

Tri City Bankshares Corporation

Quarterly Financial Data

INCOME STATEMENT (unaudited)

	Twelve Months Ended		Three Months Ended	
	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
Interest Income	\$ 51,298,986	\$ 47,094,056	\$ 13,295,041	\$ 12,263,575
Interest Expense	<u>1,878,617</u>	<u>1,562,534</u>	<u>528,230</u>	<u>394,373</u>
Net Interest Income	49,420,369	45,531,522	12,766,811	11,869,202
Noninterest Income	16,828,433	15,322,514	4,252,072	3,628,455
Less: Provision for Loan Losses	-	-	-	(300,000)
Noninterest Expense	<u>44,735,235</u>	<u>42,668,461</u>	<u>11,168,438</u>	<u>10,681,306</u>
Income Before Taxes	21,513,567	18,185,575	5,850,445	5,116,351
Income Tax Expense	<u>4,552,500</u>	<u>7,506,106</u>	<u>1,203,000</u>	<u>3,007,106</u>
Net Income	<u>\$ 16,961,067</u>	<u>\$ 10,679,469</u>	<u>\$ 4,647,445</u>	<u>\$ 2,109,245</u>
Net Income Per Share	\$ 1.90	\$ 1.20	\$ 0.52	\$ 0.24
Dividends Per Share	\$ 0.48	\$ 0.48	\$ 0.12	\$ 0.12

BALANCE SHEET (unaudited) December 31, 2018 and 2017

Assets	<u>2018</u>	<u>2017</u>	Liabilities & Equity	<u>2018</u>	<u>2017</u>
Cash and Due from Banks	\$ 64,379,595	\$ 84,043,266	Noninterest Bearing Deposits	\$ 300,283,663	\$ 293,775,453
Total Investment Securities	371,017,618	444,488,998	Interest Bearing Deposits	<u>949,018,982</u>	<u>973,276,162</u>
Federal Funds Sold	990,830	2,414,518	Total Deposits	1,249,302,645	1,267,051,615
Total Loans	907,464,492	825,842,074	Other Liabilities	<u>4,114,234</u>	<u>3,804,837</u>
Allowance for Loan Losses	<u>(10,994,385)</u>	<u>(10,732,652)</u>	Total Liabilities	1,253,416,879	1,270,856,452
Net Loans	896,470,107	815,109,422	Common Stock	8,904,915	8,904,915
Bank Premises & Equipment	15,750,707	14,863,076	Additional Paid-In Capital	26,543,470	26,543,470
Cash surrender value of life insurance	39,255,799	38,301,624	Unrealized Gain (Loss) on Securities	(6,821,764)	(2,790,043)
Other Real Estate Owned	104,400	122,670	Retained Earnings	<u>123,893,866</u>	<u>111,207,156</u>
Other Assets	<u>17,968,310</u>	<u>15,378,376</u>	Total Stockholders' Equity	<u>152,520,487</u>	<u>143,865,498</u>
Total Assets	<u>\$ 1,405,937,366</u>	<u>\$ 1,414,721,950</u>	Total Liabilities & Equity	<u>\$ 1,405,937,366</u>	<u>\$ 1,414,721,950</u>

Management Comments

The Corporation posted net income of \$17.0 million for the year ended December 31, 2018, an increase of \$6.3 million, or 58.8%, compared to 2017. Earnings per share increased to \$1.90 for the year ended December 31, 2018 compared to \$1.20 for the same period in 2017. The Corporation also paid annual dividends of \$0.48 per share in both 2017 and 2018.

Net interest income was \$49.4 million during 2018, an increase of \$3.9 million or 8.5% over the prior year. The increase was due to a \$3.6 million and \$0.6 million increase in interest income on loans and investments, respectively, which was partially offset by a \$0.3 million increase in interest paid on deposits. The increase in interest income on loans was due to both loan growth and rising interest rates.

Noninterest income in 2018 was \$16.8 million, an increase of \$1.5 million or 9.8% from the prior year, which was primarily due to a \$0.8 million increase in acquisition-related purchase accounting income, a \$0.3 million increase in the gain on the sale of other real estate owned and a \$0.2 million increase in service charges. Income related to loans sold into the secondary mortgage markets decreased by \$0.2 million due to higher interest rates on mortgage loans.

There was no provision for loan losses during either 2017 or 2018. Asset quality remains strong and the reserve for loan losses actually increased by \$0.2 million during 2018 as there were more recoveries than charge-offs.

Noninterest expense during 2018 totaled \$44.7 million, an increase of \$2.1 million or 4.8% compared to 2017. The increase was primarily due continued hiring of experienced personnel, branch expansion into Waukesha and upgrades in technology infrastructure.

Income tax expense for 2018 was \$4.6 million compared to \$7.5 million for 2017 despite a \$3.3 million increase in pretax income. On December 22, 2017 the Tax Cuts and Jobs Act was signed into law, requiring us to evaluate our deferred tax assets and liabilities for year-end 2017 given the future lower federal corporate tax rate. As a result, income tax expense for 2017 included \$1.5 million of additional one-time expense. The lower federal rate resulted in a significant decrease in our effective tax rate to 21.2% in 2018.

The Corporation's total assets as of December 31, 2018 were \$1,405.8 million, a decrease of \$8.9 million, or 0.6%, compared to December 31, 2017. Total net loans increased \$81.4 million, or 10.0%, from \$815.1 million at December 31, 2017 to \$896.5 million at December 31, 2018. Management continues to focus on redeploying the Bank's excess liquidity into higher yielding loans while maintaining a strong credit culture. Total deposits decreased \$17.7 million, or 1.4%, from \$1,267.1 million at December 31, 2017 to \$1,249.3 million at December 31, 2018 due to increased competition for core deposits.

Total shareholders' equity was \$152.5 million at December 31, 2018, an increase of \$8.7 million compared to December 31, 2017. The increase in retained earnings of \$12.7 million was partially offset by a decrease in the unrealized loss on securities of \$4.0 million.

Dividend Announcement

The Board of Directors declared a dividend of \$0.13 per share payable on February 7, 2019 to shareholders as of the record date of January 28, 2018.

The Corporation has a long history of maintaining capital ratios in excess of the levels required to be considered well capitalized. This philosophy is unchanged. However, new capital rules for banks, which became effective January 1, 2015 have increased the capital required for this classification and added additional capital buffer requirements to be phased-in from now through 2019.

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