

Financial Report for 2022

1. 1. 2022 - 12. 31. 2022



Prepared by
Marcel Drescher



Message from the President

March 17, 2023

As we plan for 2023 and beyond, I am honored and humbled to be in this unique position as President and CEO. In my 24 years with both Bank of Galveston and Trovex Bank, not only do I take both successes and shortcomings personally, but I also take them to heart. Please know that the decisions made going forward will be in the best interests of our customers, our employees, and all of YOU, our shareholders.

Our Trovex Bank had another outstanding year of strong earnings in 2022, despite these unprecedented times. On the following pages, you will find our audited financial results for the twelve months ending December 31, 2022.

After a \$129 million increase in deposits in 2021, we followed with over \$51 million in deposit growth in 2022. Much of the government stimulus money has slowed, but overall net deposit growth was still strong historically. Loan growth was a different story. We had a record net loan growth of \$51.6 million after a disappointing net loan growth in 2021. The year 2022 was the first since 2020 where earnings did not receive a boost from the paycheck protection program (PPP) fees after receiving \$923 thousand in 2021 and \$2.1 million in 2020. Net income after tax still remained strong at \$9.380 million compared to \$9.377 million in 2021 and \$9.634 million in 2020. As a result, we paid a record cash dividend of \$5.15 compared to \$5.00 per share in 2021 and \$4.85 per share in 2020.

Trovex Bank loan officers produced a record-setting \$165 million in new loans in 2022. The gross loan total compares to \$138 million in 2021 and \$110 million in 2020. We were fortunate to hire a seasoned loan officer who had a fantastic year, along with our other high producers. The goal for 2023 will be to continue our net loan growth, but growing net deposits will be at the fore front for our loan officers as the industry faces a liquidity shortage. Be on the lookout for upcoming deposit rate promotions. We hope you take advantage of these opportunities and also bring new funds from other financial institutions. We would also greatly appreciate your referrals.

I am also excited to report that our new Seawall location is scheduled to be open by the end of the first quarter 2023. The building will be a showpiece on Seawall Boulevard with spectacular views of the gulf and a welcoming, coastal interior design. We hope you stop by to see us and tour the new branch.

Several challenges lie ahead as we navigate narrowing interest rate margins after experiencing unprecedented interest rate hikes. However, despite those challenges, there will also be exciting opportunities. Our professional team is composed of responsive, local people who focus on customer relationships that will last for generations to come. One of the first things my dad told me when I started is that community banks should be a reflection of the communities we serve. We are committed to our customers and to the communities we are in. Our people make the difference. I have the best team in the world, and we are definitely up for the challenge.

Please call or stop by any of our locations and be greeted with a smile. Thank you for your investment and support in Trovex Bank.

Sincerely,



Allan Rasmussen
President & CEO



2022 Appendix A

Statements of Condition

	December 31,	
	2022	2021
Assets		
Cash and balances due from depository institutions:		
Noninterest-bearing balances, currency and coin	\$ 7,184,795	\$ 8,839,880
Interest-bearing balances	34,118,964	104,706,793
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Total cash and cash equivalents	41,303,759	113,546,673
Federal funds sold	-	18,000,000
Securities available for sale	376,459,190	335,608,817
Securities held to maturity	3,573,960	2,247,150
Loans, total	486,919,189	435,844,954
Less: Reserve for possible loan losses	<u>(6,251,202)</u>	<u>(6,005,923)</u>
Loans, net	480,667,987	429,839,031
Bank Premises, equipment, furniture, fixtures and autos (net of depreciation)	11,422,808	9,147,180
Letters of Credit	3,382,008	4,052,424
Other Assets	14,615,817	4,826,227
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TOTAL ASSETS	\$ 931,425,529	\$ 917,267,502
Liabilities		
Demand deposits	665,342,995	592,610,787
Savings deposits	94,552,476	95,187,310
Time deposits	98,592,569	127,913,462
Federal funds purchased	-	-
Letters of Credit	3,382,008	4,052,424
Other Liabilities	2,279,047	2,779,176
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TOTAL LIABILITIES	\$ 864,149,095	\$ 822,543,159
Stockholders' Equity		
Common Stock	12/31/22	12/31/21
Number Shares authorized	382,657	382,657
Number Shares outstanding	382,657	382,657
Common Stock (Par Value) \$1.00	\$ 382,657	\$ 382,657
Surplus	415,455	415,455
Undivided Profits	99,785,506	92,375,246

