	1,160,604
Total noninterest income	15,270,598	17,297,447
NONINTEREST EXPENSES		
Compensation and employee benefits	33,256,564	30,890,542
Premise and fixed asset costs	5,950,948	5,531,143
Professional fees and consulting	1,614,374	1,724,959
Data processing, technology and communications	9,181,364	8,205,529
Advertising, public relations and business development	1,832,861	1,603,618
Regulatory agency assessments	1,163,585	1,152,821
Operating supplies	606,480	671,454
Loss on sale of securities	2,257,950	4,757,035
Other noninterest expense	3,553,343	2,515,675
Total noninterest expense	59,417,469	57,052,776
Total income before taxes	17,348,349	13,806,964
Less: Income tax expense	2,702,136	2,079,814
NET INCOME	\$ 14,646,213	\$ 11,727,150

See accompanying notes to consolidated financial statements

TRI CITY BANKSHARES CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
NET INCOME	\$ 14,646,213	\$ 11,727,150
Other comprehensive income, net of tax:		
Securities available for sale:		
Net unrealized holding gains arising during the period	27,083,390	2,083,456
Reclassification adjustment for loss in net income	2,257,950	4,757,035
Tax effect	<u>(6,220,867)</u>	<u>(1,518,526)</u>
Total other comprehensive income, net of tax:	<u>23,120,473</u>	<u>5,321,965</u>
COMPREHENSIVE INCOME	<u><u>\$ 37,766,686</u></u>	<u><u>\$ 17,049,115</u></u>

See accompanying notes to consolidated financial statements

TRI CITY BANKSHARES CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2025 and 2024

	<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, 2024	\$ 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	8,904,915	26,543,470	(57,082,797)	175,189,145	153,554,733
Net income	-	-	-	14,646,213	14,646,213
Total other comprehensive income	-	-	23,120,473	-	23,120,473
Cash dividends - (\$0.72 per share)	-	-	-	(6,411,539)	(6,411,539)
BALANCES - December 31, 2025	<u>\$ 8,904,915</u>	<u>\$ 26,543,470</u>	<u>\$ (33,962,324)</u>	<u>\$ 183,423,819</u>	<u>\$ 184,909,880</u>

See accompanying notes to consolidated financial statements

TRI CITY BANKSHARES CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2025 and 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 14,646,213	\$ 11,727,150
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	2,048,032	2,124,109
Amortization and accretion of servicing rights, premiums and discounts	2,285,219	3,199,545
Amortization of New Market Tax Credit investments	834,601	1,177,573
Net gain on sale of loans	(728,503)	(542,515)
Provision for (recapture of) credit losses	250,000	(425,000)
Expense for deferred income taxes	(492,820)	54,863
Proceeds from sales of loans held for sale	23,983,986	23,298,700
Originations of loans held for sale	(23,291,696)	(22,848,789)
Net loss on sale of securities available for sale	2,257,950	4,757,035
Increase in cash surrender value of bank owned life insurance	(1,704,469)	(1,776,331)
Gain on bank owned life insurance death benefits	-	(305,751)
Loss (gain) on disposal of premises and equipment	2,155	(1,072,280)
Right of use lease asset amortization	603,712	601,539
Net change in:		
Accrued interest receivable and other assets	2,244,504	1,234,700
Lease liability	(603,712)	(601,539)
Accrued interest payable and other liabilities	(331,661)	(764,158)
Net cash flows from operating activities	22,003,511	19,838,851
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in available for sale securities:		
Maturities, prepayments and calls	70,235,845	67,664,993
Purchases	(91,103,301)	-
Proceeds from sale	27,383,877	64,663,096
Net decrease (increase) in loans	11,958,500	(4,138,547)
Purchase of premises and equipment	(1,881,956)	(2,747,293)
Proceeds from sales of premises and equipment	-	1,262,572
Purchase of bank owned life insurance	-	(10,000,000)
Proceeds from surrender of bank owned life insurance	(1,953)	6,968,504
Proceeds from bank owned life insurance death benefits	-	827,015
Net cash provided by investing activities	16,591,012	124,500,340
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	66,039,626	(30,237,889)
Net increase (decrease) in borrowings	693,000	(150,000,000)
Dividends paid	(6,411,539)	(6,411,541)
Net cash flows provided by (used in) financing activities	60,321,087	(186,649,430)
Net change in cash and cash equivalents	98,915,610	(42,310,239)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	152,467,308	194,777,547
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 251,382,918	\$ 152,467,308

See accompanying notes to consolidated financial statements

TRI CITY BANKSHARES CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2025 and 2024
(continued)

	2025	2024
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid for interest	\$ 17,635,331	\$ 23,394,439
Cash paid for income taxes, net of refunds received	1,493,000	331,735
SUPPLEMENTAL NON-CASH DISCLOSURES		
Mortgage servicing rights resulting from sales of loans	36,213	92,604
Impact of adopting ASU 2023-02 to Retained Earnings	-	595,691
Change in lease liability due to remeasurement or obtaining right of use lease assets	464,425	-

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, 2025 and 2024

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, 2025. 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, 2025 and 2024

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 \$1,445,962 and \$1,548,207 as of December 31, 2025 and 2024, 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, 2025 and December 31, 2024.

