

# Second Quarter 2010 Financial Review



We all know what has transpired over the past two years. Now we face the challenge of how the corporate credit union system may be reshaped, consolidated, reduced – or maybe tweaked or refocused. What we have heard from the vast majority of you is that you want to see Tricorp continue into the future because you want to work with an organization that you know and trust. So based on that information we are looking ahead to the future to determine how we will operate.

Tricorp's current Financial Position is very strong in light of where we have come from. Some financial highlights as of June 30, 2010 are listed below:

- Retained earnings of \$1.79 million
- Equity ratio of 19 basis points
- Total capital ratio of 1.42%
- Operating expenses of 23 basis points
- Efficiency ratio of 69 cents on the dollar
- NO down size risk in our balance sheet

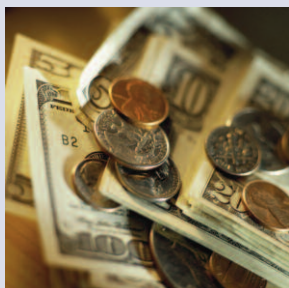
As we are preparing for the future listed below are some of the actions that we have taken to date:

- We have reviewed the pricing of our deposit products so that we can focus on building retained earnings.
- We have entered into a new core processing contract and relationship that is a CUSO (CNP) owned by 9 other corporates.
- We moved our domestic wire transfer function back to our FRB account. We had been processing outgoing wires through USC.
- We have, in conjunction with other corporates, looked at alternatives to US Central for security safekeeping, international wires and ACH origination.
- Settlement options are being reviewed. Most of our settlement dollars settle at the FRB (share drafts, ACH) but Visa and ATMs and other smaller settlements still settle at USC. Alternatives include using the FRB for all settlements, utilizing the ACH system or a large money center bank.
- The timing of moving products and services from USC is still to be determined. We are working collaboratively with other corporates to begin the process of moving services from US Central. The timing is to be determined and it will be done in an orderly manner so as to not affect the level of service that you receive.

What you can expect going forward as we work through the new regulation:

- No changes to correspondent and settlement services. Pricing on these products and services will be reviewed. We will look to price all of our products and services to more closely align them with our cost but not to be uncompetitive.
- Expect that the pricing of overnight funds will be tied to the need for Tricorp to build retained earnings.

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- Based on what we expect from the proposed rule as we know it today, the term portfolio may be transitioned to an off-balance sheet offering.
- Lines of credit will need to be adjusted to match our asset size.
- We will continuously review our expense structure.

### Recapitalization:

We are planning for a regulation that will require us to achieve a 4% leverage ratio by the end of the first year after the regulation is finalized. We are looking to convert your capital and **limit as much as possible the need to increase your capital contribution** but we will need you to partner with us. We are demonstrating that commitment by showing you we have been able to rebuild our retained earnings. That is certainly a good sign for you that you are converting your capital to a permanent capital instrument with a corporate that can generate the income necessary to meet regulatory capital requirements for retained earnings.

- The function of obtaining PCC (permanent contributed capital) can be accomplished in one day assuming we have buy in but retained earnings is a slow month by month process.
- We would not want to be in a position that we have the level of PCC that we need but struggle to meet the retained earnings requirement in the new regulation.
- To provide some kind of estimate is very tricky. A lot will depend on the liquidity situation of credit unions and whether or not NCUA will make a reasonable accommodation for capital requirements in the proposed rule. We are planning for the regulation as currently proposed but obviously we would like to have a better regulation. We want to minimize the amount of capital contributed from our current members but we may need to increase your contribution to meet the asset size – a lot will depend on the liquidity needs of members.
- We will be bringing a proposal for contributed capital to you within 2 – 3 months after the proposed rule is finalized.
- We will look for opportunities to grow our market share.

Until the final NCUA rule is constructed, The Board, Management and Staff are working diligently to continue to conduct the affairs of Tricorp in the best manner possible for you, our members, all the while looking to the future. We are very appreciative of your continued support of Tricorp and will continue to work in your best interest as we move forward.

**Statement of Financial Position (Unaudited)**  
June 30, 2010 and 2009

	06/30/10	06/30/09	Change
<b>Assets</b>			
Loans to Members	3,539,485	7,542,195	-53.07%
Cash	110,446,409	1,007,899	10858.09%
Investments	693,843,141	774,687,915	-10.44%
Accrued Interest	1,301,015	2,282,618	-43.00%
Fixed Assets	635,002	649,331	-2.21%
NCUSIF Deposit	345,897	155,616	122.28%
Other Assets	<u>1,869,214</u>	<u>1,972,487</u>	<u>-5.24%</u>
<b>Total Assets</b>	<u><b>811,980,163</b></u>	<u><b>788,298,061</b></u>	<u><b>3.00%</b></u>
<b>Liabilities</b>			
Accounts Payable	347,538	473,812	-26.65%
Line of Credit Loan (US Central)	0	1,000,000	-100.00%
Dividends Payable	877,242	1,455,590	-39.73%
Accrued Expenses	79,669	56,190	41.78%
Other Liabilities	<u>162,548</u>	<u>265,537</u>	<u>-38.79%</u>
<b>Total Liabilities</b>	<u><b>1,466,996</b></u>	<u><b>3,251,129</b></u>	<u><b>-54.88%</b></u>
<b>Members' Shares and Deposits</b>			
Overnight Deposits	550,457,920	415,103,677	32.61%
MCSD	12,090,219	29,055,972	-58.39%
Share Certificates	<u>246,241,000</u>	<u>335,428,000</u>	<u>-26.59%</u>
Members' Shares & Deposits	808,789,139	779,587,649	3.75%
Regular Reserves	0	5,517,610	-100.00%
Undivided Earnings	1,794,819	386,522	364.35%
Unrealized Gain/Loss AFS	(70,792)	(444,848)	-84.09%
<b>Total Liabilities &amp; Members' Equity</b>	<u><u><b>811,980,163</b></u></u>	<u><u><b>788,298,062</b></u></u>	<u><u><b>3.00%</b></u></u>

