

# Second Quarter 2020 Financial Review



The first half of 2020 for Tricorp FCU is best described as one of unprecedented growth in liquidity and total assets. While growth is positive, you will see in the attached financial information that this level of rapid growth does have a negative impact on our capital ratios. Thankfully our ratios were strong to begin with, so this has not caused any significant concern. The substantial rise in liquidity started in the first half of 2019 and has continued into 2020, most recently fueled by the ongoing Coronavirus pandemic, economic stimulus payments, and low loan demand for many of our members. As part of the response to the pandemic, the Federal Reserve cut interest rates in the first quarter of this year in an effort to bolster the economy. This also is reflected in our financial information in the form of decreased investment income as well as reduced dividends paid to members.

By the end of the second quarter we see things beginning to return to normal, yet liquidity remains high. As always, our balance sheet is well positioned to thrive in any interest rate environment as we can 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 6 months is \$2,527,723 which is down 37.22% compared to the first quarter of 2019 when it was \$4,026,479. This was caused by the Fed's reduction in rates in March as our volume of investments has actually increased.
- Dividends paid to member credit unions in the first six months of \$1,060,465 was also down 58.11% compared to the same timeframe in the prior year (\$2,531,842).
- There was no interest on borrowed funds so far this year compared to \$88,960 for the first half of 2019.
- CUSO income through June 30, 2020 is \$111,957 which compares favorably to the \$46,297 for the first half of 2019.
- Higher liquidity has improved our fee Income which is showing a 24.82% increase compared to last year. Other Non-interest Income shows a modest 1.45% increase.
- Operating expenses so far in 2020 have shown a very slight increase of 0.78%.

## Balance Sheet Highlights

Total Assets as of June 30, 2020 are \$676 million which is 96.26% 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 \$480.6 million at 06/30/20 is approximately 62.4% more than the balance of \$295.9 million as of 06/30/19. MDANA hit bottom around April 2019 when it was \$294.9 million and has been coming back up quickly since then. This demonstrates significant, rapid growth in the size of our average total assets (MDANA) in the past 12 months.

# Second Quarter 2020 Financial Review



- Net Fixed Assets at June 30, 2020 is only 1.40% lower than 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 49.82% of its cost indicating that on average those assets are approximately at the midpoint of their economic life.
- The variance in Other Liabilities is due primarily to net ACH future dated transactions. The balance in this account is normally very volatile but is mostly offset by a roughly equal dollar variance in other assets.
- Undivided Earnings are \$1,817,669 (18.78%) higher at June 30, 2020 than the balance one year ago which represents our net income for the 12 months ending June 30, 2020.
- The Unrealized Loss on our Available for Sale securities of (\$325,495) has increased by 48.46% compared to June 2019 when it was (\$216,253). This unrealized loss has shown virtually full recovery since the prior quarter when it spiked to (\$2.6 million) because of the effect of the pandemic scare on investment values.

## Capital and Other Ratios Highlights

- Even with strong income, our Retained Earnings ratio shows a significant decrease in the past 12 months to 2.39% due to the rapid growth in MDANA as previously described. The overall Capital Ratio also decreased in the past year due to this continued growth. The Capital Ratio at June 30, 2020 was 5.49% compared to 8.37% at June 30, 2019.
- The NEV ratio as of quarter-end is 4.15% 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 -5.93%. 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 62.79%. These ratios far exceed the regulatory minimum of 8%. The Weighted Average Life (WAL) of our balance sheet at June 30 is currently 0.82 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, 2020 and 2019 to provide a more complete picture of our financial condition and the results of our operations. This data is unaudited.

## Tricorp Federal Credit Union – 2nd Quarter 2020 Financial Review

### TRICORP FCU Statement of Financial Position (Unaudited) June 30, 2020 and 2019

	06/30/20	06/30/19	Change
<b><u>Assets</u></b>			
Loans to Members	582,332	67,744	759.60%
Cash	410,809,799	132,887,553	209.14%
Investments	252,018,414	201,449,662	25.10%
Accrued Interest	173,773	513,386	-66.15%
Net Fixed Assets	836,942	848,808	-1.40%
NCUSIF Deposit	215,959	202,510	6.64%
CUSO Investments	1,952,118	1,785,143	9.35%
Other Assets	9,226,392	6,588,663	40.03%
<b>Total Assets</b>	<b>675,815,728</b>	<b>344,343,470</b>	<b>96.26%</b>
<b><u>Liabilities</u></b>			
Members' Shares and Deposits			
Overnight Deposits	643,973,164	317,449,838	102.86%
Borrowed Funds	0	0	-
Interest Payable	0	0	-
Accounts Payable	9,151	7,400	23.66%
Accrued Expenses	74,752	65,781	13.64%
Other Liabilities	3,724,686	497,902	648.08%
<b>Total Liabilities</b>	<b>647,781,753</b>	<b>318,020,921</b>	<b>103.69%</b>
<b><u>Members' Equity</u></b>			
PCC	16,861,345	16,861,345	0.00%
Undivided Earnings	11,498,125	9,680,456	18.78%
Unrealized Gain/(Loss) AFS	(325,495)	(219,253)	48.46%
<b>Total Members' Equity</b>	<b>28,033,975</b>	<b>26,322,548</b>	<b>6.50%</b>
<b>Total Liabilities &amp; Members' Equity</b>	<b>675,815,728</b>	<b>344,343,470</b>	<b>96.26%</b>

