

Second Quarter 2021 Financial Review



As the pandemic subsides and life returns to normal, Tricorp continues in its mission to provide members with the products and services that fit your needs. We are currently gearing up for the FedNow Service being developed by the Federal Reserve Bank which will provide a liquidity management tool to support instant payment services. This service is being designed to provide uninterrupted, real-time processing of transactions 24/7/365.

As our Moving Daily Average Net Assets (MDANA) continues to return to normal levels, so too are our retained earnings and capital ratios rebounding nicely. In addition to the changes to MDANA, our ratios have certainly been helped by the recovery of some of the 2009 US Central investment losses that were passed through to Tricorp and all our member credit unions in the past.

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 half of 2021 is \$876,721 which is down 65.32% compared to 2020 when it was \$2,527,723. This was caused by the Fed's reduction in rates in March 2020 as our volume of investments has actually increased.
- Dividends paid to member credit unions of \$88,539 was also down 91.65% compared to the first half of last year (\$1,060,465).
- There was no interest on borrowed funds for either year.
- CUSO income for the first six months is \$118,333 which compares favorably to last year's \$111,957. This is the result of members having more liquidity to invest.
- Higher liquidity has also improved our fee Income which is showing a 37.77% increase compared to last year at this time. Other Non-interest Income stayed relatively stable.
- The pandemic has understandably caused certain expenses like Education/Promotion and Travel to decrease while certain office related expenses have increased. The recent addition of a new employee has pushed Salaries and Benefits expense above last year by 6.26%. Overall operating expenses show a very slight decrease of -0.92% compared to the first half of 2020.
- As noted in the introductory paragraphs, we have started to receive refunds from the recovery of losses experienced in 2009 which were caused by the write down of investment values at US Central. This recovery has been shared with our current members who also experienced pass-through losses during that time. While future refunds are not guaranteed, at the present time we do foresee additional monies being distributed in the future.

Balance Sheet Highlights

- Total Assets as of June 30, 2021 are \$405 million which is 40.04% 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

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balance sheet trends. MDANA of \$546.2 million at 06/30/21 is approximately 13.7% higher than the balance of \$480.6 million at 06/30/20. With the excessive inflow up liquidity starting in March 2020, MDANA grew dramatically and hit its peak around January 2021 when it was \$629.3 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 June 30 is 13.42% lower than it was one year ago. Currently the net book value of Furniture and Equipment is 38.61% of its cost indicating that, on average, those assets have just under 40% of their estimated economic life remaining.
- The variance in Other Liabilities is fairly small this month but often shows large variances. This 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 \$2,948,578 (25.64%) higher at June 30, 2021 than the balance one year ago which represents our unaudited net income for the 12 months ending June 30, 2021. This includes our net recovery of the 2009 US Central losses of roughly \$2.1 million.
- The Unrealized Gain on our Available for Sale securities of \$1,871,471 compares very favorably to June 2021 when it was an Unrealized Loss of (\$325,495). 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. Those unrealized losses quickly rebounded by June 2020 and values continued to improve in the last 12 months.

Capital and Other Ratios Highlights

- Our Retained Earnings ratio shows an increase in the past 12 months from 2.39% to 2.65% as of quarter end. The Capital Ratio at June 30, 2021 was 5.73% compared to 5.90% at June 30, 2020. A year ago the ratios were in a downward trend caused by the huge influx of liquidity. Currently these ratios are rebounding rapidly due to the decrease in MDANA and recovery of 2009 losses.
- The NEV ratio as of quarter-end is 8.19% 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 -9.13%. 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 59.01%. These ratios far exceed the regulatory minimum of 8%. The Weighted Average Life (WAL) of our balance sheet at June 30 is currently 1.43 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, 2021 and 2020 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 2021 Financial Review

TRICORP FCU
Statement of Financial Position (Unaudited)
JUNE 30, 2021 and 2020

	06/30/21	06/30/20	Change
<u>Assets</u>			
Loans to Members	226,301	582,332	-61.14%
Cash	110,917,759	410,809,799	-73.00%
Investments	280,782,918	252,018,414	11.41%
Accrued Interest	188,759	173,773	8.62%
Net Fixed Assets	724,586	836,942	-13.42%
NCUSIF Deposit	213,306	215,959	-1.23%
CUSO Investments	2,165,278	1,952,118	10.92%
Other Assets	9,977,278	9,226,392	8.14%
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Total Assets	405,196,184	675,815,728	-40.04%
<u>Liabilities</u>			
Members' Shares and Deposits			
Overnight Deposits	367,923,032	643,973,164	-42.87%
Borrowed Funds	0	0	-
Interest Payable	0	0	-
Accounts Payable	7,731	9,151	-15.51%
Accrued Expenses	98,752	74,752	32.11%
Other Liabilities	3,987,151	3,724,686	7.05%
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Total Liabilities	372,016,666	647,781,753	-42.57%
<u>Members' Equity</u>			
PCC	16,861,345	16,861,345	0.00%
Undivided Earnings	14,446,702	11,498,125	25.64%
Unrealized Gain/(Loss) AFS	1,871,471	(325,495)	-674.96%
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Total Members' Equity	33,179,518	28,033,975	18.35%
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Total Liabilities & Members' Equity	405,196,184	675,815,728	-40.04%