Accumulated other comprehensive (loss) income	(33,307,184)	1,550,985
TOTAL STOCKHOLDERS' EQUITY	\$ 67,276,434	\$ 94,724,343
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 931,425,529	\$ 917,267,502

The accompanying management summary is an integral part of these financial statements.

2022 Appendix B
Statements of Income

	December 31,		
	2022	2021	2020
Operating Income			
Interest and fees on loans	\$ 22,173,250	\$ 22,695,793	\$ 25,187,797
Income on Federal funds sold and securities purchased under agreements to resell	64,753	13,971	39,737
Interest on Mortgage-backed securities	4,479,482	2,280,611	2,099,173
Interest on obligations of other U.S. Government Agencies and Corporations	32,221	66,349	98,300
Interest on obligations of States and political subdivisions	2,762,639	2,084,493	1,622,850
Dividends on stock	4,398	1,755	3,785
Interest on other investments	391,226	142,017	145,058
Service charges on deposit accounts	339,834	350,928	370,868
Other charges, collection and exchange charges, commissions and fees	475,166	347,085	452,992
Other operating income	1,383,716	1,513,980	1,234,669
TOTAL OPERATING INCOME	\$ 32,106,685	\$ 29,496,982	\$ 31,255,229
Operating Expenses			
Salaries, wages and other employee benefits	\$ 9,181,180	\$ 8,611,615	\$ 8,279,471
Interest on Time Certificates of Deposit of \$100,000 or more	630,858	927,602	1,678,915
Interest on other deposits	2,791,827	1,253,785	1,900,173
Occupancy expense of bank premises	977,938	981,986	907,201
Furniture and equipment expense (including depreciation of \$304,038, \$321,810, \$340,686)	639,895	616,337	584,430
Provision for possible loan losses	250,000	100,000	975,000
Other expenses	6,422,159	5,634,413	5,096,155
TOTAL OPERATING EXPENSES	\$ 20,893,857	\$ 18,125,738	\$ 19,421,345
Income before income taxes	11,212,828	11,371,244	11,833,884
Income taxes			
Current	1,847,762	2,086,063	2,421,219
Deferred (benefit) expense	(15,878)	(92,540)	(221,918)
Income taxes, net	<u>1,831,884</u>	<u>1,993,523</u>	<u>2,199,301</u>
Net Income	<u>\$ 9,380,944</u>	<u>\$ 9,377,721</u>	<u>\$ 9,634,583</u>
Earnings per common share			
Net Income	<u>\$ 24.52</u>	<u>\$ 24.51</u>	<u>\$ 25.18</u>

The accompanying management summary is an integral part of these financial statements.

2022 Appendix C

Statements of Comprehensive Income

	2022	December 31, 2021	2020
Net income	\$ 9,380,944	\$ 9,377,721	\$ 9,634,583
Other comprehensive income, net of tax			
Unrealized gains (losses) on securities:			
Change in unrealized gain (loss) on securities available-for-sale, net of deferred income tax (benefit) expense of (\$9,266,906), (\$1,053,301), and \$1,173,479	(34,859,694)	(3,978,381)	4,472,456
Reclassification adjustment for realized gains on investment securities available for sale included in net income, net of income tax expense of \$-0-, (\$41,039), and (\$15,401)	-	(154,384)	(57,939)
Reclassification adjustment for realized losses on investment securities available for sale included in net income, net of income tax benefit \$405, \$36,796, and \$-0-	1,525	138,422	-
Total other comprehensive (loss) income	<u>(34,858,169)</u>	<u>(3,994,343)</u>	<u>4,414,517</u>
Comprehensive (loss) income	<u>\$ (25,477,225)</u>	<u>\$ 5,383,378</u>	<u>\$ 14,049,100</u>

The accompanying management summary is an integral part of these financial statements.

