

Fourth Quarter 2017 Financial Review



Another year has come and gone and 2017 was a very good year. Income continues to improve as interest rates climb and our retained earnings continues to strengthen. Net income this year was \$1,094,556 which is a 32.46% increase over 2016 and has again exceeded our budget. As income grows we are happy to be able to improve our overnight share rates to share the increasing income with our members. 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 for the year of \$4,088,752 is up 57.60% compared 2016 (\$2,531,852).
Dividends paid to member credit unions year to date was also up 224.20% compared to one year ago.
- Fee and Other Income combined is practically the same (0.12% increase) as a year ago while our CUSO pass through income increased significantly after a down year in 2016.
- Operating expenses are up 7.06% this year compared to 2016, primarily in the areas of Salaries & Benefits, Outside Services & Professional Fees and costs relating to the conversion of the front end of our core processing system to a new platform. There was also some extra Travel and Conference costs this year.
- Last year the sizable loss on investment sales of \$17,061 was mostly due to a partial OTTI write-down of a CUSO investment. We recognized \$20,356 in security gains in 2017.

Balance Sheet Highlights

- Total Assets as of December 31, 2017 are \$281 million which is 8.97% lower than a year ago. Due to the volatility in the size of our balance sheet we rely on a 12 month Moving Daily Average Net Assets (MDANA) to more accurately reflect balance sheet trends. MDANA of \$311.0 million at 12/31/17 is approximately 2.16% less than the balance of \$317.8 million as of 12/31/16 indicating an overall decrease in the average size of our total assets. We have noticed this balance steadily growing from mid-2016 through March 2017 then decline again in the last three quarters.
- There were no borrowings as of December 31, 2017 or December 31, 2016.
- Undivided Earnings are 16.65% (\$1,094,556) higher at December 31, 2017 than the balance one year ago.

Fourth Quarter 2017 Financial Review



- The Unrealized Loss on our Available for Sale securities has declined significantly in the past year. The balance sheet reflects a decrease of 83.87% (\$629,051) since 12/31/2016. The bond values in 2016 were still being impacted by rating companies concern over laws allowing for longer repayments on some student loans which secure our FFELP asset backed securities. This started in 2015 and concern apparently started to ease in the minds of investors in 2016 and seems to have completely disappeared this year as market values now show significant improvement.

Capital and Other Ratios Highlights

- Our Retained Earnings ratio showed strong growth in the past 12 months reaching 2.47% versus 2.07% a year ago. The Overall Capital ratio increased from 6.77% to 7.30% during the same time period. The capital ratio using the alternative regulatory calculation is 6.40% at 12/31/2017.
- The NEV ratio as of December 31 is 8.68% 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 -5.06%. The maximum regulatory decrease based on our level of authority is -20.00%.
- Tricorp currently has a Tier 1 Risk Based Capital ratio of 44.91% and a Total Risk Based Capital Ratio of 51.67%. These ratios far exceed the regulatory minimum of 8%. The Weighted Average Life (WAL) of our balance sheet at December 31 is currently 1.71 years which is easily 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 years ended December 31, 2017 and 2016 to provide a more complete picture of our financial condition and the results of our operations. This data is unaudited.

Tricorp Federal Credit Union – 4th Quarter 2017 Financial Review

TRICORP FCU Statement of Financial Position (Unaudited) December 31, 2017 and 2016

	12/31/17	12/31/16	Change
<u>Assets</u>			
Loans to Members	3,497,724	1,869,918	87.05%
Cash	74,516,346	79,881,673	-6.72%
Investments	194,778,356	219,725,113	-11.35%
Accrued Interest	330,103	250,924	31.56%
Fixed Assets	580,094	669,002	-13.29%
NCUSIF Deposit	230,713	217,825	5.92%
CUSO Investments	1,839,908	1,915,712	-3.96%
Other Assets	5,367,059	4,314,173	24.41%
Total Assets	281,140,302	308,844,338	-8.97%
<u>Liabilities</u>			
Members' Shares and Deposits			
Overnight Deposits	255,974,280	285,719,228	-10.41%
Borrowed Funds	0	0	-
Interest Payable	0	0	-
Accounts Payable	960	8,813	-89.11%
Accrued Expenses	54,600	51,261	6.51%
Other Liabilities	700,014	378,195	85.09%
Total Liabilities	256,729,854	286,157,497	-10.28%
<u>Members' Equity</u>			
PCC	16,861,345	16,861,345	0.00%
Undivided Earnings	7,670,120	6,575,564	16.65%
Unrealized Gain/(Loss) AFS	(121,017)	(750,068)	-83.87%
Total Members' Equity	24,410,448	22,686,842	7.60%
Total Liabilities & Members' Equity	281,140,302	308,844,338	-8.97%