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Income Statement For the Six Months Ended JUNE 30, 2021 and 2020

	06/30/21	06/30/20	Change
Interest Income from Loans	376	2,098	-82.07%
Interest and Dividend Income from Investments	876,721	2,527,723	-65.32%
Total Interest Income	877,097	2,529,821	-65.33%
Dividend Expense	88,539	1,060,465	-91.65%
Interest on Borrowed Money	0	0	-
Total Interest Expense	88,539	1,060,465	-91.65%
Net Interest Income	788,558	1,469,356	-46.33%
CUSO Equity Method Income	118,333	111,957	5.70%
Fee Income	621,012	450,746	37.77%
Other Operating Income	90,508	90,925	-0.46%
Gross Operating Margin before Operating Expenses	1,618,412	2,122,984	-23.77%
Operating Expenses:			
Salaries and Benefits	650,273	611,959	6.26%
Office Occupancy	44,678	41,684	7.18%
Office Operations	115,110	107,417	7.16%
Travel and Conference	11,030	28,243	-60.95%
Educational and Promotional	31,276	37,668	-16.97%
Professional and Outside Services	287,692	327,889	-12.26%
Other	74,590	71,114	4.89%
Total Operating Expenses	1,214,649	1,225,974	-0.92%
Gain/(Loss) Investment Sales	0	0	-
Recovery of 2009 US Central OTTI loss (Net)	2,099,565	0	-
Net Change to Undivided Earnings	2,503,328	897,010	179.07%

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Portfolio Diversification by Investment Issuer 06/30/21

<u>Issuer</u>	<u>Percent</u>	<u>Amortized Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
SBA Pools	16.18%	45,132,546	45,646,934	514,388
Agency Debentures - Floating rate	14.52%	40,500,000	41,130,748	630,748
Agency Debentures - Fixed rate	1.08%	3,000,000	2,951,160	(48,840)
Total U.S. Government Agency	31.78%	88,632,546	89,728,842	1,096,297
CMO/MBS - Floating Rate	12.35%	34,434,743	34,629,946	195,203
CMO/MBS - Fixed Rate	4.85%	13,516,797	13,515,284	(1,513)
CMBS - Floating Rate	23.54%	65,657,073	65,918,887	261,813
CMBS - Fixed Rate	1.25%	3,493,817	3,554,915	61,098
Total CMO's, MBS & CMBS	41.99%	117,102,430	117,619,032	516,601
FFELPs	1.61%	4,490,136	4,425,499	(64,637)
Variable Rate Credit Card ABS	18.46%	51,485,451	51,801,101	315,650
Fixed Rate Credit Card ABS	0.00%	0	0	0
Variable Rate Auto loan ABS	1.08%	3,002,801	3,009,990	7,189
Fixed Rate Auto Loan ABS	0.00%	0	0	0
Variable Rate Equipment loan ABS	1.25%	3,500,297	3,500,665	368
Total Asset-Backed Securities	22.40%	62,478,684	62,737,255	258,571
FHLB Stock	0.10%	281,600	281,600	0
CLF Stock	3.73%	10,416,189	10,416,189	0
Brokered CDs	0.00%	0	0	0
Total Other	3.84%	10,697,789	10,697,789	0
Total Investments	100.00%	278,911,449	280,782,918	1,871,469

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Statistical Changes In Financial Position

	As of 06/30/21	As of 06/30/20
* Operating Expense Ratio	0.53%	0.40%
* ROA	1.09%	0.29%
*Retained Earnings ratio	2.65%	2.39%
* Capital ratio	5.34%	5.49%
YTD Average Assets	457,364,123	615,222,514
Net Economic Value (NEV)	06/30/21	Reg 704 Min Requirements ***
+ 300 BP Shock		
Actual Dollar Change	30,138,969	26,533,792
% Change	-9.13%	
NEV Ratio	7.50%	2.00%
Base Level Dollar Amount	33,167,240	
Base Level NEV Ratio	8.19%	
- 300 BP Shock		
Actual Dollar Change	33,167,240	26,533,792
% Change	0.00%	
NEV Ratio	8.19%	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.