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, 2025 or 2024.

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, 2025 and 2024

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 \$3,614,882 and \$3,367,002 as of December 31, 2025 and 2024, 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, 2025 and December 31, 2024.

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, 2025 and 2024

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, 2025 and 2024, the Corporation services real estate loans for investors in the secondary market, which are not included in the accompanying consolidated balance sheets, of approximately \$231 million and \$252 million, respectively. The related MSR assets were \$1,466,115 and \$1,679,390 as of December 31, 2025 and 2024, 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, 2025 and 2024.

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 was an increase of \$595,691 in beginning retained earnings in 2024. 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, 2025 and 2024

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, 2025 and 2024, the aggregate amortizing notional value of interest rate swaps with various commercial borrowers was \$32.7 million and \$21.9 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 \$394,342 and \$536,332 in accrued interest receivable and other assets and accrued interest payable and other liabilities as of December 31, 2025 and 2024, respectively. As of December 31, 2025 and 2024, 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 \$1,293,857 and \$573,701 as of December 31, 2025 and 2024, 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 adopted ASU 2023-02 effective January 1, 2024, 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, 2025 and 2024. Earnings per share were \$1.64 and \$1.32 for the periods ended December 31, 2025 and 2024 respectively.

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2025 and 2024

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 Makers ("CODM"), based upon information provided about the Corporation's products and services offered through its community banking operations. The Company determined it has only one reportable segment, community banking. 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, 2025 and 2024, 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) retirement 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 commencement, 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, 2025 and 2024

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. The Corporation earns income on automated teller machine ("ATM") transactions. This income includes fees when the Corporation's customers use other ATM networks. Income from these activities are recognized concurrently when the transactions occurs.
- **Card and payment fees**- The Corporation earns interchange fees from debit/credit cardholder transactions conducted through VISA payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value. Interchange income is recognized at the time the transaction is processed, which is the point in time the Corporation satisfies the customer's request. Income from these activities is recognized daily, concurrently with the transaction processing services provided to the cardholder. The corporation earns additional card related fees, including application fees for credit cards. These fees are recognized at the time the related service is performed.
- **Mortgage banking income** – Mortgage banking income consists primarily of gain on sales of residential mortgage loans and servicing income. The Corporation originates residential mortgage loans for sale in the secondary market. Loans are typically sold to third-party investors shortly after origination. The Corporation recognizes a gain on sale when the control of the loan transfers to the investor, which generally occurs upon sale and delivery of the loans. The gain represents the difference between the proceeds received and the carrying value of the loan. This gain is earned at the time the loan is sold. The Corporation retains servicing rights on a portion of loans sold. Mortgage service rights are recorded at fair value at the time of the sale. Servicing income, which consists primarily of servicing fees and ancillary income, earned over the period the Corporation performs the servicing obligation, servicing fees are recognized monthly as the services are provided. Changes in the fair value of mortgage servicing rights are recorded in mortgage banking income. Mortgage banking income may also include loan origination and commitment fees. These fees are recognized and earned at the time of the loan closing.
- **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.
- **Investment services income** – Investment services income consists primarily of fees earned from the sale of investment products and from advisory services provided to customers through third-party service providers. The Corporation offers these services under arrangements with unaffiliated broker-dealers. Commission income from the sale of investment products is recognized at the time the transaction is completed, which is the point in time the Corporation satisfies the performance obligation. Commissions are generally based on a percentage of underlying transaction amount and are received shortly after the transaction settles. The corporation may also earn ongoing trail commissions or advisory fees based on customer account balances. These fees are earned over the period the advisory services are provided and are recognized monthly or quarterly, presenting the period over which the services are performed.
- **Other noninterest income** – The main items in this revenue category are other loan closing related fees, ATM non-customer fees, check selling fees and vault rent, 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.

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2025 and 2024

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

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 24, 2026, the date the consolidated financial statements were available to be issued.

Accounting Pronouncements Adopted

Income Taxes – Improvements to Income Tax Disclosures

On January 1, 2025 the Corporation adopted 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 Company has adopted the provisions of the ASU on a retrospective basis. See Note 13 Income Taxes for updated disclosure.

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.

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2025 and 2024

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 24.7% as of December 31, 2025 and 16.7% as of December 31, 2024 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 MSR's 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.

