

Fourth Quarter 2019 Financial Review



December 31, 2019, the end of a decade like no other since Tricorp began in 1975. It was a decade of acute hardship and outstanding recovery. The most notable attribute of the past year has been the substantial growth in liquidity. This growth started in the second quarter of this year and has resulting in improved operating results for the remainder of the year. Much of the improvement can be attributed to the excess liquidity eliminating the need to borrow entirely. Another benefit to this increase in liquidity is that our MDANA has shown strong growth. As always, our balance sheet is well positioned to thrive in any interest rate environment as we are able to 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 for 2019 is \$7,804,558 which is up 27.62% compared to 2018 when it was \$6,115,548.
- Dividends paid to member credit unions this year of \$4,769,212 was also up 47.97% compared to the prior year (\$3,223,184).
- Interest on borrowed funds of only \$89,918 for all of 2019 is down dramatically compared to 2018 when it was \$491,262. This is even more positive considering that 2018 had a lower interest rate environment overall.
- CUSO income shows dramatic improvement in 2019 due to the growth in liquidity resulting in increased business for them.
- Fee Income for this year is slightly more than a year ago, showing a 5.87% increase. Other Non-interest Income showed a good size decrease due to some one time income in 2018.
- Operating expenses for the year are slightly above 2018 netting to an increase of 2.55%.
- There were some minor security gains in 2019 totaling \$1,695 with no corresponding security sales last year.

Balance Sheet Highlights

- Total Assets as of December 31, 2019 are \$386 million which is 39.29% 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 \$329.1 million at 12/31/19 is approximately 9.2% more than the balance of \$298.7 million as of 12/31/18. MDANA hit

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bottom around April 2019 when it was \$294.9 million and has been coming back up quickly since then. This demonstrates a substantial increase in the average size of our total assets in the past 12 months.

- Net Fixed Assets shows a significant increase this year as we have updated our entire computer network earlier in 2019 to keep up with technology changes. As of December 31, after depreciation expense, the increase in Net Fixed Assets is 24.35% compared to one year ago.
- The variance in Other Liabilities is due primarily to net ACH future dated transactions.
- Undivided Earnings are \$1,695,313 (19.04%) higher at December 31, 2019 than the balance one year ago which represents our net income for 2019.
- The Unrealized Loss on our Available for Sale securities of (\$388,037) has decreased in the past year. Overall there was a decrease of \$378,553 since 12/31/18 when it was (\$766,590).

Capital and Other Ratios Highlights

- Our Retained Earnings ratio showed strong growth in the past 12 months reaching 3.33% through September then dropping back down to 3.22% due to the rapid growth in MDANA. This is still well above the December 2018 ratio of 2.98%. The Overall Capital ratio actually decreased in the past year due to this rapid growth. The ratio at December 2019 was 7.78% compared to 8.04% at December 2018.
- The NEV ratio as of year-end is 7.02% 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 -3.72%. 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 65.55%. These ratios far exceed the regulatory minimum of 8%. The Weighted Average Life (WAL) of our balance sheet at December 31 is currently 1.34 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, 2019 and 2018 to provide a more complete picture of our financial condition and the results of our operations. This data is unaudited.

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Statement of Financial Position (Unaudited)
December 31, 2019 and 2018

	12/31/19	12/31/18	Change
<u>Assets</u>			
Loans to Members	1,642,691	10,964,098	-85.02%
Cash	159,004,161	61,238,160	159.65%
Investments	214,532,778	195,915,451	9.50%
Accrued Interest	450,032	493,071	-8.73%
Net Fixed Assets	881,821	709,137	24.35%
NCUSIF Deposit	218,162	211,434	3.18%
CUSO Investments	1,840,161	1,738,846	5.83%
Other Assets	6,991,350	5,529,573	26.44%
Total Assets	385,561,155	276,799,771	39.29%
<u>Liabilities</u>			
Members' Shares and Deposits			
Overnight Deposits	357,141,423	213,201,894	67.51%
Borrowed Funds	0	38,000,000	-100.00%
Interest Payable	0	5,658	-100.00%
Accounts Payable	23,461	13,368	75.50%
Accrued Expenses	62,752	59,781	4.97%
Other Liabilities	1,259,097	518,514	142.83%
Total Liabilities	358,486,732	251,799,214	42.37%
<u>Members' Equity</u>			
PCC	16,861,345	16,861,345	0.00%
Undivided Earnings	10,601,114	8,905,801	19.04%
Unrealized Gain/(Loss) AFS	(388,037)	(766,590)	-49.38%
Total Members' Equity	27,074,423	25,000,556	8.30%
Total Liabilities & Members' Equity	385,561,155	276,799,771	39.29%