## Tricorp Federal Credit Union – 2nd Quarter 2020 Financial Review

### Income Statement For the Six Months Ended June 30, 2020 and 2019

	06/30/20	06/30/19	Change
Interest Income from Loans	2,098	86,777	-97.58%
Interest and Dividend Income from Investments	2,527,723	4,026,479	-37.22%
<b>Total Interest Income</b>	<b>2,529,821</b>	<b>4,113,256</b>	<b>-38.50%</b>
Dividend Expense	1,060,465	2,531,842	-58.11%
Interest on Borrowed Money	0	88,960	-100.00%
<b>Total Interest Expense</b>	<b>1,060,465</b>	<b>2,620,802</b>	<b>-59.54%</b>
Net Interest Income	1,469,356	1,492,454	-1.55%
CUSO Equity Method Income	111,957	46,297	141.82%
Fee Income	450,746	361,112	24.82%
Other Operating Income	90,925	89,621	1.45%
<b>Gross Operating Margin before Operating Expenses</b>	<b>2,122,984</b>	<b>1,989,485</b>	<b>6.71%</b>
Operating Expenses:			
Salaries and Benefits	611,959	621,898	-1.60%
Office Occupancy	41,684	41,584	0.24%
Office Operations	107,417	97,612	10.05%
Travel and Conference	28,243	38,977	-27.54%
Educational and Promotional	37,668	50,882	-25.97%
Professional and Outside Services	327,889	295,894	10.81%
Other	71,114	69,677	2.06%
<b>Total Operating Expenses</b>	<b>1,225,974</b>	<b>1,216,524</b>	<b>0.78%</b>
Gain/(Loss) Investment Sales	0	1,695	100.00%
Net Income Before Extraordinary Income	897,010	774,655	15.79%
Extraordinary Income	0	0	-
<b>Net Change to Undivided Earnings</b>	<b>897,010</b>	<b>774,655</b>	<b>15.79%</b>

# Tricorp Federal Credit Union – 2nd Quarter 2020 Financial Review

## Portfolio Diversification by Investment Issuer 06/30/20

<u>Issuer</u>	<u>Percent</u>	<u>Amortized Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
SBA Pools	15.58%	39,247,103	39,039,464	(207,639)
Agency Debentures - Floating rate	14.89%	37,500,000	37,400,375	(99,625)
Total U.S. Government Agency	30.47%	76,747,103	76,439,839	(307,264)
CMO/MBS - Floating Rate	17.53%	44,154,304	44,114,993	(39,311)
CMO/MBS - Fixed Rate	1.66%	4,181,849	4,310,261	128,413
CMBS - Floating Rate	11.39%	28,699,641	28,747,260	47,619
CMBS - Fixed Rate	1.39%	3,493,817	3,618,335	124,518
Total CMO's, MBS & CMBS	31.97%	80,529,611	80,790,849	261,239
FFELPs	2.28%	5,753,098	5,449,679	(303,419)
Variable Rate Credit Card ABS	22.05%	55,545,010	55,645,824	100,814
Fixed Rate Credit Card ABS	1.04%	2,627,435	2,629,523	2,088
Variable Rate Auto loan ABS	7.34%	18,485,600	18,400,508	(85,093)
Fixed Rate Auto Loan ABS	0.50%	1,270,758	1,276,896	6,138
Total Asset-Backed Securities	33.22%	83,681,901	83,402,430	(279,471)
FHLB Stock	0.09%	227,600	227,600	0
CLF Stock	4.32%	10,909,696	10,909,696	0
Brokered CDs	0.10%	248,000	248,000	0
Total Other	4.51%	11,385,296	11,385,296	0
Total Investments	100.00%	252,343,911	252,018,414	(325,497)

# Tricorp Federal Credit Union – 1st Quarter 2020 Financial Review

## Statistical Changes In Financial Position

	As of 06/30/20	As of 06/30/19
* Operating Expense Ratio	0.40%	0.78%
* ROA	0.29%	0.50%
* Retained Earnings ratio	2.39%	3.27%
* Capital ratio	5.49%	8.37%
YTD Average Assets	615,222,514	312,322,401
Net Economic Value (NEV)	06/30/20	Reg 704
		Min Requirements
+ 300 BP Shock		***
Actual Dollar Change	26,525,853	22,428,986
% Change	-5.39%	
NEV Ratio	3.93%	2.00%
<b>Base Level Dollar Amount</b>	<b>28,036,232</b>	
<b>Base Level NEV Ratio</b>	<b>4.15%</b>	
- 300 BP Shock		
Actual Dollar Change	28,036,232	22,428,986
% Change	0.00%	
NEV Ratio	4.15%	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.