Tricorp Federal Credit Union – 4th Quarter 2017 Financial Review

Income Statement December 31, 2017 and 2016

	12/31/17	12/31/16	Change
Interest Income from Loans	91,309	62,494	46.11%
Interest and Dividend Income from Investments	3,997,442	2,531,852	57.89%
Total Interest Income	4,088,752	2,594,346	57.60%
Dividend Expense	1,373,789	423,743	224.20%
Interest on Borrowed Money	280,447	58,032	383.26%
Total Interest Expense	1,654,236	481,775	243.36%
Net Interest Income	2,434,516	2,112,571	15.24%
CUSO Equity Method Income	66,187	15,832	318.06%
Fee Income	740,209	719,504	2.88%
Other Operating Income	97,541	117,239	-16.80%
Gross Operating Margin before Operating Expenses	3,338,453	2,965,146	12.59%
Operating Expenses:			
Salaries and Benefits	1,166,667	1,082,698	7.76%
Office Occupancy	75,534	75,414	0.16%
Office Operations	249,759	238,930	4.53%
Travel and Conference	78,375	66,740	17.43%
Educational and Promotional	71,552	63,990	11.82%
Professional and Outside Services	499,085	471,142	5.93%
Others	123,282	116,112	6.17%
Total Operating Expenses	2,264,253	2,115,025	7.06%
Gain/(Loss) Investment Sales	20,356	(23,761)	185.67%
Net Income Before Extraordinary Income	1,094,556	826,360	32.46%
Extraordinary Income	0	0	-
Net Change to Undivided Earnings	1,094,556	826,360	32.46%

Tricorp Federal Credit Union – 4th Quarter 2017 Financial Review

Portfolio Diversification by Investment Issuer 12/31/17

<u>Issuer</u>	<u>Percent</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
SBA Pools	25.13%	48,977,152	48,760,155	(216,997)
Agency Debentures - Floating rate	5.39%	10,500,000	10,529,879	29,879
Total U.S. Government Agency	30.52%	59,477,152	59,290,034	(187,119)
CMO/MBS - Floating Rate	12.24%	23,861,457	23,816,168	(45,289)
CMO/MBS - Fixed Rate	4.28%	8,333,879	8,217,145	(116,734)
CMBS - Floating Rate	7.18%	13,998,904	14,015,684	16,781
Total CMO's, MBS & CMBS	23.70%	46,194,239	46,048,997	(145,242)
SPSAC 1998-2 A1	0.00%	0	22,438	22,438
FFELPs	7.35%	14,327,126	14,272,335	(54,791)
Variable Rate Credit Card ABS	26.70%	52,037,588	52,209,097	171,509
Variable Rate Auto loan ABS	10.32%	20,109,468	20,181,655	72,187
Fixed Rate Auto Loan ABS	0.00%	0	0	0
Total Asset-Backed Securities	44.37%	86,474,182	86,685,525	211,343
FHLB Stock	0.90%	1,761,800	1,761,800	0
Brokered CDs	0.51%	992,000	992,000	0
Total Other	1.41%	2,753,800	2,753,800	0
Total Investments	100.00%			(121,017)

Tricorp Federal Credit Union – 4th Quarter 2017 Financial Review

Statistical Changes In Financial Position

	As of 12/31/17	As of 12/31/16
* Operating Expense Ratio	0.73%	0.67%
* ROA	0.35%	0.26%
* Retained Earnings ratio	2.47%	2.07%
* Capital ratio (GAAP)	7.30%	6.77%
YTD Average Assets	310,956,248	317,830,731
Net Economic Value (NEV)	12/31/17	Reg 704 Min Requirements
+ 300 BP Shock		***
Actual Dollar Change	23,177,814	19,531,115
% Change	-5.06%	
NEV Ratio	8.28%	2.00%
Base Level Dollar Amount	24,413,894	
Base Level NEV Ratio	8.68%	
- 300 BP Shock		
Actual Dollar Change	24,413,894	19,531,115
% Change	0.00%	
NEV Ratio	8.68%	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.