

First Quarter 2020 Financial Review



What a wild start to 2020! Our substantial rise in liquidity noted throughout most of last year has continued into this quarter, most recently fueled by the ongoing Coronavirus pandemic. Rest assured that Tricorp has been well prepared for such an event for more than 10 years and was able to seamlessly transition to all employees working remotely. We have had the ability for all employees to work remotely on a regular basis for many years so this pandemic has had virtually no impact on us from a business continuity perspective. As part of the response to the pandemic, the Federal Reserve has cut interest rates back to mid recession levels in an effort to bolster the economy. 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 the first quarter is \$1,821,869 which is down 7.48% compared to the first quarter of 2019 when it was \$1,969,085. This was caused by the reduction in rates as our volume of investments has actually increased.
- Dividends paid to member credit unions in the first three months totaling \$977,825 was also down 19.27% compared to the same timeframe in the prior year (\$1,211,263).
- There was no interest on borrowed funds so far this year compared to \$88,960 for the first quarter of 2019.
- CUSO income through March 31, 2020 is \$28,792 which compares favorably to the \$22,172 for the first quarter of 2019.
- Higher liquidity has improved our Fee Income which is showing a 31.14% increase compared to last year. Conversely Other Non-interest Income showed a 11.04% decrease.
- Operating expenses so far in 2020 have shown a slight increase of 4.85%.

Balance Sheet Highlights

- Total Assets as of March 31, 2020 are \$492 million which is 21.15% 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 \$369.5 million at 03/31/20 is approximately 24.7% more than the balance of \$296.3 million as of 03/31/19. MDANA hit bottom around April 2019 when it was \$294.9 million and has been coming back up quickly since

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then. This demonstrates a substantial increase in the average size of our total assets in the past 12 months.

- Net Fixed Assets at March 31, 2020 is almost exactly the same amount as it was one year ago indicating that assets have been added that offset the amount of depreciation expense in the past 12 months. Currently the net book value of Furniture and Equipment is 50.49% of its cost.
- The variance in Other Liabilities is due primarily to net ACH future dated transactions. The balance in this account is normally very volatile.
- Undivided Earnings are \$1,825,537 (19.66%) higher at March 31, 2020 than the balance one year ago which represents our net income for the 12 months ending March 31, 2020.
- The Unrealized Loss on our Available for Sale securities of (\$2,652,920) has increased substantially in March due to the pandemic scare. Overall there was a decrease in the value of our investments of roughly \$2 million since 03/31/19 when the unrealized loss was (\$601,809).

Capital and Other Ratios Highlights

- Even with strong income, our Retained Earnings ratio showed a decrease in the past 12 months to 3.01% due to the rapid growth in MDANA. The Overall Capital ratio also decreased in the past year due to this continued growth. The ratio at March 31, 2020 was 7.07% compared to 8.23% at March 31, 2019.
- The NEV ratio as of quarter-end is 5.16% 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 -6.46%. 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 66.30%. These ratios far exceed the regulatory minimum of 8%. The Weighted Average Life (WAL) of our balance sheet at March 31 is currently 1.09 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 three months ended March 31, 2020 and 2019 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)
March 31, 2020 and 2019

	03/31/20	03/31/19	Change
<u>Assets</u>			
Loans to Members	0	1,010,579	-100.00%
Cash	255,723,398	198,982,759	28.52%
Investments	224,864,600	197,070,848	14.10%
Accrued Interest	309,617	531,448	-41.74%
Net Fixed Assets	868,936	868,096	0.10%
NCUSIF Deposit	218,162	211,434	3.18%
CUSO Investments	1,868,953	1,761,018	6.13%
Other Assets	7,860,368	5,431,685	44.71%
Total Assets	491,714,033	405,867,867	21.15%
<u>Liabilities</u>			
Members' Shares and Deposits			
Overnight Deposits	464,101,058	379,617,213	22.26%
Borrowed Funds	0	0	-
Interest Payable	0	0	-
Accounts Payable	38,594	19,549	97.43%
Accrued Expenses	68,752	62,781	9.51%
Other Liabilities	2,184,663	621,784	251.35%
Total Liabilities	466,393,067	380,321,327	22.63%
<u>Members' Equity</u>			
PCC	16,861,345	16,861,345	0.00%
Undivided Earnings	11,112,541	9,287,004	19.66%
Unrealized Gain/(Loss) AFS	(2,652,920)	(601,809)	340.82%
Total Members' Equity	25,320,966	25,546,540	-0.88%
Total Liabilities & Members' Equity	491,714,033	405,867,867	21.15%

