

First Quarter 2021 Financial Review



We happily say goodbye to all the unforeseen circumstances and difficulties of 2020 and hello to a quiet first quarter of 2021. With interest rates staying at ultra-low levels since March 2020, our income has certainly been impacted yet we are able to respond and maintain a stable, positive bottom line and start to re-grow our capital ratios that were hard hit by the huge inflow of liquidity in 2020.

By the end of this quarter liquidity remains high for all financial institutions but we have taken steps to move much of this excess off of our balance sheet, reducing assets to be 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 quarter of 2021 is \$450,506 which is down 75.28% compared to 2020 when it was \$1,821,869. This was caused by the Feds reduction in rates in March 2020 as our volume of investments has actually increased.
- Dividends paid to member credit unions of \$43,866 was also down 95.51% compared to the first quarter last year (\$977,825).
- There was no interest on borrowed funds for either year.
- CUSO income for the first three months is \$52,376 which compares very favorably to last year's \$28,792. This is the result of members having more liquidity to invest.
- Higher liquidity has also improved our fee Income which is showing a 29.88% increase compared to last year at this time. Other Non-interest Income however decreased by 6.52%.
- The pandemic has understandably caused certain first quarter expenses like Education/Promotion and Travel to decrease while certain office related expenses have increased. Overall operating expenses show a decrease of -4.77% compared to the first quarter of 2020.

Balance Sheet Highlights

- Total Assets as of March 31, 2021 are \$481 million which is 2.21% 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 \$626.6 million at 03/31/21 is approximately 69.6% higher than the balance of \$369.5 million at 03/31/20. With the excessive inflow up liquidity, MDANA grew dramatically and hit its peak around January 2021 when it was \$629.3

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million. It has been slowly declining since then and we expect to see a continual reduction to more normal levels throughout the rest of this year.

- Net Fixed Assets at March 31 is 13.86% lower than it was one year ago. Currently the net book value of Furniture and Equipment is 41.41% 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 \$1,020,879 (9.19%) higher at March 31, 2021 than the balance one year ago which represents our unaudited net income for the 12 months ending March 31, 2021.
- The Unrealized Gain on our Available for Sale securities of \$454,586 compares very favorably to March 2020 when it was an Unrealized Loss of (\$2,652,920). The dramatic plunge in bond values in March 2020 was caused by news of the COVID pandemic and the Fed's reaction to this news of immediately lowering interest rates to near zero. As you can see the unrealized loss from a year ago has fully recovered and is now a gain.

Capital and Other Ratios Highlights

- Our Retained Earnings ratio shows a significant decrease in the past 12 months to 1.94% as of quarter end 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 March 31, 2021 was 4.29% compared to 7.07% at March 31, 2020. As with MDANA, we have seen very small improvement in the past 2 months and expect the improvement to continue going forward.
- The NEV ratio as of quarter-end is 6.13% 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 -10.66%. 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 55.65%. These ratios far exceed the regulatory minimum of 8%. The Weighted Average Life (WAL) of our balance sheet at March 31 is currently 1.23 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, 2021 and 2020 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) March 31, 2021 and 2020

	03/31/21	03/31/20	Change
<u>Assets</u>			
Loans to Members	21,731	0	-
Cash	183,430,314	255,723,398	-28.27%
Investments	286,244,887	224,864,600	27.30%
Accrued Interest	193,621	309,617	-37.46%
Net Fixed Assets	748,475	868,936	-13.86%
NCUSIF Deposit	210,350	218,162	-3.58%
CUSO Investments	2,099,321	1,868,953	12.33%
Other Assets	7,883,308	7,860,368	0.29%
Total Assets	480,832,006	491,714,033	-2.21%
<u>Liabilities</u>			
Members' Shares and Deposits			
Overnight Deposits	449,626,907	464,101,058	-3.12%
Borrowed Funds	0	0	-
Interest Payable	0	0	-
Accounts Payable	8,277	38,594	-78.55%
Accrued Expenses	92,752	68,752	34.91%
Other Liabilities	1,654,718	2,184,663	-24.26%
Total Liabilities	451,382,654	466,393,067	-3.22%
<u>Members' Equity</u>			
PCC	16,861,345	16,861,345	0.00%
Undivided Earnings	12,133,420	11,112,541	9.19%
Unrealized Gain/(Loss) AFS	454,586	(2,652,920)	-117.14%
Total Members' Equity	29,449,352	25,320,966	16.30%
Total Liabilities & Members' Equity	480,832,006	491,714,033	-2.21%