2022 Appendix D
**Statements of Changes in
Stockholders' Equity**

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances - December 31, 2020	\$ 382,657	\$ 415,455	\$ 84,910,810	\$ 5,545,328	\$ 91,254,250
Net Income	-	-	9,377,721	-	9,377,721
Other comprehensive loss	-	-	-	(3,994,343)	(3,994,343)
Cash dividends (\$5.00 per share)	-	-	(1,913,285)	-	(1,913,285)
Balances - December 31, 2021	382,657	415,455	92,375,246	1,550,985	94,724,343
Net Income	-	-	9,380,944	-	9,380,944
Other comprehensive loss	-	-	-	(34,858,169)	(34,858,169)
Cash dividends (\$5.15 per share)	-	-	(1,970,684)	-	(1,970,684)
Balances - December 31, 2022	\$ 382,657	\$ 415,455	\$ 99,785,506	\$ (33,307,184)	\$ 67,276,434

The accompanying management summary is an integral part of these financial statements.

Statements of Cash Flows
Years Ended December 31, 2022, 2021, and 2020
Increase (Decrease) in Cash and Cash Equivalents

	December 31,		
	2022	2021	2020
Cash flows from operating activities:			
Net income	\$ 9,380,944	\$ 9,377,721	\$ 9,634,583
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	641,266	637,683	657,406
Provisions for possible loan losses	250,000	100,000	975,000
Net loss (gain) on sale of investments	1,930	(20,205)	
			(73,340)
Change in deferred tax assets and liabilities	(15,861)	(88,424)	
			(221,917)
Accretion of investment discounts	(403,791)	(214,962)	
			(206,842)
Amortization of investment premium	3,732,214	3,591,055	2,281,675
Stock dividends - Federal Home Loan Bank	(3,182)	(196)	
			(3,320)
Gain on sale of foreclosed assets	-	-	
			(11,456)
(Gain) loss on disposal of assets	(4,134)	(6,306)	13,744
(Increase) decrease in accrued interest receivable and other assets	(931,806)	120,725	
(Decrease) increase in accrued expenses and other liabilities	(75,939)	(135,848)	(650,584)
Total adjustments	<u>3,190,697</u>	<u>3,983,522</u>	<u>2,842,201</u>
Net cash provided by operating activities	\$ 12,571,641	\$ 13,361,243	\$ 12,476,784
Cash flows from investing activities:			
Purchases of securities - available for sale	(179,126,363)	(233,840,683)	
Proceeds from sales, maturities, or calls and principal payments - available for sale	90,821,355	106,852,746	(98,851,156)
Purchases of securities - held to maturity	(1,507,200)	(56,100)	-
Proceeds from principal payments - securities held to maturity	183,572	528,725	508,812
Net (increase) decrease in loans to customers	(51,078,958)	46,839,517	(53,838,225)
Recoveries on loans	-	-	108,670
Federal funds sold	18,000,000	(18,000,000)	-
Proceeds from sales of premise and equipment	124,000	54,792	-
Additions to premises and equipment	(3,036,760)	(221,162)	(292,552)
Proceeds from sales of foreclosed assets	-	-	-
Net cash used by investing activities	\$ (125,620,354)	\$ (97,842,165)	\$ (116,927,081)

Statements of Cash Flows
Years Ended December 31, 2022, 2021, and 2020

Increase (Decrease) in Cash and Cash Equivalents (Continued)