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Income Statement For the Three Months Ended March 31, 2020 and 2019

	03/31/20	03/31/19	Change
Interest Income from Loans	1,503	69,786	-97.85%
Interest and Dividend Income from Investments	1,821,869	1,969,085	-7.48%
Total Interest Income	1,823,372	2,038,870	-10.57%
Dividend Expense	977,825	1,211,263	-19.27%
Interest on Borrowed Money	0	88,960	-100.00%
Total Interest Expense	977,825	1,300,223	-24.80%
Net Interest Income	845,547	738,648	14.47%
CUSO Equity Method Income	28,792	22,172	29.86%
Fee Income	223,372	170,329	31.14%
Other Operating Income	44,065	49,532	-11.04%
Gross Operating Margin before Operating Expenses	1,141,775	980,681	16.43%
Operating Expenses:			
Salaries and Benefits	306,304	307,829	-0.50%
Office Occupancy	21,641	20,213	7.07%
Office Operations	51,782	47,585	8.82%
Travel and Conference	21,497	19,347	11.12%
Educational and Promotional	25,801	24,891	3.66%
Professional and Outside Services	164,656	147,256	11.82%
Other	38,667	34,052	13.55%
Total Operating Expenses	630,349	601,173	4.85%
Gain/(Loss) Investment Sales	0	1,695	100.00%
Net Income Before Extraordinary Income	511,427	381,203	34.16%
Extraordinary Income	0	0	-
Net Change to Undivided Earnings	511,427	381,203	34.16%

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Portfolio Diversification by Investment Issuer 03/31/20

<u>Issuer</u>	<u>Percent</u>	<u>Amortized Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
SBA Pools	16.09%	36,615,750	36,539,481	(76,270)
Agency Debentures - Floating rate	14.28%	32,500,000	32,407,000	(93,000)
Total U.S. Government Agency	30.38%	69,115,750	68,946,481	(169,270)
CMO/MBS - Floating Rate	19.33%	43,982,785	43,509,943	(472,842)
CMO/MBS - Fixed Rate	2.03%	4,626,976	4,740,092	113,116
CMBS - Floating Rate	11.47%	26,086,872	25,899,996	(186,876)
CMBS - Fixed Rate	1.54%	3,493,817	3,587,850	94,034
Total CMO's, MBS & CMBS	34.37%	78,190,449	77,737,881	(452,568)
FFELPs	2.70%	6,136,994	5,870,526	(266,468)
Variable Rate Credit Card ABS	22.34%	50,817,609	49,468,166	(1,349,443)
Variable Rate Auto loan ABS	8.12%	18,474,848	18,070,408	(404,440)
Fixed Rate Auto Loan ABS	1.89%	4,306,270	4,295,538	(10,732)
Total Asset-Backed Securities	35.05%	79,735,722	77,704,638	(2,031,084)
FHLB Stock	0.10%	227,600	227,600	0
Brokered CDs	0.11%	248,000	248,000	0
Total Other	0.21%	475,600	475,600	0
Total Investments	100.00%	227,517,522	224,864,600	(2,652,922)

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Statistical Changes In Financial Position

	As of 03/31/20	As of 03/31/19
* Operating Expense Ratio	0.54%	0.78%
* ROA	0.44%	0.50%
*Retained Earnings ratio	3.01%	3.13%
* Capital ratio	7.07%	8.23%
YTD Average Assets	469,240,544	307,812,886
Net Economic Value (NEV)	03/31/20	Reg 704 Min Requirements
+ 300 BP Shock		***
Actual Dollar Change	23,709,677	20,278,626
% Change	-6.46%	
NEV Ratio	4.84%	2.00%
Base Level Dollar Amount	25,348,283	
Base Level NEV Ratio	5.16%	
- 300 BP Shock		
Actual Dollar Change	25,348,283	20,278,626
% Change	0.00%	
NEV Ratio	5.16%	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.