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2025 and 2024

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

Financial instruments measured at fair value on a recurring basis for 2025 and 2024 are summarized below:

Assets	<u>Balance at 12/31/2025</u>		<u>Level 1</u>		<u>Level 2</u>		<u>Level 3</u>
Securities available for sale							
Obligations of state and political subdivision	\$ 74,163,209	\$	-	\$	74,163,209	\$	-
Collateralized mortgage obligations	177,328,386		-		177,328,386		-
Mortgage-backed securities	243,519,687		-		243,519,687		-
U.S. GSE agencies	<u>-</u>		<u>-</u>		<u>-</u>		<u>-</u>
Total securities available for sale	<u>\$ 495,011,282</u>	<u>\$</u>	<u>-</u>	<u>\$</u>	<u>495,011,282</u>	<u>\$</u>	<u>-</u>
Interest rate swaps - other assets	\$ 394,342	\$	-	\$	394,342	\$	-
Liabilities							
Interest rate swaps - other liabilities	\$ 394,342	\$	-	\$	394,342	\$	-

Assets	<u>Balance at 12/31/2024</u>		<u>Level 1</u>		<u>Level 2</u>		<u>Level 3</u>
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	<u>9,826,235</u>		<u>-</u>		<u>9,826,235</u>		<u>-</u>
Total securities available for sale	<u>\$ 476,198,208</u>	<u>\$</u>	<u>-</u>	<u>\$</u>	<u>476,198,208</u>	<u>\$</u>	<u>-</u>
Interest rate swaps - other assets	\$ 536,332	\$	-	\$	536,332	\$	-
Liabilities							
Interest rate swaps - other liabilities	\$ 536,332	\$	-	\$	536,332	\$	-

Financial instruments measured at fair value on a non-recurring basis for 2025 and 2024 are summarized below:

	<u>Balance at 12/31/2025</u>		<u>Level 1</u>		<u>Level 2</u>		<u>Level 3</u>
Individually evaluated loans with a related allowance, net	\$ 3,573,591	\$	-	\$	-	\$	3,573,591
	<u>Balance at 12/31/2024</u>		<u>Level 1</u>		<u>Level 2</u>		<u>Level 3</u>
Individually evaluated loans with a related allowance, net	\$ 1,628,662	\$	-	\$	-	\$	1,628,662

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2025 and 2024

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

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

	Fair Value Hierarchy	2025		2024	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
FINANCIAL ASSETS					
Cash and due from banks	1	\$ 249,262,029	\$ 249,262,029	\$ 150,501,120	\$ 150,501,120
Federal funds sold	2	2,120,889	2,120,889	1,966,188	1,966,188
Available for sale securities	2	495,011,282	495,011,282	476,198,208	476,198,208
Federal reserve stock	2	323,879	323,879	337,540	337,540
FHLB Chicago stock	2	3,120,700	3,120,700	3,120,700	3,120,700
Loans held for investment	3	1,151,385,534	1,161,126,217	1,163,594,034	1,142,305,701
Bank owned life insurance	2	48,944,196	48,944,196	47,237,774	47,237,774
Mortgage servicing rights, net	2	1,466,115	2,355,412	1,679,390	2,782,667
Interest rate swaps	2	394,342	394,342	536,332	536,332
Accrued interest receivable	2	5,060,843	5,060,843	4,915,210	4,915,210
FINANCIAL LIABILITIES					
Deposits	2	\$ 1,804,173,908	\$ 1,803,631,565	\$ 1,738,134,282	\$ 1,737,291,234
Interest rate swaps	2	394,342	394,342	536,332	536,332
Accrued interest payable	2	775,580	775,580	757,360	757,360
Borrowings	2	693,000	693,000	-	-

The estimated fair value of fee income on letters of credit outstanding as of December 31, 2025 and December 31, 2024 is insignificant. Loan commitments on which the committed interest rate is less than the current market rate are also insignificant at December 31, 2025 and December 31, 2024.

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, 2025 or December 31, 2024.

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2025 and 2024

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:

	2025			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Obligations of states and political subdivisions	\$ 85,214,791	\$ -	\$ (11,051,582)	\$ 74,163,209
Collateralized mortgage obligations	191,052,004	133,203	(13,856,821)	177,328,386
Mortgage-backed securities	268,890,539	21,214	(25,392,066)	243,519,687
U.S. GSE agencies	-	-	-	-
Totals	<u>\$ 545,157,334</u>	<u>\$ 154,417</u>	<u>\$ (50,300,469)</u>	<u>\$ 495,011,282</u>

	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>

The amortized cost and fair value of available for sale securities as of December 31, 2025, 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.

