Statement of Condition

June 30, 2023

TriCity Bankshares Corporation

Dividend Announcement

The Board of Directors declared a dividend of $0.18 per share payable on August 10, 2023, to shareholders as of the record date of July 31, 2023.

The Corporation has a long history of maintaining capital ratios in excess of the levels required to be considered well capitalized and maintained that position through June 30, 2023.

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

INCOME STATEMENT (unaudited)

	Six Months Ended		Three Months Ended	
	6.30.23	6.30.22	6.30.23	6.30.22
Interest Income	$32,754,412	$27,935,239	$16,600,630	$14,301,429
Interest Expense	$5,539,672	$397,579	$3,487,945	$227,754
Net Interest Income	**$27,214,740**	**$27,537,660**	**$13,112,685**	**$14,073,675**
Non-Interest Income	$7,080,349	$8,861,224	$3,680,230	$4,781,696
Less: Provision for Loan Losses	($455,211)	–	–	–
Non-Interest Expenses	$26,973,346	$26,542,776	$13,500,606	$13,254,957
Income Before Income Taxes	$7,776,954	$9,856,108	$3,292,309	$5,600,414
Income Tax Expense	$980,500	$1,443,000	$276,000	$837,500
Net Income	**$6,796,454**	**$8,413,108**	**$3,016,309**	**$4,762,914**
Net Income Per Common Share	$0.76	$0.94	$0.34	$0.53
Dividends Per Common Share	$0.36	$0.26	$0.18	$0.13

BALANCE SHEET JUNE 30, 2023 & 2022 (unaudited)

Assets	2023	2022	Liabilities & Equity	2023	2022
Cash & Due from Banks	$40,435,916	$93,140,722	Non-Interest Bearing Deposits	$435,927,215	$517,661,327
Federal Funds Sold	$925,398	$528,137	Interest Bearing Deposits	$1,234,336,105	$1,354,946,183
Security Investments	$630,733,734	$781,055,076	**Total Deposits**	**$1,670,263,320**	**$1,872,607,510**
Total Loans	**$1,189,237,449**	**$1,055,557,551**	Borrowings	$149,973,802	-
Allowance for Credit Losses	($14,558,318)	($13,728,466)	Lease Liability	$12,426,868	$14,229,055
Net Loans	$1,174,679,131	$1,041,829,085	Other Liabilities	$4,723,546	$3,376,749
Bank Premises & Equipment	$20,547,846	$17,896,533	**Total Liabilities**	**$1,837,387,536**	**$1,890,213,314**
Right of Use Lease Asset	$12,426,868	$14,229,055	Common Stock	$8,904,915	$8,904,915
Cash Surrender Value of Life Insurance	$44,456,912	$43,512,532	Additional Paid-In Capital	$26,543,470	$26,543,470
			Unrealized Loss on Security Investments	($73,746,822)	($56,457,987)
Other Assets	$48,896,731	$41,410,548	Retained Earnings	$174,013,437	$164,397,976
			Total Stockholders' Equity	**$135,715,000**	**$143,388,374**
Total Assets	**$1,973,102,536**	**$2,033,601,688**	**Total Liabilities & Equity**	**$1,973,102,536**	**$2,033,601,688**

Management Comments

The Corporation posted net income of $6.8 million for the first half of 2023, a decrease of $1.7 million or 19.2%, compared to the first half of 2022. Earnings per share decreased to $0.76 for the first half of 2023 compared to $0.94 for the first half of 2022.

Net interest income before the provision for credit losses was $27.2 million for the first half of 2023, a decrease of $0.4 million or 1.2%, compared to the first half of 2022. The decrease was comprised of an increase of $4.5 million in interest income on loans and an increase of $0.3 million in interest income on amounts held at the Federal Reserve and other banks, partially offset by an increase of $3.3 million in interest paid on deposits and an increase of $1.9 million in interest paid on short-term borrowings. The Corporation's earning assets as of June 30, 2023, decreased by $69.8 million year over year with growth driven by the loan portfolio offset by a decrease in the investment portfolio and cash and cash amounts due from the Federal Reserve and other banks.

Non-interest income for the first half of 2023 was $7.1 million, a decrease of $1.8 million or 20.1%, compared to the first half of 2022. The reduction was comprised of a decrease in income associated with the origination and gain on sale of home mortgage loans to FHLMC and additional service fees of $0.2 million, a $0.5 million decrease in income from non-accretable loan discounts, a $0.5 million decrease in bank owned life insurance death benefit, a decrease of $0.4 million in income from prepayment and other loan fees, and other net activity.

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

Non-interest expense for the first half of 2023 was $27.0 million, an increase of $0.4 million or 1.6%, compared to the first half of 2022. The increase was primarily due to an increase in salaries, employee benefits and hiring costs of $0.8 million, an increase of $0.2 million in regulatory agency assessments, and an increase of $0.3 million in other non-interest expenses driven primarily by losses on sales of securities, offset by a decrease in data processing expense of $0.9 million.

Income tax expense for the first half of 2023 was $1.0 million, a decrease of $0.5 million or 32.1%, compared to the first half of 2022. The decrease is primarily due to the decline in pre-tax income in the first half of 2023. The effective tax rate decreased from 14.6% in 2022 to 12.6% in 2023.

The Corporation's total assets as of June 30, 2023, were $1.97 billion, a decrease of $60.5 million, or 3.0%, compared to June 30, 2022. Cash and amounts due from the Federal Reserve and other banks decreased $52.3 million as cash was deployed into loans. Investments in securities decreased by $150.3 million, driven by unrealized market value adjustments, principal cash inflows of $80.6 million, and net sales of $42.5 million in securities to redistribute funds to loans with more favorable yields and reduce high-cost deposits. Net loans increased by $132.9 million or 12.8%. The reduction in deposits of $202.3 million, or 10.8%, was further supported by an increase in short-term borrowings of $150.0 million.

Total shareholders' equity for GAAP purposes was $135.7 million as of June 30, 2023, a decrease of $7.7 million compared to June 30, 2022. The decrease resulted from a $9.6 million increase in retained earnings, net of dividends paid of $6.2 million during the twelve-month period, offset by a $17.3 million decrease in the unrealized market value of the security investment portfolio net of deferred taxes. The Corporation's Tier One Capital, the primary regulatory measure of strong capital, excludes unrealized gain or loss on the security investment portfolio, and it increased from $199.8 million as of June 30, 2022, to $209.5 million as of June 30, 2023, an increase of 4.8%.