

Second Quarter 2018 Financial Review



We have again reached the midpoint of the year in great shape. Not only is income 22.35% greater than last year at this same time but we have also noticed a slight improvement in liquidity in the past month. Our balance sheet is still well positioned to take advantage of the interest rate environment as it continues to climb. This certainly helps to strengthen our retained earnings and make regular increases to members' share 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 for the first six months was \$2,964,997 which is up 58.25% compared to the same time period in 2017 (\$1,873,578).
- Dividends paid to member credit unions year to date (\$1,488,591) was also up 184% compared to the prior year (\$524,314).
- Fee Income in the first 6 months is slightly less than a year ago, showing a 4.3% decrease. Other Income is much greater this year offsetting CUSO income which has decreased significantly compared to last year.
- Operating expenses in the first half of the year are practically the same as 2017 netting to a small decrease of 0.42%.
- There were some security gains in the first half of 2017, \$10,687 with no corresponding security sales this year.

Balance Sheet Highlights

- Total Assets as of June 30, 2018 are \$336 million which is 8.0% higher 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 \$303.4 million at 06/30/18 is approximately 5.33% less than the balance of \$320.5 million as of 06/30/17 when it was just starting down from its peak, indicating an overall decrease in the average size of our total assets. We have noticed this balance steadily decline since March of 2017 as our member credit unions have had strong loan growth. MDANA has been relatively level since March 2018.
- There were no borrowings as of June 30, 2018 or 2017.
- Undivided Earnings are \$1,150,120 (15.89%) higher at June 30, 2018 than the balance one year ago.

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- The Unrealized Loss on our Available for Sale securities has increased in the past year. The balance sheet reflects an increase of (\$277,675) or (160.68%) since 06/30/17.

Capital and Other Ratios Highlights

- Our Retained Earnings ratio showed strong growth in the past 12 months reaching 2.76% versus 2.26% a year ago. The Overall Capital ratio increased from 6.91% to 7.75% during the same time period.
- The NEV ratio as of June 30 is 7.37% 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 -4.58%. 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 51.71%. These ratios far exceed the regulatory minimum of 8%. The Weighted Average Life (WAL) of our balance sheet at June 30 is currently 1.67 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 six months ended June 30, 2018 and 2017 to provide a more complete picture of our financial condition and the results of our operations. This data is unaudited.

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TRICORP FCU Statement of Financial Position (Unaudited) June 30, 2018 and 2017

	06/30/18	06/30/17	Change
<u>Assets</u>			
Loans to Members	5,439,486	1,689,601	221.94%
Cash	121,876,775	93,489,402	30.36%
Investments	200,580,545	208,764,735	-3.92%
Accrued Interest	410,178	290,705	41.10%
Fixed Assets	544,057	622,075	-12.54%
NCUSIF Deposit	212,747	226,112	-5.91%
CUSO Investments	1,745,976	1,956,382	-10.75%
Other Assets	5,628,975	4,479,209	25.67%
Total Assets	336,438,739	311,518,221	8.00%
<u>Liabilities</u>			
Members' Shares and Deposits			
Overnight Deposits	311,857,502	287,602,452	8.43%
Borrowed Funds	0	0	-
Interest Payable	0	0	-
Accounts Payable	14,095	0	-
Accrued Expenses	57,705	57,413	0.51%
Other Liabilities	(289,916)	(68,553)	322.91%
Total Liabilities	311,639,386	287,591,312	8.36%
<u>Members' Equity</u>			
PCC	16,861,345	16,861,345	0.00%
Undivided Earnings	8,388,495	7,238,375	15.89%
Unrealized Gain/(Loss) AFS	(450,487)	(172,812)	160.68%
Total Members' Equity	24,799,353	23,926,909	3.65%
Total Liabilities & Members' Equity	336,438,739	311,518,221	8.00%

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Income Statement For the Six Months Ended June 30, 2018 and 2017