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Income Statement For the Year Ended December 31, 2019 and 2018

	12/31/19	12/31/18	Change
Interest Income from Loans	103,115	246,549	-58.18%
Interest and Dividend Income from Investments	7,804,558	6,115,548	27.62%
Total Interest Income	7,907,673	6,362,097	24.29%
Dividend Expense	4,769,212	3,223,184	47.97%
Interest on Borrowed Money	89,918	491,262	-81.70%
Total Interest Expense	4,859,130	3,714,446	30.82%
Net Interest Income	3,048,542	2,647,650	15.14%
CUSO Equity Method Income	101,315	(11,062)	1015.88%
Fee Income	754,958	713,089	5.87%
Other Operating Income	174,315	212,127	-17.83%
Gross Operating Margin before Operating Expenses	4,079,129	3,561,804	14.52%
Operating Expenses:			
Salaries and Benefits	1,236,678	1,169,075	5.78%
Office Occupancy	87,284	80,554	8.35%
Office Operations	201,376	228,367	-11.82%
Travel and Conference	73,430	77,509	-5.26%
Educational and Promotional	65,540	68,226	-3.94%
Professional and Outside Services	583,225	571,002	2.14%
Other	137,977	131,389	5.01%
Total Operating Expenses	2,385,510	2,326,124	2.55%
Gain/(Loss) Investment Sales	1,695	0	-
Net Income Before Extraordinary Income	1,695,314	1,235,681	37.20%
Extraordinary Income	0	0	-
Net Change to Undivided Earnings	1,695,314	1,235,681	37.20%

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Portfolio Diversification by Investment Issuer 12/31/19

<u>Issuer</u>	<u>Percent</u>	<u>Amortized Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
SBA Pools	18.04%	38,762,198	38,662,389	(99,809)
Agency Debentures - Floating rate	12.80%	27,500,000	27,418,550	(81,450)
Total U.S. Government Agency	30.83%	66,262,198	66,080,939	(181,259)
CMO/MBS - Floating Rate	18.24%	39,193,281	39,083,834	(109,447)
CMO/MBS - Fixed Rate	2.33%	5,012,732	5,015,230	2,498
CMBS - Floating Rate	10.84%	23,289,620	23,216,843	(72,777)
CMBS - Fixed Rate	1.63%	3,493,817	3,552,519	58,703
Total CMO's, MBS & CMBS	33.03%	70,989,449	70,868,426	(121,023)
FFELPs	3.13%	6,723,698	6,573,670	(150,028)
Variable Rate Credit Card ABS	21.54%	46,297,133	46,347,782	50,648
Variable Rate Auto loan ABS	9.75%	20,959,502	20,965,576	6,074
Fixed Rate Auto Loan ABS	1.50%	3,213,235	3,220,787	7,552
Total Asset-Backed Securities	35.92%	77,193,569	77,107,815	(85,754)
FHLB Stock	0.11%	227,600	227,600	0
Brokered CDs	0.12%	248,000	248,000	0
Total Other	0.22%	475,600	475,600	0
Total Investments	100.00%	214,920,816	214,532,780	(388,037)

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Statistical Changes In Financial Position

	As of 12/31/19	As of 12/31/18
* Operating Expense Ratio	0.72%	0.78%
* ROA	0.52%	0.41%
* Retained Earnings ratio	3.22%	2.98%
* Capital ratio	7.78%	8.04%
YTD Average Assets	329,136,959	298,680,177
Net Economic Value (NEV)	12/31/19	Reg 704 Min Requirements ***
+ 300 BP Shock		
Actual Dollar Change	26,074,778	21,665,637
% Change	-3.72%	
NEV Ratio	6.78%	2.00%
Base Level Dollar Amount	27,082,046	
Base Level NEV Ratio	7.02%	
- 300 BP Shock		
Actual Dollar Change	27,508,479	21,665,637
% Change	1.58%	
NEV Ratio	7.13%	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.