Statement of Condition

JUNE 30, 2021

TriCity Bankshares Corporation

Dividend Announcement

The Board of Directors declared a dividend of $0.13 per share payable on August 12, 2021 to shareholders as of the record date of August 2, 2021.

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, 2021.

The Board will continue to monitor earnings, on-going regulatory requirements, the impacts of the COVID-19 pandemic and other factors when approving future dividends.

INCOME STATEMENT (unaudited)

	Six Months Ended		Three Months Ended	
	6.30.21	6.30.20	6.30.21	6.30.20
Interest Income	$25,069,467	$25,255,825	$12,949,822	$12,499,366
Interest Expense	$524,189	$870,644	$256,700	$325,411
Net Interest Income	**$24,545,278**	**$24,385,181**	**$12,693,122**	**$12,173,955**
Non-Interest Income	$9,049,534	$7,817,779	$4,586,773	$4,034,923
Less: Provision for Loan Losses	–	$600,000	–	$600,000
Non-Interest Expenses	$25,743,658	$23,915,203	$12,987,433	$11,447,287
Income Before Income Taxes	$7,851,154	$7,687,757	$4,292,462	$4,161,591
Income Tax Expense	$1,070,000	$1,161,000	$636,000	$662,000
Net Income	**$6,781,154**	**$6,526,757**	**$3,656,462**	**$3,499,591**
Net Income Per Common Share	$0.76	$0.73	$0.41	$0.39
Dividends Per Common Share	$0.26	$0.26	$0.13	$0.13

BALANCE SHEET: JUNE 30, 2021 & 2020 (unaudited)

Assets	2021	2020	Liabilities & Equity	2021	2020
Cash & Due from Banks	$183,995,547	$185,210,468	Non-Interest Bearing Deposits	$485,449,702	$408,305,133
Federal Funds Sold	$11,464,792	$11,563,825	Interest Bearing Deposits	$1,248,940,515	$1,045,870,921
Security Investments	$668,211,516	$402,005,193	**Total Deposits**	**$1,734,390,217**	**$1,454,176,054**
Total Loans	**$1,000,715,680**	**$996,830,125**	Lease Liability	$15,204,609	$15,975,885
Allowance for Loan Losses	($13,393,348)	($12,127,965)	Other Liabilities	$8,503,433	$23,265,075
Net Loans	$987,322,332	$984,702,160	**Total Liabilities**	**$1,758,098,259**	**$1,493,417,014**
Bank Premises & Equipment	$17,314,833	$16,221,593	Common Stock	$8,904,915	$8,904,915
Right of Use Lease Asset	$15,204,609	$15,975,885	Additional Paid-In Capital	$26,543,470	$26,543,470
Cash Surrender Value of Life Insurance	$43,806,155	$43,445,183	Unrealized Gain on Security Investments	$2,901,270	$7,920,526
Other Assets	$21,166,144	$19,859,439	Retained Earnings	$152,038,014	$142,197,821
			Total Stockholders' Equity	**$190,387,669**	**$185,566,732**
Total Assets	**$1,948,485,928**	**$1,678,983,746**	**Total Liabilities & Equity**	**$1,948,485,928**	**$1,678,983,746**

Management Comments

The Corporation posted net income of $6.8 million for the first half of 2021, an increase of $0.3 million or 3.9%, compared to the first half of 2020. Earnings per share increased to $0.76 for the first half of 2021 compared to $0.73 for the first half of 2020.

Net interest income before provision for loan loss was $24.5 million for the first half of 2021, an increase of $0.2 million or 0.7%, compared to the first half of 2020. The net increase was comprised of an increase in interest income on security investments of $0.5 million, reductions of $0.5 million in interest income on loans and $0.2 million in interest income on federal funds sold and due from banks, and a decrease in interest paid on deposits of $0.4 million. Major reductions in the federal funds rate set by the Federal Reserve and in market interest rates, beginning in March of 2020, has resulted in reduced yields and interest income despite an increase in net loans outstanding and security investment holdings in 2021 compared to 2020.

Non-interest income for the first half of 2021 was $9.0 million, an increase of $1.2 million or 15.8%, compared to the first half of 2020. The Corporation recognized a major increase in activity in the retail mortgage sector in the first half of 2021 given the low interest rate environment. Income associated with the origination and gain on sale of home mortgage loans to FHLMC and additional service fee income was $2.4 million in the first half of 2021, an increase of $1.2 million compared to the first half of 2020. Additionally, an increase in debit card interchange fees offset reductions in deposit account service charges in the first half of 2021 compared to 2020.

There was no provision for loan losses recorded in the first half of 2021, compared to $0.6 million in the first half of 2020. The Corporation did increase the allowance for loan losses in the final three quarters of 2020 due to potential impacts of the COVID-19 pandemic in the market and the loan portfolio. The Corporation continues to closely monitor loan portfolio activity and local market economic conditions as part of the analysis of the overall allowance for loan losses.

Non-interest expense for the first half of 2021 was $25.7 million, an increase of $1.8 million or 7.6% compared to the first half of 2020. The increase reflects a continued investment in personnel and data processing charges. In addition, the Corporation recognized $0.5 million as a contra expense in the first half of 2021 to recognize the portion of PPP loan fees that offset costs incurred to originate PPP loans in 2021, as compared to a $1.1 million contra expense for PPP loan fees originated in the first half of 2020.

Income tax expense for the first half of 2021 was $1.1 million, a decrease of $0.1 million or 7.8%, compared to the first half of 2020. The decrease is due to an increase in tax exempt security investment interest income and an increase in new markets tax credits. The effective tax rate decreased from 15.1% in 2020 to 13.6% in 2021.

The Corporation's total assets as of June 30, 2021 were $1.95 billion, an increase of $269.5 million, or 16.1%, compared to June 30, 2020. Cash and amounts due from the Federal Reserve were comparable at approximately $196.0 million. Investments in securities increased by $266.2 million. Net loans increased by $2.6 million, comprised of an increase of $33 million in core commercial loans offset by a reduction in PPP and other loans outstanding as of June 30, 2021. The growth in assets resulted primarily from an increase in deposits of $280.1 million or 19.3%, as of June 30, 2021 compared to June 30, 2020. The growth in deposits was across all commercial and personal lines of business, from a combination of new account growth, the impacts of Federal PPP and stimulus programs and reduced customer spending during the COVID-19 pandemic.

Total shareholders' equity was $190.4 million as of June 30, 2021, an increase of $4.8 million compared to June 30, 2020. The increase resulted from a $9.8 million increase in retained earnings, offset by a $5.0 million decrease in the unrealized market value gain on security investments. The retained earnings growth is net of $4.6 million in dividends paid during the twelve month period.