

First Quarter 2018 Financial Review



Historically the first quarter of the year is always a time of high liquidity and strong earnings. We are pleased to report that this trend has continued into 2018. In addition to this annual trend, income continues to improve as interest rates climb and our retained earnings continues to strengthen. Net income in the first quarter was \$329,225 which is an 11.58% increase over the first quarter of 2017. As income grows we are happy to be able to raise our overnight share rates to improve our members' earnings as well. 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 first quarter was \$1,374,608 which is up 56.81% compared to the first quarter of 2017 (\$876,580).
- Dividends paid to member credit unions year to date (\$659,251) was also up 210% compared to the prior year (\$212,633).
- Fee Income in the first quarter is slightly less than a year ago, showing a 2.4% decrease, while our CUSO pass through income has decreased significantly compared to last year.
- Operating expenses in the first quarter are practically the same as 2017 netting to a small decrease of .14%. The timing of recognizing some Travel and Conference expenses has caused the first quarter of 2018 to be almost double last year's amount for this one line item but we fully expect that this will even out over the remainder of the year.
- There was a small amount of security gains in the first quarter of 2017 (\$4,176) with no corresponding security sales in the first quarter this year.

Balance Sheet Highlights

- Total Assets as of March 31, 2018 are \$418 million which is 0.81% 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 \$303.5 million at 03/31/18 is approximately 5.79% less than the balance of \$322.2 million as of 03/31/17 when it was at its peak, indicating an overall decrease in the average size of our total assets. We have noticed this balance steadily decline over the past year as our member credit unions have had strong loan growth.

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Balance Sheet Highlights—continued

- There were no borrowings as of March 31, 2018 or March 31, 2017.
- Undivided Earnings are \$1,091,149 (15.79%) higher at March 31, 2018 than the balance one year ago.
- The Unrealized Loss on our Available for Sale securities has increased slightly in the past year. The balance sheet reflects an increase of \$95,687 (30.10%) since 03/31/17.

Capital and Other Ratios Highlights

- Our Retained Earnings ratio showed strong growth in the past 12 months reaching 2.64% versus 2.14% a year ago. The Overall Capital ratio increased from 6.78% to 7.61% during the same time period.
- The NEV ratio as of March 31 is 5.85% 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 -3.93%. 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 52.03%. These ratios far exceed the regulatory minimum of 8%. The Weighted Average Life (WAL) of our balance sheet at March 31 is currently 1.32 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 three months ended March 31, 2018 and 2017 to provide a more complete picture of our financial condition and the results of our operations. This data is unaudited.

Tricorp Federal Credit Union – 1st Quarter 2018 Financial Review

TRICORP FCU
Statement of Financial Position (Unaudited)
March 31, 2018 and 2017

	03/31/18	03/31/17	Change
<u>Assets</u>			
Loans to Members	273,377	1,300,497	-78.98%
Cash	207,535,786	201,117,409	3.19%
Investments	201,301,525	211,104,492	-4.64%
Accrued Interest	366,969	259,450	41.44%
Fixed Assets	567,113	648,972	-12.61%
NCUSIF Deposit	230,713	217,825	5.92%
CUSO Investments	1,751,082	1,930,809	-9.31%
Other Assets	5,881,556	4,730,164	24.34%
Total Assets	417,908,120	421,309,618	-0.81%
<u>Liabilities</u>			
Members' Shares and Deposits			
Overnight Deposits	391,992,522	397,311,041	-1.34%
Borrowed Funds	0	0	-
Interest Payable	0	0	-
Accounts Payable	18,325	0	-
Accrued Expenses	57,600	63,074	-8.68%
Other Liabilities	1,392,528	483,820	187.82%
Total Liabilities	393,460,975	397,857,935	-1.11%
<u>Members' Equity</u>			
PCC	16,861,345	16,861,345	0.00%
Undivided Earnings	7,999,345	6,908,196	15.79%
Unrealized Gain/(Loss) AFS	(413,545)	(317,858)	30.10%
Total Members' Equity	24,447,145	23,451,683	4.24%
Total Liabilities & Members' Equity	417,908,120	421,309,618	-0.81%