## Income Statement

Periods ended June 30, 2010 and 2009

	06/30/10	06/30/09	Change
Interest Income from Loans	58,520	93,119	-37.16%
Interest and Dividend Income from Investments	4,349,468	5,934,781	-26.71%
<b>Total Interest Income</b>	<b>4,407,988</b>	6,027,900	-26.87%
Dividend Expense	3,045,308	4,469,473	--31.86%
Interest on Borrowed Money	0	21,863	-100.00%
<b>Total Interest Expense</b>	<b>3,045,308</b>	4,491,336	-32.20%
Net Interest Income	1,362,679	1,536,564	-11.32%
Fees and Other Operating Income	323,975	314,946	2.87%
<b>Gross Operating Margin before Operating Expenses</b>	<b>1,686,655</b>	1,851,510	-8.90%
<b>Operating Expenses</b>			
Salaries and Benefits	583,920	608,858	-4.10%
Office Occupancy	38,031	41,905	-9.25%
Office Operations	105,975	85,387	24.11%
Travel and Conference	69,525	73,180	-4.99%
Educational and Promotional	52,046	56,329	-7.60%
Professional and Outside Services	248,911	259,836	-4.20%
Others	25,908	45,718	-43.33%
<b>Total Operating Expenses</b>	<b>1,124,316</b>	1,171,213	-4.00%
Gain/(Loss) Investment Sales	0	0	
Net Income Before Extraordinary Expenses	562,338	680,297	-17.34%
Extraordinary Expenses	0	(16,046,925)	
NCUSIF Premium	(44,396)	(53,652)	-17.25%
<b>Net Change to Undivided Earnings</b>	<b>517,942</b>	(15,420,280)	-103.36%

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### Portfolio Diversification by Investment Issuer · June 30, 2010

Issuer	Percent	Par Value	Market Value	Unrealized Gain (Loss)	Weighted Ratings
U.S. Central Credit Union**	88.35%	613,083,141	613,083,141	0	*
SBA Pools	8.89%	61,711,732	61,507,045	(204,687)	AAA
FFCB	1.30%	8,997,862	9,006,250	8,388	AAA
Total U.S. Government Agency	10.19%	70,709,594	70,513,295	(196,299)	
CMO's - Floating Rate	1.21%	8,409,087	8,448,778	39,691	AAA
MBS's - Fixed Rate	0.17%	1,201,077	1,218,058	16,980	AAA
Total CMO's & MBS's	1.38%	9,610,164	9,666,836	56,672	
CUSO and Other	0.07%	511,033	511,033	0	
Asset-Backed Securities:					
SPSAC 1998-2 A1	0.00%	0	68,836	68,836	
Total Asset-Backed Securities	0.00%	0	68,836	68,836	
<b>Total Investments</b>	<b>100.00%</b>	<b>693,913,932</b>	<b>693,843,141</b>	<b>(70,792)</b>	

\* U.S. Central CU was placed into conservatorship by NCUA effective 3/20/09. NCUA maintains a business as usual operating policy and apparently intends to "bridge" the organization into a viable corporate.

\*\* Estimated Value of U.S. Central Holdings – \$616,342,013

### Statistical Changes in Financial Position

	As Of 06/30/10	As of 06/30/09
* Operating Expense Ratio	<b>0.23%</b>	0.28%
* ROA	<b>0.10%</b>	-3.67%
* Equity Ratio	<b>0.19%</b>	0.11%
Average Assets	<b>1,024,541,898</b>	840,407,444
Net Economic Value (NEV)	<b>05/31/10</b>	Reg 704 Min/Max Requirements
+ 300 BP Shock		
Actual Dollar Change	<b>13,219,363</b>	12,158,137
% Change	<b>-7.58%</b>	***
NEV Ratio	<b>1.42%</b>	
Base Level Dollar Amount	<b>14,303,690</b>	N/A
Base Level NEV Ratio	<b>1.52%</b>	
- 100 BP Shock		
Actual Dollar Change	<b>14,303,690</b>	16,449,244
% Change	<b>0.00%</b>	***
NEV Ratio	<b>1.52%</b>	

\* Based on Average Assets

\*\*\* NEV cannot fluctuate more than eighteen percent in either rate shock scenerio.

Minimum and maximum amounts are based on current year levels.