	06/30/18	06/30/17	Change
Interest Income from Loans	67,466	18,556	263.59%
Interest and Dividend Income from Investments	2,964,997	1,873,578	58.25%
Total Interest Income	3,032,463	1,892,134	60.27%
Dividend Expense	1,488,591	524,314	183.91%
Interest on Borrowed Money	82,249	51,104	60.94%
Total Interest Expense	1,570,841	575,419	172.99%
Net Interest Income	1,461,623	1,316,715	11.01%
CUSO Equity Method Income	(3,932)	40,670	-109.67%
Fee Income	355,541	371,534	-4.30%
Other Operating Income	101,082	48,546	108.22%
Gross Operating Margin before Operating Expenses	1,914,313	1,777,465	7.70%
Operating Expenses:			
Salaries and Benefits	594,265	569,479	4.35%
Office Occupancy	40,106	37,209	7.79%
Office Operations	110,397	128,075	-13.80%
Travel and Conference	45,706	42,395	7.81%
Educational and Promotional	52,030	47,764	8.93%
Professional and Outside Services	291,303	317,467	-8.24%
Others	62,131	58,605	6.02%
Total Operating Expenses	1,195,938	1,200,994	-0.42%
Gain/(Loss) Investment Sales	0	10,687	100.00%
Net Income Before Extraordinary Income	718,375	587,158	22.35%
Extraordinary Income	0	0	-
Net Change to Undivided Earnings	718,375	587,158	22.35%

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Portfolio Diversification by Investment Issuer 06/30/18

<u>Issuer</u>	<u>Percent</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
SBA Pools	22.81%	45,845,216	45,591,112	(254,105)
Agency Debentures - Floating rate	11.19%	22,500,000	22,418,380	(81,620)
Total U.S. Government Agency	34.00%	68,345,216	68,009,492	(335,725)
CMO/MBS - Floating Rate	12.58%	25,288,591	25,268,028	(20,563)
CMO/MBS - Fixed Rate	3.70%	7,440,734	7,215,231	(225,504)
CMBS - Floating Rate	6.48%	13,032,447	13,055,765	23,318
Total CMO's, MBS & CMBS	22.76%	45,761,772	45,539,023	(222,749)
SPSAC 1998-2 A1	0.00%	0	18,966	18,966
FFELPs	5.92%	11,893,477	11,823,032	(70,446)
Variable Rate Credit Card ABS	26.11%	52,487,179	52,604,931	117,752
Variable Rate Auto loan ABS	8.21%	16,510,820	16,557,852	47,032
Fixed Rate Auto Loan ABS	2.27%	4,566,768	4,561,450	(5,318)
Total Asset-Backed Securities	42.51%	85,458,244	85,566,231	107,986
FHLB Stock	0.48%	969,800	969,800	0
Brokered CDs	0.25%	496,000	496,000	0
Total Other	0.73%	1,465,800	1,465,800	0
Total Investments	100.00%	201,031,032	200,580,545	(450,487)

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Statistical Changes In Financial Position

	As of 06/30/18	As of 06/30/17
* Operating Expense Ratio	0.75%	0.72%
* ROA	0.45%	0.35%
* Retained Earnings ratio	2.76%	2.26%
* Capital ratio (GAAP)	7.75%	6.91%
YTD Average Assets	317,863,412	332,890,143
Net Economic Value (NEV)	06/30/18	Reg 704 Min Requirements
+ 300 BP Shock		***
Actual Dollar		
Change	23,650,585	19,828,066
% Change	-4.58%	
NEV Ratio	7.05%	2.00%
Base Level Dollar		
Amount	24,785,082	
Base Level NEV Ratio	7.37%	
- 300 BP Shock		
Actual Dollar		
Change	25,149,516	19,828,066
% Change	1.47%	
NEV Ratio	7.47%	2.00%

* Based on Moving Daily Average Net Assets

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