

# Fourth Quarter 2018 Financial Review



Overall, 2018 has been an outstanding year. The continued rise in interest rates has allowed us to manage our bottom line to a healthy net income while also benefiting our members with higher rates on overnight shares and modest loan rate increases. The second half of every year always brings seasonal liquidity challenges and this year is no exception but this is to be expected and we have ample liquidity sources to manage these fluctuations with ease. Our balance sheet is still well positioned to take advantage of the interest rate environment as it continues to climb and to adjust quickly to any changes in the rate environment. 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

- Annual Income from investments was \$6,115,548 which is up 52.99% compared to 2017 when it was \$3,997,442.
- Dividends paid to member credit unions of \$3,223,184) was also up 134.62% compared to the prior year (\$1,373,789).
- Fee Income for 2018 is slightly less than a year ago, showing a 3.66% decrease. Other Income is much greater this year offsetting CUSO income (loss) which has decreased significantly compared to last year.
- Operating expenses for the year are slightly above 2017 netting to an increase of 2.73%. Much of this increase is in the area of Audit and Professional Services.
- There were some security gains in 2017 totaling \$20,356 with no corresponding security sales this year.

## Balance Sheet Highlights

- Total Assets as of December 31, 2018 are \$277 million which is 1.54% 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 \$298.7 million at 12/31/18 is approximately 3.95% less than the balance of \$310.96 million as of 12/31/17. MDANA peaked around March 2017 and has been coming back down to its current level since then. This indicates an overall decrease in the average size of our total assets in the past 12 months. The steadily decline since March of 2017 appears to be due to our member credit unions having strong loan growth.

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- Undivided Earnings are \$1,235,681 (16.11%) higher at year-end than the balance one year ago.
- The Unrealized Loss on our Available for Sale securities of (\$766,590) has increased in the past year. The balance sheet reflects an increase of (\$645,573) since 12/31/17 when it was (\$121,017).

## Capital and Other Ratios Highlights

- Our Retained Earnings ratio showed strong growth in the past 12 months reaching 2.98% versus 2.47% a year ago. The Overall Capital ratio increased from 7.30% to 8.04% during the same time period.
- The NEV ratio as of year-end is 9.03% 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 -4.18%. 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 52.64%. These ratios far exceed the regulatory minimum of 8%. The Weighted Average Life (WAL) of our balance sheet at December 31 is currently 1.88 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 years ended December 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 – 4th Quarter 2018 Financial Review

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

	12/31/18	12/31/17	Change
<b><u>Assets</u></b>			
Loans to Members	10,964,098	3,497,724	213.46%
Cash	61,238,160	74,516,346	-17.82%
Investments	195,915,451	194,778,356	0.58%
Accrued Interest	493,071	330,103	49.37%
Fixed Assets	709,137	580,094	22.25%
NCUSIF Deposit	211,434	230,713	-8.36%
CUSO Investments	1,738,846	1,839,908	-5.49%
Other Assets	5,529,573	5,367,059	3.03%
<b>Total Assets</b>	<b>276,799,771</b>	<b>281,140,302</b>	<b>-1.54%</b>
<b><u>Liabilities</u></b>			
Members' Shares and Deposits			
Overnight Deposits	213,201,894	255,974,280	-16.71%
Borrowed Funds	38,000,000	0	-
Interest Payable	5,658	0	-
Accounts Payable	13,368	960	1292.49%
Accrued Expenses	59,781	54,600	9.49%
Other Liabilities	518,514	700,014	-25.93%
<b>Total Liabilities</b>	<b>251,799,214</b>	<b>256,729,854</b>	<b>-1.92%</b>
<b><u>Members' Equity</u></b>			
PCC	16,861,345	16,861,345	0.00%
Undivided Earnings	8,905,801	7,670,120	16.11%
Unrealized Gain/(Loss) AFS	(766,590)	(121,017)	533.46%
<b>Total Members' Equity</b>	<b>25,000,556</b>	<b>24,410,448</b>	<b>2.42%</b>
<b>Total Liabilities &amp; Members' Equity</b>	<b>276,799,771</b>	<b>281,140,302</b>	<b>-1.54%</b>

