

# Third Quarter 2021 Financial Review



The BIG news for the third quarter of 2021 is the ongoing recovery of the 2009 US Central investment losses that were passed through to Tricorp and its members. To date Tricorp and all our recapitalized members have recovered 55% of those losses and we are hopeful that we will see even more payouts in the coming year. These recovered amounts in conjunction with our MDANA steadily returning to more normal levels has had a dramatic, positive impact on our Retained Earnings and Capital ratios.

As expected, normal net income from operations remains low due to the continued low interest rate environment. Nevertheless, without the unbudgeted US Central recovery we are still about 7.4% ahead of our budgeted net income through the first nine months of 2021. As the economy continues to recover and interest rates start to rise, so too will our net income grow.

As always, our balance sheet is well positioned to thrive in any interest rate environment as we can adjust quickly to any changes in interest rates. We continue to focus on operating in a safe and sound manner while providing our members with solutions to meet their needs.

## Income Statement Highlights

- Income from investments through September 2021 is \$1,308,985 which is down 57.66% compared to 2020 when it was \$3,091,513. This was caused by the Fed's reduction in rates in March 2020 as our volume of investments is slightly higher than to a year ago.
- Dividends paid to member credit unions of \$148,905 was also down 86.83% compared to the same time period last year (\$1,130,400).
- There has been no interest on borrowed funds for either year.
- CUSO income for the first nine months is \$125,791 which is excellent but still below last year's \$173,873. This was the result of members suddenly having more liquidity to invest.
- Higher liquidity has also greatly improved our fee Income which is showing a 44.51% increase compared to last year at this time. Other Non-interest Income stayed relatively stable.
- The pandemic has understandably caused certain expenses like Education/Promotion and Travel to decrease while certain office related expenses have increased. The addition of a new employee in mid-2021 has pushed Salaries and Benefits expense above last year by 7.03%. Overall operating expenses show a slight increase of 2.98% compared to 2020.
- As noted in the introductory paragraphs, the recovery of losses experienced in 2009, which were caused by the write down of investment values at US Central, continues. This recovery has been shared with our current members so that everyone has recovered 55% of those losses to date. While future refunds are not guaranteed, we do anticipate additional monies being distributed in the future.

## Balance Sheet Highlights

- Total Assets as of September 30, 2021 are \$422 million which is 32.59% lower than a year ago. This decrease was not only welcome but intentional. Since December 2020 we have purposely been moving assets off our Balance Sheet to be more in line with normal asset levels. Due to the volatility in the size of our balance sheet we rely on a

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12 month Moving Daily Average Net Assets (MDANA) to more accurately reflect balance sheet trends. MDANA of \$474.9 million at 09/30/21 is approximately 17.9% lower than the balance of \$578.6 million at 09/30/20. With the excessive inflow of liquidity starting in March 2020, MDANA grew dramatically and hit its peak around January 2021 when it was \$629.3 million. By moving much of our excess liquidity to the Federal Reserve Bank's Excess Balance Accounts, MDANA has been slowly declining since January and we expect to see a continual reduction to more desirable levels throughout the rest of this year.

- Net Fixed Assets at September 30 is 13.65% lower than it was one year ago. Currently the net book value of Furniture and Equipment is 35.10% of its cost indicating that, on average, those assets have 35% of their estimated economic life remaining.
- The variance in Other Liabilities is fairly small this month but often shows large variances. This is due primarily to net ACH future dated transactions. The balance in this account is normally very volatile but is mostly offset by a roughly equal dollar variance in other assets.
- Undivided Earnings are \$12,712,055 (108.05%) higher at September 30, 2021 than the balance one year ago which represents our unaudited net income for the 12 months ending September 30, 2021. This includes our net recovery of the 2009 US Central losses of roughly \$11.97 million.
- The Unrealized Gain on our Available for Sale securities of \$2,003,093 compares very favorably to September 2020 when it was an Unrealized Gain of \$291,641. The dramatic plunge in bond values in March 2020 was caused by news of the COVID pandemic and the Fed's reaction to this news of immediately lowering interest rates to near zero. Those unrealized losses quickly rebounded within 3 months and values continued to improve over the last 18 months.