	2025	
	Amortized Cost	Fair Value
Due within one year or less	\$ 424,465	\$ 423,193
Due after one year but less than 5 years	17,008,235	15,970,486
Due after 5 years but less than 10 years	53,155,005	45,911,640
Due over 10 years	14,627,085	11,857,890
	<u>85,214,790</u>	<u>74,163,209</u>
Collateralized mortgage obligations	191,052,004	177,328,386
Mortgage backed securities	268,890,540	243,519,687
Totals	<u>\$ 545,157,334</u>	<u>\$ 495,011,282</u>

Available for sale securities with an amortized cost of \$194,989,186 and \$460,318,937 at December 31, 2025 and December 31, 2024, 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:

	2025	2024
Proceeds	\$ 27,383,877	\$ 64,663,096
Gross gains	-	-
Gross losses	2,257,950	4,757,035

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2025 and 2024

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:

	2025					
	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	\$ -	\$ -	\$ 72,963,056	\$ (11,051,582)	\$ 72,963,056	\$ (11,051,582)
Collateralized mortgage obligations	36,068,451	(93,793)	104,957,912	(13,763,028)	141,026,363	(13,856,821)
Mortgage-backed securities	14,368,507	(95,907)	224,126,280	(25,296,159)	238,494,787	(25,392,066)
U.S. GSE agencies	-	-	-	-	-	-
Totals	<u>\$ 50,436,958</u>	<u>\$ (189,700)</u>	<u>\$ 402,047,248</u>	<u>\$ (50,110,769)</u>	<u>\$ 452,484,206</u>	<u>\$ (50,300,469)</u>
	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>

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, 2025 and December 31, 2024, 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, 2025 and December 31, 2024.

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2025 and 2024

NOTE 5 – Loans

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

	2025	2024
Commercial	\$ 15,424,545	\$ 23,546,749
Real Estate		
Construction	63,473,633	43,938,096
Commercial	611,187,750	646,478,339
Residential	207,224,566	200,719,846
Multifamily	259,333,796	257,621,978
Installment and other	9,073,822	5,446,673
	1,165,718,112	1,177,751,681
Less:		
Allowance for loan losses	(14,332,578)	(14,157,647)
Net loans	\$ 1,151,385,534	\$ 1,163,594,034

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

	2025					
	Current	Days Past Due			Total	
	Loans	30-59	60-89	Over 90	Total	Total Loans
Commercial	\$ 15,406,388	\$ 18,157	\$ -	\$ -	\$ 18,157	\$ 15,424,545
Real Estate						
Construction	63,473,633	-	-	-	-	63,473,633
Commercial	606,461,328	709,107	-	4,017,315	4,726,422	611,187,750
Residential	204,897,608	1,670,105	204,694	452,159	2,326,958	207,224,566
Multifamily	259,333,796	-	-	-	-	259,333,796
Installment and other	9,015,109	22,149	-	36,564	58,713	9,073,822
Total loans	\$ 1,158,587,862	\$ 2,419,518	\$ 204,694	\$ 4,506,038	\$ 7,130,250	\$ 1,165,718,112
	2024					
	Current	Days Past Due			Total	
	Loans	30-59	60-89	Over 90	Total	Total 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	\$ 1,173,574,992	\$ 1,310,965	\$ 2,487,993	\$ 377,731	\$ 4,176,689	\$ 1,177,751,681

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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2025 and 2024

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:

	2025		
	Nonaccrual with no allowance for credit loss	Nonaccrual	Past due 90 days or more and accruing
Commercial	\$ -	\$ -	\$ -
Real Estate			
Construction	-	-	-
Commercial	-	4,412,132	-
Residential	649,221	742,961	-
Multifamily	-	153,879	-
Installment and other	-	-	36,564
Total Loans	<u>\$ 649,221</u>	<u>\$ 5,308,972</u>	<u>\$ 36,564</u>
	2024		
	Nonaccrual with no allowance for credit loss	Nonaccrual	Past due 90 days or more and accruing
Commercial	\$ 79,542	\$ 168,618	\$ -
Real Estate			
Construction	-	-	-
Commercial	273,443	1,610,146	-
Residential	5,349,648	5,614,218	-
Multifamily	-	-	-
Installment and other	-	-	314
Total Loans	<u>\$ 5,702,633</u>	<u>\$ 7,392,982</u>	<u>\$ 314</u>

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2025 and 2024

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:

		2025							
		Term Loans Amortized Cost Basis by Origination Year							
	Rev Loans Converted to Term	Rev Loans Amortized Cost Basis	2025	2024	2023	2022	2021	Prior	Total
Commercial:									
Risk rating									
Pass	\$ -	\$ 1,511,067	\$ 2,807,275	\$ 1,617,811	\$ 3,683,977	\$ 2,614,610	\$ 697,953	\$ 2,473,695	\$ 15,406,388
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	18,157	-	18,157
Doubtful	-	-	-	-	-	-	-	-	-
Total commercial	\$ -	\$ 1,511,067	\$ 2,807,275	\$ 1,617,811	\$ 3,683,977	\$ 2,614,610	\$ 716,110	\$ 2,473,695	\$ 15,424,545
Construction Real Estate:									
Risk rating									
Pass	\$ -	\$ 12,113,942	\$ 28,444,059	\$ 6,499,587	\$ 2,648,420	\$ 1,848,567	\$ -	\$ 168,640	\$ 51,723,215
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	11,750,418	11,750,418
Doubtful	-	-	-	-	-	-	-	-	-
Total construction real estate	\$ -	\$ 12,113,942	\$ 28,444,059	\$ 6,499,587	\$ 2,648,420	\$ 1,848,567	\$ -	\$ 11,919,058	\$ 63,473,633
Commercial Real Estate:									
Risk rating									
Pass	\$ 14,024,271	\$ 7,045,679	\$ 95,369,648	\$ 60,195,292	\$ 35,685,397	\$ 141,905,725	\$ 90,097,238	\$ 151,178,029	\$ 581,477,008
Special mention	-	66,700	-	-	-	-	-	-	66,700
Substandard	-	474,829	-	-	1,738,670	6,783,968	5,761,867	14,884,708	29,644,042
Doubtful	-	-	-	-	-	-	-	-	-
Total commercial real estate	\$ 14,024,271	\$ 7,587,208	\$ 95,369,648	\$ 60,195,292	\$ 37,424,067	\$ 148,689,693	\$ 95,859,105	\$ 166,062,737	\$ 611,187,750
Multifamily Real Estate:									
Risk rating									
Pass	\$ 681,825	\$ 459,656	\$ 20,147,279	\$ 29,899,369	\$ 17,908,795	\$ 121,803,140	\$ 26,763,633	\$ 41,703,175	\$ 258,685,047
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	494,870	153,879	-	648,749
Doubtful	-	-	-	-	-	-	-	-	-
Total multifamily real estate	\$ 681,825	\$ 459,656	\$ 20,147,279	\$ 29,899,369	\$ 17,908,795	\$ 122,298,010	\$ 26,917,512	\$ 41,703,175	\$ 259,333,796
Residential Real Estate:									
Risk rating									
Performing	\$ 1,412,211	\$ 39,431,026	\$ 30,640,479	\$ 19,495,777	\$ 19,576,529	\$ 37,259,869	\$ 23,873,944	\$ 36,203,982	\$ 206,481,606
Nonperforming	-	39,832	-	-	176,159	-	-	526,969	742,960
Total residential real estate	\$ 1,412,211	\$ 39,470,858	\$ 30,640,479	\$ 19,495,777	\$ 19,752,688	\$ 37,259,869	\$ 23,873,944	\$ 36,730,951	\$ 207,224,566
Installment & Other:									
Risk rating									
Performing	\$ -	\$ 150,712	\$ 5,859,462	\$ 1,949,721	\$ 823,488	\$ 253,089	\$ 786	\$ -	\$ 9,037,258
Nonperforming	-	-	36,564	-	-	-	-	-	36,564
Total installment & other	\$ -	\$ 150,712	\$ 5,896,026	\$ 1,949,721	\$ 823,488	\$ 253,089	\$ 786	\$ -	\$ 9,073,822

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2025 and 2024

NOTE 5 – Loans (cont.)

		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	<u>\$ -</u>	<u>\$ 2,354,159</u>	<u>\$ 2,682,681</u>	<u>\$ 5,415,225</u>	<u>\$ 4,986,249</u>	<u>\$ 2,288,169</u>	<u>\$ 262,303</u>	<u>\$ 5,557,963</u>	<u>\$ 23,546,749</u>
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	<u>\$ -</u>	<u>\$ 9,718,109</u>	<u>\$ 22,125,159</u>	<u>\$ 5,504,630</u>	<u>\$ 5,543,383</u>	<u>\$ 20,966</u>	<u>\$ 232,961</u>	<u>\$ 792,888</u>	<u>\$ 43,938,096</u>
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	<u>\$ 233,112</u>	<u>\$ 15,079,020</u>	<u>\$ 62,850,633</u>	<u>\$ 43,484,727</u>	<u>\$ 171,418,088</u>	<u>\$ 115,669,188</u>	<u>\$ 66,033,670</u>	<u>\$ 171,943,013</u>	<u>\$ 646,478,339</u>
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	<u>\$ -</u>	<u>\$ 1,274,134</u>	<u>\$ 26,654,367</u>	<u>\$ 18,994,332</u>	<u>\$ 126,452,200</u>	<u>\$ 35,233,021</u>	<u>\$ 7,134,259</u>	<u>\$ 41,879,665</u>	<u>\$ 257,621,978</u>
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	-	-	-	-	-	-	5,010,624	603,594	5,614,218
Total residential real estate	<u>\$ 105,123</u>	<u>\$ 35,388,325</u>	<u>\$ 23,064,506</u>	<u>\$ 22,464,270</u>	<u>\$ 41,267,314</u>	<u>\$ 26,946,443</u>	<u>\$ 14,692,950</u>	<u>\$ 36,896,038</u>	<u>\$ 200,719,846</u>
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	<u>\$ -</u>	<u>\$ 130,302</u>	<u>\$ 3,153,559</u>	<u>\$ 1,578,358</u>	<u>\$ 498,404</u>	<u>\$ 8,406</u>	<u>\$ 11,565</u>	<u>\$ 66,079</u>	<u>\$ 5,446,673</u>