## Tricorp Federal Credit Union - 4th Quarter 2018 Financial Review

### Income Statement For the Year Ended December 31, 2018 and 2017

	12/31/18	12/31/17	Change
Interest Income from Loans	246,549	91,309	170.01%
Interest and Dividend Income from Investments	6,115,548	3,997,442	52.99%
<b>Total Interest Income</b>	<b>6,362,097</b>	<b>4,088,752</b>	<b>55.60%</b>
Dividend Expense	3,223,184	1,373,789	134.62%
Interest on Borrowed Money	491,262	280,447	75.17%
<b>Total Interest Expense</b>	<b>3,714,446</b>	<b>1,654,236</b>	<b>124.54%</b>
Net Interest Income	2,647,650	2,434,516	8.75%
CUSO Equity Method Income	(11,062)	66,187	-116.71%
Fee Income	713,089	740,209	-3.66%
Other Operating Income	212,127	97,541	117.47%
<b>Gross Operating Margin before Operating Expenses</b>	<b>3,561,804</b>	<b>3,338,453</b>	<b>6.69%</b>
Operating Expenses:			
Salaries and Benefits	1,169,075	1,166,667	0.21%
Office Occupancy	80,554	75,534	6.65%
Office Operations	228,367	249,759	-8.56%
Travel and Conference	77,509	78,375	-1.10%
Educational and Promotional	68,226	71,552	-4.65%
Professional and Outside Services	571,002	499,085	14.41%
Others	131,389	123,282	6.58%
<b>Total Operating Expenses</b>	<b>2,326,124</b>	<b>2,264,253</b>	<b>2.73%</b>
Gain/(Loss) Investment Sales	0	20,356	100.00%
Net Income Before Extraordinary Income	1,235,681	1,094,556	12.89%
Extraordinary Income	0	0	-
<b>Net Change to Undivided Earnings</b>	<b>1,235,681</b>	<b>1,094,556</b>	<b>12.89%</b>

## Tricorp Federal Credit Union – 4th Quarter 2018 Financial Review

### Portfolio Diversification by Investment Issuer 12/31/18

<u>Issuer</u>	<u>Percent</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
SBA Pools	24.13%	47,450,044	47,174,126	(275,918)
Agency Debentures - Floating rate	11.44%	22,500,000	22,423,665	(76,335)
Total U.S. Government Agency	35.57%	69,950,044	69,597,791	(352,253)
CMO/MBS - Floating Rate	13.93%	27,404,116	27,374,334	(29,782)
CMO/MBS - Fixed Rate	3.35%	6,582,653	6,438,185	(144,468)
CMBS - Floating Rate	6.02%	11,848,638	11,812,608	(36,029)
Total CMO's, MBS & CMBS	23.30%	45,835,407	45,625,128	(210,279)
SPSAC 1998-2 A1	0.00%	0	5,084	5,084
FFELPs	4.99%	9,805,646	9,710,359	(95,287)
Variable Rate Credit Card ABS	24.63%	48,439,523	48,316,450	(123,073)
Variable Rate Auto loan ABS	8.39%	16,502,103	16,513,650	11,547
Fixed Rate Auto Loan ABS	2.12%	4,171,719	4,169,392	(2,328)
Total Asset-Backed Securities	40.13%	78,918,991	78,714,934	(204,057)
FHLB Stock	0.75%	1,481,600	1,481,600	0
Brokered CDs	0.25%	496,000	496,000	0
Total Other	1.01%	1,977,600	1,977,600	0
<b>Total Investments</b>	<b>100.00%</b>	<b>196,682,042</b>	<b>195,915,453</b>	<b>(766,590)</b>

# Tricorp Federal Credit Union – 4th Quarter 2018 Financial Review

## Statistical Changes In Financial Position

	As of 12/31/18	As of 12/31/17
* Operating Expense Ratio	0.78%	0.73%
* ROA	0.41%	0.35%
*Retained Earnings ratio	2.98%	2.47%
* Capital ratio	8.04%	7.30%
YTD Average Assets	298,680,177	310,956,248
Net Economic Value (NEV)	12/31/18	Reg 704 Min Requirements
+ 300 BP Shock		***
Actual Dollar Change	23,952,717	19,997,234
% Change	-4.18%	
NEV Ratio	8.69%	2.00%
<b>Base Level Dollar Amount</b>	<b>24,996,542</b>	
<b>Base Level NEV Ratio</b>	<b>9.03%</b>	
- 100 BP Shock		
Actual Dollar Change	25,293,019	19,997,234
% Change	1.19%	
NEV Ratio	9.13%	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.