## Capital and Other Ratios Highlights

- Our Retained Earnings ratio shows an increase in the past 12 months from 2.03 to 5.15% as of this quarter end. The Capital Ratio at September 30, 2021 was 8.25% compared to 4.60% at September 30, 2020. A year ago the ratios were in a downward trend caused by the huge influx of liquidity. Currently these ratios are rebounding rapidly due to the decrease in MDANA and recovery of 2009 US Central pass-through losses.
- The NEV ratio as of quarter-end is 10.28% with a regulatory minimum requirement of 2.00%. In a scenario that projects a rate increase of 300 basis points (3.0%) our NEV changes by -6.70%. The maximum regulatory decrease based on our level of authority is -20.00%.
- Tricorp currently has Tier 1 and Total Risk Based Capital ratios of 78.54%. These ratios far exceed the regulatory minimum of 8%. The Weighted Average Life (WAL) of our balance sheet at September 30 is currently 1.42 years which is well below the regulatory maximum of 2 years.

We sincerely appreciate your continued support and business. Tricorp's Board and Staff are committed to providing products, services and member service that enable you to serve your members well. We look forward to continuing to work with you our members in a trusted partnership. Attached you will find condensed financial information as of and for the nine months ended September 30, 2021 and 2020 to provide a more complete picture of our financial condition and the results of our operations. This data is unaudited.

## Tricorp Federal Credit Union – 3rd Quarter 2021 Financial Review

### TRICORP FCU Statement of Financial Position (Unaudited) SEPTEMBER 30, 2021 and 2020

	09/30/21	09/30/20	Change
<b><u>Assets</u></b>			
Loans to Members	495,975	492,303	0.75%
Cash	133,791,578	341,368,232	-60.81%
Investments	274,076,748	270,986,269	1.14%
Accrued Interest	170,149	181,281	-6.14%
Net Fixed Assets	693,321	802,948	-13.65%
NCUSIF Deposit	213,306	215,959	-1.23%
CUSO Investments	2,172,736	2,014,034	7.88%
Other Assets	9,975,368	9,376,726	6.38%
<b>Total Assets</b>	<b>421,589,181</b>	<b>625,437,750</b>	<b>-32.59%</b>
<b><u>Liabilities</u></b>			
Members' Shares and Deposits			
Overnight Deposits	374,397,862	592,845,900	-36.85%
Borrowed Funds	0	0	-
Interest Payable	0	0	-
Accounts Payable	8,638	13,342	-35.26%
Accrued Expenses	96,381	80,752	19.35%
Other Liabilities	3,744,525	3,579,488	4.61%
<b>Total Liabilities</b>	<b>378,247,406</b>	<b>596,519,482</b>	<b>-36.59%</b>
<b><u>Members' Equity</u></b>			
PCC	16,861,345	16,861,345	0.00%
Undivided Earnings	24,477,337	11,765,282	108.05%
Unrealized Gain/(Loss) AFS	2,003,093	291,641	586.83%
<b>Total Members' Equity</b>	<b>43,341,775</b>	<b>28,918,269</b>	<b>49.88%</b>
<b>Total Liabilities &amp; Members' Equity</b>	<b>421,589,181</b>	<b>625,437,750</b>	<b>-32.59%</b>

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### Income Statement For the Nine Months Ended SEPTEMBER 30, 2021 and 2020