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Income Statement March 31, 2018 and 2017

	03/31/18	03/31/17	Change
Interest Income from Loans	34,952	5,664	517.06%
Interest and Dividend Income from Investments	1,374,608	876,580	56.81%
Total Interest Income	1,409,560	882,244	59.77%
Dividend Expense	659,251	212,633	210.04%
Interest on Borrowed Money	40,942	6,844	498.19%
Total Interest Expense	700,193	219,477	219.03%
Net Interest Income	709,367	662,767	7.03%
CUSO Equity Method Income	1,174	15,097	-92.22%
Fee Income	176,191	180,528	-2.40%
Other Operating Income	30,119	20,946	43.79%
Gross Operating Margin before Operating Expenses	916,850	879,338	4.27%
Operating Expenses:			
Salaries and Benefits	298,635	284,941	4.81%
Office Occupancy	20,565	18,305	12.34%
Office Operations	53,752	60,840	-11.65%
Travel and Conference	26,392	13,598	94.09%
Educational and Promotional	27,667	25,075	10.34%
Professional and Outside Services	132,711	157,688	-15.84%
Others	27,905	28,022	-0.42%
Total Operating Expenses	587,625	588,469	-0.14%
Gain/(Loss) Investment Sales	0	4,176	100.00%
Net Income Before Extraordinary Income	329,225	295,045	11.58%
Extraordinary Income	0	0	-
Net Change to Undivided Earnings	329,225	295,045	11.58%

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Portfolio Diversification by Investment Issuer 03/31/18

<u>Issuer</u>	<u>Percent</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
SBA Pools	23.88%	48,173,682	47,880,199	(293,483)
Agency Debentures - Floating rate	9.67%	19,500,000	19,519,500	19,500
Total U.S. Government Agency	33.55%	67,673,682	67,399,699	(273,983)
CMO/MBS - Floating Rate	13.24%	26,713,641	26,655,176	(58,466)
CMO/MBS - Fixed Rate	3.92%	7,898,824	7,702,168	(196,655)
CMBS - Floating Rate	6.69%	13,503,592	13,495,899	(7,693)
Total CMO's, MBS & CMBS	23.85%	48,116,057	47,853,243	(262,814)
SPSAC 1998-2 A1	0.00%	0	21,788	21,788
FFELPs	6.51%	13,130,519	13,051,753	(78,767)
Variable Rate Credit Card ABS	27.35%	55,159,903	55,289,284	129,381
Variable Rate Auto loan ABS	8.19%	16,515,108	16,565,957	50,849
Fixed Rate Auto Loan ABS	0.00%	0	0	0
Total Asset-Backed Securities	42.04%	84,805,530	84,928,782	123,252
FHLB Stock	0.19%	375,800	375,800	0
Brokered CDs	0.37%	744,000	744,000	0
Total Other	0.56%	1,119,800	1,119,800	0
Total Investments	100.00%	201,715,069	201,301,524	(413,545)

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Statistical Changes In Financial Position

	As of 03/31/18	As of 03/31/17
* Operating Expense Ratio	0.74%	0.68%
* ROA	0.41%	0.34%
* Retained Earnings ratio	2.64%	2.14%
* Capital ratio (GAAP)	7.61%	6.78%
YTD Average Assets	317,496,560	347,152,796
Net Economic Value (NEV)	03/31/18	Reg 704 Min Requirements
+ 300 BP Shock		***
Actual Dollar Change	23,490,827	19,560,465
% Change	-3.93%	
NEV Ratio	5.64%	2.00%
Base Level Dollar Amount	24,450,581	
Base Level NEV Ratio	5.85%	
- 300 BP Shock		
Actual Dollar Change	24,450,581	19,560,465
% Change	0.00%	
NEV Ratio	5.85%	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.