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2025 and 2024

NOTE 5 – Loans (cont.)

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

		2025						
		Gross Charge Offs Amortized Cost Basis by Origination Year						
	Rev Loans Amortized Cost Basis	2025	2024	2023	2022	2021	Prior	Total
Commercial	\$ -	\$ -	\$ -	\$ 71,570	\$ 47,734	\$ -	\$ -	\$ 119,304
Real Estate								
Construction	-	-	-	-	-	-	-	-
Commercial	-	-	-	-	-	-	363	363
Residential	-	-	-	-	-	-	10,549	10,549
Multifamily	-	-	-	-	-	-	-	-
Installment and other	-	-	5,543	-	-	-	300	5,843
Total gross charge offs	\$ -	\$ -	\$ 5,543	\$ 71,570	\$ 47,734	\$ -	\$ 11,212	\$ 136,059

		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	-	-	-	4,286	-	-	-	4,286
Total gross charge offs	\$ -	\$ -	\$ 48,896	\$ 4,286	\$ -	\$ -	\$ 20,473	\$ 73,655

The Corporation has identified \$5.4 million of loans as individually evaluated as of December 31, 2025, compared to \$7.7 million of loans as of December 31, 2024. 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:

	2025	2024
Loans for which there was a related allowance for credit loss	\$ 4,746,519	\$ 1,954,489
Individually evaluated loans with no related allowance	649,222	5,702,633
Total individually evaluated loans	<u>\$ 5,395,741</u>	<u>\$ 7,657,122</u>

The Corporation had one residential real estate loan with a carrying value of \$96,140 for which foreclosure proceedings have commenced as of December 31, 2025, compared to two residential real estate loans with a carrying value of \$233,969 for which foreclosure proceedings had commenced as of December 31, 2024.

The following table presents the amortized cost basis of individually evaluated collateral-dependent loans by class of loans as of December 31, 2025 and December 31, 2024. All collateral-dependent loans as of December 31 in both 2025 and 2024 are secured by commercial vehicles or commercial or residential real estate, as noted in the table below.

	2025	2024
Vehicle loans:		
Commercial	\$ -	\$ 71,570
Real Estate loans:		
Construction	-	-
Commercial	2,182,256	1,336,703
Residential	136,226	5,047,144
Multifamily	-	-
Installment and other loans	-	-
Total	<u>\$ 2,318,482</u>	<u>\$ 6,455,417</u>

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2025 and 2024

NOTE 5 – Loans (cont.)

There were no director and executive officer loans outstanding as of December 31, 2025 or December 31, 2024. There were no outstanding balance of loan participations with affiliated parties as of December 31, 2025 or December 31, 2024.

Residential and commercial real estate loans approximating \$255.5 million and \$254.1 million as of December 31, 2025 and 2024, 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, 2025 and December 31, 2024, 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:

	2025	2024
Land	\$ 6,536,462	\$ 6,342,625
Buildings and leasehold improvements	38,972,125	38,076,417
Furniture and equipment	22,295,622	21,951,507
Total	67,804,209	66,370,549
Less: Accumulated depreciation	(47,634,686)	(46,032,794)
Net Premises and Equipment	\$ 20,169,523	\$ 20,337,755

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:

	2025	2024
Bank owned life insurance	\$ 48,944,196	\$ 47,237,774

No policies were surrendered, purchased or exchanged in 2025.

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 was due from the underlying insurance carrier and was included in accrued interest receivable and other assets. In 2024, the Corporation incurred income taxes of \$520,592 from the surrender of the policies, which included a \$167,333 tax penalty.

In 2024, the Corporation purchased \$10,000,000 in new bank owned life insurance policies, which included 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 \$1,704,469 and \$1,776,331, including the \$525,000 enhancement, for the years ended December 31, 2025 and December 31, 2024, respectively.

The Corporation also recognized no gain on death benefits in 2025 and \$305,751 from death benefits received under one insurance policy in the year ended December 31, 2024.