	09/30/21	09/30/20	Change
Interest Income from Loans	2,190	2,553	-14.21%
Interest and Dividend Income from Investments	1,308,985	3,091,513	-57.66%
<b>Total Interest Income</b>	<b>1,311,175</b>	<b>3,094,066</b>	<b>-57.62%</b>
Dividend Expense	148,905	1,130,400	-86.83%
Interest on Borrowed Money	0	0	-25.00%
<b>Total Interest Expense</b>	<b>148,905</b>	<b>1,130,400</b>	<b>-86.83%</b>
Net Interest Income	1,162,270	1,963,666	-40.81%
CUSO Equity Method Income	125,791	173,873	-27.65%
Fee Income	978,563	677,157	44.51%
Other Operating Income	137,392	136,025	1.00%
<b>Gross Operating Margin before Operating Expenses</b>	<b>2,404,016</b>	<b>2,950,721</b>	<b>-18.53%</b>
Operating Expenses:			
Salaries and Benefits	986,495	921,660	7.03%
Office Occupancy	66,630	66,391	0.36%
Office Operations	172,002	162,155	6.07%
Travel and Conference	21,638	30,450	-28.94%
Educational and Promotional	48,029	49,598	-3.16%
Professional and Outside Services	436,096	453,666	-3.87%
Other	108,892	102,633	6.10%
<b>Total Operating Expenses</b>	<b>1,839,784</b>	<b>1,786,553</b>	<b>2.98%</b>
Gain/(Loss) Investment Sales	0	0	-
Recovery of 2009 US Central OTTI loss (Net)	11,969,731	0	-
<b>Net Change to Undivided Earnings</b>	<b>12,533,963</b>	<b>1,164,168</b>	<b>976.65%</b>

## Tricorp Federal Credit Union – 3rd Quarter 2021 Financial Review

### Portfolio Diversification by Investment Issuer 09/30/21

<u>Issuer</u>	<u>Percent</u>	<u>Amortized Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
SBA Pools	17.64%	47,997,410	48,468,484	471,074
Agency Debentures - Floating rate	14.89%	40,500,000	41,358,830	858,830
Agency Debentures - Fixed rate	1.10%	3,000,000	2,944,830	(55,170)
Total U.S. Government Agency	33.63%	91,497,410	92,772,144	1,274,734
CMO/MBS - Floating Rate	11.71%	31,864,475	32,041,869	177,394
CMO/MBS - Fixed Rate	4.66%	12,686,607	12,676,925	(9,682)
CMBS - Floating Rate	23.21%	63,150,805	63,466,066	315,261
CMBS - Fixed Rate	1.23%	3,350,955	3,390,824	39,869
Total CMO's, MBS & CMBS	40.82%	111,052,841	111,575,683	522,841
FFELPs	1.60%	4,352,472	4,293,788	(58,684)
Variable Rate Credit Card ABS	18.92%	51,471,467	51,731,584	260,117
Fixed Rate Credit Card ABS	0.00%	0	0	0
Variable Rate Auto loan ABS	1.10%	3,001,676	3,005,760	4,084
Fixed Rate Auto Loan ABS	0.00%	0	0	0
Variable Rate Equipment loan ABS	0.00%	0	0	0
Total Asset-Backed Securities	21.62%	58,825,615	59,031,132	205,517
FHLB Stock	0.10%	281,600	281,600	0
CLF Stock	3.83%	10,416,189	10,416,189	0
Brokered CDs	0.00%	0	0	0
Total Other	3.93%	10,697,789	10,697,789	0
Total Investments	100.00%	272,073,655	274,076,748	2,003,093

## Tricorp Federal Credit Union – 3rd Quarter 2021 Financial Review

### Statistical Changes In Financial Position

	As of 09/30/21	As of 09/30/20
* Operating Expense Ratio	0.55%	0.37%
* ROA	3.74%	0.24%
* Retained Earnings ratio	5.15%	2.03%
* Capital ratio	8.25%	4.60%
YTD Average Assets	446,814,012	647,064,534
Net Economic Value (NEV)	09/30/21	Reg 704 Min Requirements
+ 300 BP Shock		***
Actual Dollar Change	40,438,154	34,673,592
% Change	-6.70%	
NEV Ratio	9.66%	2.00%
<b>Base Level Dollar Amount</b>	<b>43,341,990</b>	
<b>Base Level NEV Ratio</b>	<b>10.28%</b>	
- 300 BP Shock		
Actual Dollar Change	43,341,990	34,673,592
% Change	0.00%	
NEV Ratio	10.28%	2.00%

\* Based on Moving Daily Average Net Assets

\*\*\* NEV cannot decrease more than twenty percent in any rate shock scenario.  
Minimum amount is based on current year levels.