	December 31,		
	2022	2021	2020
<i>Cash flows from financing activities:</i>			
Net increase in demand and savings account deposits	(6,868,390)	53,796,335	72,105,669
Net increase in time deposit accounts	49,644,873	75,576,210	68,229,253
Federal funds purchased	-	-	-
Cash dividends paid on common stock	(1,970,684)	(1,913,285)	(1,855,888)
Net cash provided by financing activities	\$ 40,805,799	\$ 127,459,260	\$ 138,479,034
Net increase (decrease) in cash and cash equivalents	(72,242,914)	42,978,338	34,028,737
Cash and cash equivalents beginning of year	<u>113,546,673</u>	<u>70,568,335</u>	<u>36,539,598</u>
Cash and cash equivalents end of year	\$ 41,303,759	\$ 113,546,673	\$ 70,568,335

2022 Appendix F

Reconciliations of Reserve for Possible Loan Losses

	2022	December 31, 2021	2020
Balance at beginning of year	\$ 6,005,923	\$ 5,910,221	\$ 4,931,213
Recoveries credited to reserve	20,140	17,597	24,218
Provision for possible loan losses	250,000	100,000	975,000
TOTAL	\$ 6,276,063	\$ 6,027,818	\$ 5,930,431
Losses charged to Reserve	<u>(24,861)</u>	<u>(21,895)</u>	<u>(20,210)</u>
Balance at the end of year	<u>\$ 6,251,202</u>	<u>\$ 6,005,923</u>	<u>\$ 5,910,221</u>

2022 Appendix G

Notes to Financial Statements Valuation of Securities

	DECEMBER 31, 2022		DECEMBER 31, 2021	
	Book Value	Market Value	Book Value	Market Value
	\$ 273,715,843	\$ 214,008,854	\$ 214,962,854	\$ 214,008,854
Mortgage-Backed Securities				
Obligations of other U.S. Government Agencies and Corporations	1,900,897	2,989,600	2,968,600	2,989,600
Obligations of State and Political Subdivisions	143,003,460	118,573,091	115,714,091	118,573,091
Other Investments (Restricted)	1,477,410	1,477,410	1,660,982	1,660,982
Senior Housing Crime Prevention Foundation	250,000	250,000	250,000	250,000
Lift Fund, Inc.	1,822,600	1,822,600	312,218	312,218
Federal Home Loan Bank Stock	23,950	23,950	23,950	23,950
Federal Reserve Bank Stock				
	\$ 422,194,160	\$ 339,145,505	\$ 335,892,695	\$ 337,818,695
TOTAL				
Deposits and Profit 2022 and 2021	\$ 858,488,040		\$ 815,711,559	
TOTAL DEPOSITS	\$ 9,380,944		\$ 9,377,721	
TOTAL PROFIT				

2022 Appendix H

Selected Financial Data Summary of Operations

The Bank's operations for the past five fiscal years are summarized as follows:

DECEMBER 31

	2022	2021	2020	2019	2018
Net Interest Income	26,485,286	25,103,603	\$ 25,617,611	\$ 23,540,780	\$ 23,721,296
Other Operating Income	2,202,850	2,205,687	2,056,249	2,291,072	2,242,263
Total Operating Income - Net	\$ 28,688,136	\$ 27,309,290	\$ 27,673,860	\$ 25,831,852	\$ 25,963,559
Provisions for possible					
loan losses	250,000	100,000	975,000	776,178	907,000
Operating Expenses-including interest	17,223,360	15,858,250	14,938,316	14,466,931	14,433,009
Income before income taxes and securities gain (loss)	11,214,776	11,351,040	11,760,544	10,588,743	10,623,550
Applicable income taxes	1,831,884	1,993,523	2,199,301	1,986,767	1,992,738
Income before securities gains	9,382,892	9,357,517	9,561,243	8,601,976	8,630,812
Net Securities gain (loss)	(1,948)	20,204	73,340	69,165	16,634
Net Income	\$ 9,380,944	\$ 9,377,721	\$ 9,634,583	\$ 8,671,141	\$ 8,647,446
Net Income per share	\$ 24.52	\$ 24.51	\$ 25.18	\$ 22.66	\$ 22.60
Cash dividends per share	\$ 5.15	\$ 5.00	\$ 4.85	\$ 4.30	\$ 4.00

