

Third Quarter 2020 Financial Review



Through September 2020 liquidity has remained at remarkably high levels. As we said in our previous report to members, growth is positive however this level of rapid growth continues to 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 thus far into 2020. As part of the response to the COVID-19 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 third quarter liquidity remains high and we are taking steps to reduce the size of our balance sheet to bring it more into line with capital and income levels. 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 9 months is \$3,094,066 which is down 48.95% compared to the third quarter of 2019 when it was \$6,060,813. 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 nine months of \$1,130,400 was also down 69.81% compared to the same timeframe in the prior year (\$3,744,188).
- There was no interest on borrowed funds so far this year compared to \$89,918 for the first 9 months of 2019.
- CUSO income through September 30, 2020 is \$173,873 which compares favorably to the \$77,643 for the same time period in 2019.
- Higher liquidity has improved our fee income which is showing a 20.93% increase compared to last year. Other Non-interest Income also shows an increase of 8.10%.
- The pandemic has understandably caused certain expenses like Education/Promotion and Travel to decrease while certain office related expenses have increased. Overall operating expenses show a slight decrease of -.47% compared to 2019.

Balance Sheet Highlights

- Total Assets as of September 30, 2020 are \$625 million which is 88.47% 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 \$578.6 million at

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09/30/20 is approximately 90.7% higher than the balance of \$303.3 million at 09/30/19. 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.

- Net Fixed Assets at September 30, 2020 is 8.35% lower than it was one year ago. Currently the net book value of Furniture and Equipment is 46.24% of its cost indicating that, on average, those assets are slightly beyond the midpoint of their estimated 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 \$1,662,549 (16.46%) higher at September 30, 2020 than the balance one year ago which represents our net income for the 12 months ending September 30, 2020.
- The Unrealized Gain on our Available for Sale securities of \$291,641 compares very favorably to September 2019 when it was an Unrealized Loss of (\$262,297).

Capital and Other Ratios Highlights

- Even with strong income, our Retained Earnings ratio shows a significant decrease in the past 12 months to 2.03%% 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 September 30, 2020 was 4.60% compared to 8.29% at September 30, 2019.
- The NEV ratio as of quarter-end is 4.37% 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 -5.79%. 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 58.96%. These ratios far exceed the regulatory minimum of 8%. The Weighted Average Life (WAL) of our balance sheet at September 30 is currently 0.95 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, 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) September 30, 2020 and 2019

| | 09/30/20 | 09/30/19 | Change |
|--|--------------------|--------------------|---------------|
| <u>Assets</u> | | | |
| Loans to Members | 492,303 | 1,195,481 | -58.82% |
| Cash | 341,368,232 | 120,767,743 | 182.67% |
| Investments | 270,986,269 | 200,066,133 | 35.45% |
| Accrued Interest | 181,281 | 466,455 | -61.14% |
| Net Fixed Assets | 802,948 | 876,147 | -8.35% |
| NCUSIF Deposit | 215,959 | 202,510 | 6.64% |
| CUSO Investments | 2,014,034 | 1,816,489 | 10.88% |
| Other Assets | 9,376,726 | 6,450,700 | 45.36% |
| Total Assets | 625,437,750 | 331,841,656 | 88.47% |
| <u>Liabilities</u> | | | |
| Members' Shares and Deposits | | | |
| Overnight Deposits | 592,845,900 | 303,345,427 | 95.44% |
| Borrowed Funds | 0 | 0 | - |
| Interest Payable | 0 | 0 | - |
| Accounts Payable | 13,342 | 10,757 | 24.04% |
| Accrued Expenses | 80,752 | 59,752 | 35.15% |
| Other Liabilities | 3,579,488 | 1,723,939 | 107.63% |
| Total Liabilities | 596,519,482 | 305,139,874 | 95.49% |
| <u>Members' Equity</u> | | | |
| PCC | 16,861,345 | 16,861,345 | 0.00% |
| Undivided Earnings | 11,765,282 | 10,102,734 | 16.46% |
| Unrealized Gain/(Loss) AFS | 291,641 | (262,297) | -211.19% |
| Total Members' Equity | 28,918,269 | 26,701,782 | 8.30% |
| Total Liabilities & Members' Equity | 625,437,750 | 331,841,656 | 88.47% |