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2025 and 2024

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, 2025 and 2024, 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 \$2.6 million and \$3.6 million, respectively. 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, 2025 and 2024 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:

	2025	2024
Accrued interest receivable	\$ 5,060,843	\$ 4,915,210
Federal Reserve Bank stock	323,879	337,540
Mortgage servicing rights	1,466,115	1,679,390
Interest rate swaps	394,342	536,332
Investment in New Markets Tax Credit CDEs	2,558,400	3,614,847
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	20,311	46,585
Current income taxes	462,028	1,107,537
Deferred income taxes	18,441,383	25,043,454
Deferred income tax valuation allowance	(7,534,764)	(8,126,953)
Prepaid expenses and other assets	2,166,823	1,527,270
Total	<u>\$ 26,480,060</u>	<u>\$ 35,782,322</u>

NOTE 10 - Deposits

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

	2025	2024
Noninterest bearing demand accounts	\$ 413,240,202	\$ 393,321,685
Interest bearing demand accounts	591,606,781	588,136,768
Money Market accounts	346,111,999	325,932,079
Savings accounts	263,648,583	266,234,417
Certificates of Deposit	189,566,343	164,509,333
Total	<u>\$ 1,804,173,908</u>	<u>\$ 1,738,134,282</u>

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2025 and 2024

NOTE 10 – Deposits (cont.)

The aggregate amount of time deposits, each with a minimum denomination of \$250,000, was \$49,184,463 and \$35,220,045 as of December 31, 2025 and 2024, respectively.

Scheduled maturities of time deposits as of December 31 are:

	2025	2024
Due within one year	\$ 182,218,314	\$ 155,555,161
After one year but within two years	4,971,958	5,308,831
After two years but within three years	1,314,033	2,109,334
After three years but within four years	416,509	1,161,073
After four years but within five years	645,529	374,934
Total	\$ 189,566,343	\$ 164,509,333

Deposits from the Corporation’s directors and related parties as of December 31, 2025 and December 31, 2024 amounted to \$16.1 million and \$15.0 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:

	2025	2024
Accrued interest payable	\$ 775,580	\$ 757,360
Real estate taxes payable	663,018	605,439
Medical and dental self insurance reserves	390,678	540,000
Interest rate swaps	394,342	536,332
Other liabilities	1,373,107	1,489,255
Total	\$ 3,596,725	\$ 3,928,386

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, 2025 or 2024.

The Corporation may also borrow through the Federal Reserve Bank Discount Window short term funds up to the collateral value (inclusive of applicable haircut to fair market value) of U.S. Government sponsored entity securities or qualified municipal securities pledged. The Corporation pledged eligible securities totaling \$15,118,310 and \$186,595,095 and had the ability to borrow funds up to approximately \$13,606,479 and \$167,935,586 as of December 31, 2025 and 2024, 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. 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. In March 2025, all pledged collateral was removed from the BTFP.

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2025 and 2024

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 \$198,456,306 and \$136,107,100 as of December 31, 2025 and 2024, respectively. The Bank had multifamily loans and securities of \$415,820,000 and \$305,027,029 pledged as collateral to FHLB Chicago as of December 31, 2025 and 2024, respectively. The Bank had borrowings outstanding from the FHLB Chicago of \$693,000 and \$0 as of December 31, 2025 and 2024, respectively.

NOTE 13 - Income Taxes

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

	<u>2025</u>	<u>2024</u>
Current income taxes		
Federal	\$ 3,194,881	\$ 2,034,651
State	75	(9,700)
Total current income taxes	<u>3,194,956</u>	<u>2,024,951</u>
Deferred income taxes		
Federal	(210,984)	445,447
State	(281,836)	(390,584)
Total deferred income taxes	<u>(492,820)</u>	<u>54,863</u>
Total income taxes	<u>\$ 2,702,136</u>	<u>\$ 2,079,814</u>

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:

	<u>2025</u>	<u>2024</u>
Deferred income tax assets:		
Allowance for credit losses	\$ 3,952,572	\$ 3,856,685
Reserve for health plan	103,662	120,221
Non-accrual interest	78,747	15,076
Lease liability	3,103,659	3,141,602
Loss carryforwards	3,111,195	1,930,849
New Markets Tax Credit investments	586,780	535,223
Unrealized loss on securities available for sale	13,660,272	21,729,921
Other	6,810	6,810
Total deferred income tax assets before valuation allowance	24,603,697	31,336,387
Valuation allowance	(7,534,764)	(8,126,953)
Net deferred income tax assets	<u>17,068,933</u>	<u>23,209,434</u>
Deferred income tax liabilities:		
Depreciation	(1,674,504)	(1,733,537)
Right of use lease asset	(3,103,659)	(3,141,602)
Mortgage servicing rights	(399,385)	(457,483)
New Markets Tax Credit investments	(559,448)	(655,074)
Other	(425,321)	(305,237)
Total deferred income tax liabilities	<u>(6,162,317)</u>	<u>(6,292,933)</u>
Net deferred income tax asset	<u>\$ 10,906,616</u>	<u>\$ 16,916,501</u>

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2025 and 2024

NOTE 13 – Income Taxes (cont.)