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Income Statement For the Three Months Ended March 31, 2021 and 2020

	03/31/21	03/31/20	Change
Interest Income from Loans	134	1,503	-91.06%
Interest and Dividend Income from Investments	450,372	1,821,869	-75.28%
Total Interest Income	450,506	1,823,372	-75.29%
Dividend Expense	43,866	977,825	-95.51%
Interest on Borrowed Money	0	0	-
Total Interest Expense	43,866	977,825	-95.51%
Net Interest Income	406,640	845,547	-51.91%
CUSO Equity Method Income	52,376	28,792	81.91%
Fee Income	290,118	223,372	29.88%
Other Operating Income	41,191	44,065	-6.52%
Gross Operating Margin before Operating Expenses	790,325	1,141,775	-30.78%
Operating Expenses:			
Salaries and Benefits	320,194	306,304	4.53%
Office Occupancy	22,324	21,641	3.16%
Office Operations	56,937	51,782	9.95%
Travel and Conference	3,059	21,497	-85.77%
Educational and Promotional	17,319	25,801	-32.88%
Professional and Outside Services	143,732	164,656	-12.71%
Other	36,715	38,667	-5.05%
Total Operating Expenses	600,279	630,349	-4.77%
Gain/(Loss) Investment Sales	0	0	-
Net Income Before Extraordinary Items	190,046	511,427	-62.84%
Extraordinary Items	0	0	-
Net Change to Undivided Earnings	190,046	511,427	-62.84%

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Portfolio Diversification by Investment Issuer 03/31/21

<u>Issuer</u>	<u>Percent</u>	<u>Amortized Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
SBA Pools	16.68%	47,656,568	47,387,469	(269,098)
Agency Debentures - Floating rate	14.17%	40,500,000	40,690,930	190,930
Agency Debentures - Fixed rate	1.05%	3,000,000	2,909,490	(90,510)
	31.90%	91,156,568	90,987,889	(168,679)
CMO/MBS - Floating Rate	13.04%	37,272,946	37,450,201	177,255
CMO/MBS - Fixed Rate	5.03%	14,370,606	14,265,328	(105,279)
CMBS - Floating Rate	19.46%	55,626,939	55,914,575	287,637
CMBS - Fixed Rate	1.22%	3,493,817	3,575,250	81,433
Total CMO's, MBS & CMBS	38.76%	110,764,307	111,205,354	441,047
FFELPs	1.64%	4,680,511	4,594,423	(86,089)
Variable Rate Credit Card ABS	19.42%	55,499,533	55,755,379	255,846
Fixed Rate Credit Card ABS	0.00%	0	0	0
Variable Rate Auto loan ABS	3.29%	9,403,672	9,414,350	10,678
Fixed Rate Auto Loan ABS	0.05%	139,727	139,818	91
Variable Rate Equipment loan ABS	1.23%	3,502,195	3,503,885	1,690
Total Asset-Backed Securities	25.62%	73,225,638	73,407,855	182,216
FHLB Stock	0.08%	227,600	227,600	0
CLF Stock	3.64%	10,416,189	10,416,189	0
Brokered CDs	0.00%	0	0	0
Total Other	3.72%	10,643,789	10,643,789	0
Total Investments	100.00%	285,790,302	286,244,887	454,584

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Statistical Changes In Financial Position

	As of 03/31/21	As of 03/31/20
* Operating Expense Ratio	0.51%	0.54%
* ROA	0.16%	0.44%
*Retained Earnings ratio	1.94%	3.01%
* Capital ratio	4.29%	7.07%
YTD Average Assets	475,402,830	469,240,544
Net Economic Value (NEV)	03/31/21	Reg 704 Min Requirements
+ 300 BP Shock		***
Actual Dollar Change	26,310,139	23,560,007
% Change	-10.66%	
NEV Ratio	5.51%	2.00%
Base Level Dollar Amount	29,450,009	
Base Level NEV Ratio	6.13%	
- 300 BP Shock		
Actual Dollar Change	29,450,009	23,560,007
% Change	0.00%	
NEV Ratio	6.13%	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.