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Income Statement For the Nine Months Ended September 30, 2020 and 2019

| | 09/30/20 | 09/30/19 | Change |
|---|------------------|------------------|----------------|
| Interest Income from Loans | 2,553 | 93,892 | -97.28% |
| Interest and Dividend Income from Investments | 3,091,513 | 5,966,921 | -48.19% |
| Total Interest Income | 3,094,066 | 6,060,813 | -48.95% |
| Dividend Expense | 1,130,400 | 3,744,188 | -69.81% |
| Interest on Borrowed Money | 0 | 89,918 | -100.00% |
| Total Interest Expense | 1,130,400 | 3,834,106 | -70.52% |
| Net Interest Income | 1,963,666 | 2,226,707 | -11.81% |
| CUSO Equity Method Income | 173,873 | 77,643 | 123.94% |
| Fee Income | 677,157 | 559,950 | 20.93% |
| Other Operating Income | 136,025 | 125,839 | 8.10% |
| Gross Operating Margin before Operating Expenses | 2,950,721 | 2,990,138 | -1.32% |
| Operating Expenses: | | | |
| Salaries and Benefits | 921,660 | 923,436 | -0.19% |
| Office Occupancy | 66,391 | 63,598 | 4.39% |
| Office Operations | 162,155 | 148,187 | 9.43% |
| Travel and Conference | 30,450 | 55,148 | -44.79% |
| Educational and Promotional | 49,598 | 59,385 | -16.48% |
| Professional and Outside Services | 453,666 | 441,101 | 2.85% |
| Other | 102,633 | 104,045 | -1.36% |
| Total Operating Expenses | 1,786,553 | 1,794,900 | -0.47% |
| Gain/(Loss) Investment Sales | 0 | 1,695 | 100.00% |
| Net Income Before Extraordinary Income | 1,164,168 | 1,196,933 | -2.74% |
| Extraordinary Income | 0 | 0 | - |
| Net Change to Undivided Earnings | 1,164,168 | 1,196,933 | -2.74% |

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Portfolio Diversification by Investment Issuer 09/30/20

| <u>Issuer</u> | <u>Percent</u> | <u>Amortized Cost</u> | <u>Market Value</u> | <u>Unrealized Gain (Loss)</u> |
|-----------------------------------|----------------|---------------------------|-------------------------|-----------------------------------|
| SBA Pools | 18.69% | 50,587,048 | 50,332,227 | (254,821) |
| Agency Debentures - Floating rate | 15.70% | 42,500,000 | 42,681,690 | 181,690 |
| Total U.S. Government Agency | 34.39% | 93,087,048 | 93,013,917 | (73,131) |
| CMO/MBS - Floating Rate | 15.14% | 40,991,925 | 41,141,037 | 149,112 |
| CMO/MBS - Fixed Rate | 2.48% | 6,717,600 | 6,809,365 | 91,765 |
| CMBS - Floating Rate | 12.25% | 33,169,718 | 33,249,320 | 79,603 |
| CMBS - Fixed Rate | 1.29% | 3,493,817 | 3,599,750 | 105,933 |
| Total CMO's, MBS & CMBS | 31.17% | 84,373,060 | 84,799,473 | 426,413 |
| FFELPs | 1.98% | 5,354,707 | 5,140,697 | (214,010) |
| Variable Rate Credit Card ABS | 20.51% | 55,529,897 | 55,668,154 | 138,256 |
| Fixed Rate Credit Card ABS | 0.97% | 2,612,472 | 2,613,932 | 1,460 |
| Variable Rate Auto loan ABS | 6.46% | 17,492,554 | 17,501,939 | 9,385 |
| Fixed Rate Auto Loan ABS | 0.32% | 859,595 | 862,861 | 3,266 |
| Total Asset-Backed Securities | 30.24% | 81,849,226 | 81,787,583 | (61,642) |
| FHLB Stock | 0.08% | 227,600 | 227,600 | 0 |
| CLF Stock | 4.03% | 10,909,696 | 10,909,696 | 0 |
| Brokered CDs | 0.09% | 248,000 | 248,000 | 0 |
| Total Other | 4.21% | 11,385,296 | 11,385,296 | 0 |
| Total Investments | 100.00% | 270,694,629 | 270,986,269 | 291,639 |

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Statistical Changes In Financial Position

| | As of 09/30/20 | As of 09/30/19 |
|---------------------------------|-------------------|-----------------------------|
| * Operating Expense Ratio | 0.37% | 0.76% |
| * ROA | 0.24% | 0.51% |
| *Retained Earnings ratio | 2.03% | 3.33% |
| * Capital ratio | 4.60% | 8.29% |
| YTD Average Assets | 647,064,534 | 314,498,789 |
| Net Economic Value (NEV) | 09/30/20 | Reg 704 Min Requirements |
| + 300 BP Shock | | *** |
| Actual Dollar Change | 27,247,679 | 23,138,158 |
| % Change | -5.79% | |
| NEV Ratio | 4.37% | 2.00% |
| Base Level Dollar Amount | 28,922,698 | |
| Base Level NEV Ratio | 4.62% | |
| - 300 BP Shock | | |
| Actual Dollar Change | 28,922,698 | 23,138,158 |
| % Change | 0.00% | |
| NEV Ratio | 4.62% | 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.