The Corporation has state net operating loss carryforwards of approximately \$48,200,000 and \$29,287,000 as of December 31, 2025 and 2024, respectively. The net operating loss carryforwards begin to expire in 2031.

Realization of the deferred income tax asset over time is dependent upon the existence of taxable income in carryback periods or 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 \$7,534,764 and \$8,126,953 as of December 31, 2025 and 2024, 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 is a result of the impact of the Wisconsin law.

Of this valuation allowance, \$5,653,057 and \$5,934,893 as of December 31, 2025 and 2024, 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 2025 was \$281,836.

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

	2025	2024
Tax valuation allowance as of January 1	\$ 8,126,953	\$ 7,336,616
Provision for income taxes	974,758	803,985
Other comprehensive income	(1,566,947)	(60,708)
Adoption of ASU 2023-02	-	47,060
Tax valuation allowance as of December 31	\$ 7,534,764	\$ 8,126,953

The following is a schedule of cash paid for income taxes:

	2025	2024
Federal	\$ 1,493,000	\$ 1,506,660
State		
Wisconsin	-	(1,174,925)
Total cash paid for income taxes (net of refunds)	\$ 1,493,000	\$ 331,735

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2025 and 2024

NOTE 13 - Income Taxes (cont.)

Income tax provision differs from the amount that would be provided by applying the statutory U.S. corporate income tax rate for the years ended December 31, due to the following items:

	2025		2024	
	Amount	%	Amount	%
United States statutory tax rate	3,643,152	21.00%	2,899,461	21.00%
State and local income taxes, net of federal income tax effect	(281,760)	-1.62%	(400,284)	-2.90%
Tax credits				
New market tax credits	(221,706)	-1.28%	(299,401)	-2.17%
Nontaxable or nondeductible Items				
Tax exempt interest on municipal obligations	(189,712)	-1.09%	(302,520)	-2.19%
Bank owned life insurance	(357,938)	-2.06%	83,354	0.60%
Other	45,506	0.26%	37,156	0.27%
Other adjustments	64,594	0.37%	62,045	0.45%
	<u>2,702,136</u>	<u>15.58%</u>	<u>2,079,811</u>	<u>15.06%</u>

As of December 31, 2025 and 2024, 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 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 2025 and 2024, the Corporation provided a dollar-for-dollar match of employee contributions up to 5% of their compensation. The Corporation recorded contribution expense of \$1,018,587 and \$971,216 in 2025 and 2024, respectively.

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2025 and 2024

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, 2025 and 2024 is \$11,393,337 and \$11,532,624, respectively. The Corporation had three lease extension remeasurements and one lease termination remeasurement in 2025 resulting in a change of \$464,425, and no lease remeasurements in 2024. Right of use lease amortization in 2025 and 2024 was \$603,712 and \$601,539 respectively. As of December 31, 2025, the weighted-average remaining lease term is 18 years and the weighted average discount rate used in the determination of lease liabilities is 4.46%. 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%.

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 \$1,273,259 and \$1,278,379 in 2025 and 2024 respectively, with no significant amounts associated with variable escalation adjustments. The rental expense amounts include \$939,237 and \$917,127 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, 2025:

2026	\$ 1,099,809
2027	1,099,809
2028	1,047,041
2029	1,032,689
2030	971,582
Thereafter	<u>11,851,614</u>
Total lease payments	17,102,544
Less interest	<u>(5,709,207)</u>
Present value of lease payments	<u>\$ 11,393,337</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 \$968,300 and \$1,022,503 for the years ended December 31, 2025 and 2024, 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, 2025:

2026	\$ 625,385
2027	487,402
2028	308,863
2029	71,196
2030	34,335
Thereafter	<u>5,741</u>
Total lessee payments	<u>\$ 1,532,922</u>

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2025 and 2024

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:

	2025	2024
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 164,523,651	\$ 153,047,238
Standby letters of credit	16,723,145	12,699,254
	\$ 181,246,796	\$ 165,746,492

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, 2025 the Bank meets all capital adequacy requirements to which it is subject.

TRI CITY BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2025 and 2024

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, 2025 and 2024, 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, 2025 and December 31, 2024 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, 2025 and December 31, 2024 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, 2025				
Tier 1 capital (to quarterly average assets)	\$ 219,242,225	10.9%	\$ 181,189,170	9.0%
	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	10.6%	\$ 174,805,830	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.

