

# First Quarter 2022 Financial Review



As expected, the Fed's increase in interest rates on March 17<sup>th</sup> has already started to improve our bottom line. As rates continue to rise, we expect net income to get even better. As of March 31, 2022, combining this rate increase with ongoing US Central recoveries and normalized asset balances has resulted in the largest one-year increase in Retained Earnings and Capital Ratios that we have ever seen or expect to see in the future.

First quarter results, even without the US Central distribution, were slightly ahead of budget and that is expected to grow quickly as interest rates continue to rise in response to the inflationary economy. While higher interest rates do not please everyone, Tricorp's portfolio of primarily variable rate investments provide more income as rates increase giving us the opportunity to pass more through to our members in the form of higher share rates.

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 is \$426,605 which is down 5.28% compared to 2021 when it was \$450,372. The balances in our investment portfolio have been decreasing as we have found reinvesting paydowns to be a significant challenge. With the change in the economy, we are hopeful that this will change in the near future.
- Dividends paid to member credit unions of \$57,330 was up 30.69% compared to the same time period last year (\$43,866).
- There has been no interest on borrowed funds for either year.
- CUSO income for the first quarter is (\$1,826) which is significantly below the same timeframe last year \$52,376. As liquidity starts to ebb our CUSO partners are seeing less business.
- The combination of higher liquidity and the recent rate increase has also improved our fee Income even more which is showing a 25.98% increase compared to last year's first quarter. Other Non-interest Income also showed an increase of 11.67%.
- The pandemic continues to keep certain expenses like Education/Promotion and Travel at lower than normal levels. Overall our Year to date expenses are 8.03% higher this year compared to 2021.
- As noted in the introductory paragraphs, the recovery of losses experienced in 2009, which were caused by the write down of investment values at US Central, continues. This recovery has been shared with our current members so that everyone has recovered 76% of those losses to date. At this time, an eventual full recovery of all previous losses is expected.

## Balance Sheet Highlights

- Total Assets as of March 31, 2022 are \$389 million which is 19.05% lower than a year ago. This decrease was not only welcome but intentional. Since December 2020 we have purposely been moving assets off our Balance Sheet to be more in

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line with normal asset levels. 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 \$414 million at March 31 is approximately 33.9% lower than the balance of \$626.6 million at 03/31/21. With the excessive inflow of liquidity starting in March 2020, MDANA grew dramatically and hit its peak around January 2021 when it was \$629.3 million. By moving much of our excess liquidity to the Federal Reserve Bank's Excess Balance Accounts, MDANA has been slowly declining since January 2021 and we now feel like our MDANA has reached its new normal range.

- Net Fixed Assets at March 31 is 5.14% lower than it was one year ago. Currently the net book value of Furniture and Equipment is 27.67% of its cost indicating that, on average, those assets have just over a quarter of their estimated economic life remaining.
- The variance in Other Liabilities shows 31.4% growth compared to last year. 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 \$17,427,329 (143.63%) higher at March 31, 2022 than the balance one year ago which represents our unaudited net income for the year. This includes our net recovery of the 2009 US Central losses of roughly \$16.64 million.
- The Unrealized Gain (Loss) on our Available for Sale securities as of March 31 of (\$598,633) has dropped significantly in recent months and is well below 2021 when it was an Unrealized Gain of \$549,691. While increases in interest rates improves our income it also has a negative impact on our bond values.

## Capital and Other Ratios Highlights

- Our Retained Earnings ratio shows an increase in the past 12 months from 1.94% to 7.14% as of quarter end. The Capital Ratio at is 10.78% compared to 4.29% last year. A year ago the ratios were near the bottom of a downward trend caused by the huge influx of liquidity. Currently these ratios are much higher due to the intended decrease in MDANA and recovery of 2009 US Central pass-through losses.
- The NEV ratio as of year-end is 11.77% 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 -6.08% to 11.14%. 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 90.14%. These ratios far exceed the regulatory minimum of 8%. The Weighted Average Life (WAL) of our balance sheet at March 31 is currently 1.63 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, 2022 and 2021 to provide a more complete picture of our financial condition and the results of our operations. This internal data is unaudited.



## Tricorp Federal Credit Union – 1st Quarter 2022 Financial Review

**TRICORP FCU**  
**Statement of Financial Position (Unaudited)**  
**MARCH 31, 2022 and 2021**

	03/31/22	03/31/21	Change
<b><u>Assets</u></b>			
Loans to Members	5,084	21,731	-76.61%
Cash	119,602,607	183,430,314	-34.80%
Investments	255,891,240	286,244,887	-10.60%
Accrued Interest	192,457	193,621	-0.60%
Net Fixed Assets	710,037	748,475	-5.14%
NCUSIF Deposit	208,282	210,350	-0.98%
CUSO Investments	1,774,842	2,099,321	-15.46%
Other Assets	10,863,871	7,883,308	37.81%
<b>Total Assets</b>	<b>389,248,420</b>	<b>480,832,006</b>	<b>-19.05%</b>
<b><u>Liabilities</u></b>			
Members' Shares and Deposits			
Overnight Deposits	341,062,479	449,626,907	-24.15%
Borrowed Funds	0	0	-
Interest Payable	0	0	-
Accounts Payable	88,694	8,277	971.52%
Accrued Expenses	99,045	92,752	6.79%
Other Liabilities	2,174,740	1,654,718	31.43%
<b>Total Liabilities</b>	<b>343,424,958</b>	<b>451,382,654</b>	<b>-23.92%</b>
<b><u>Members' Equity</u></b>			
PCC	16,861,345	16,861,345	0.00%
Undivided Earnings	29,560,749	12,133,420	143.63%
Unrealized Gain/(Loss) AFS	(598,633)	454,586	-231.69%
<b>Total Members' Equity</b>	<b>45,823,462</b>	<b>29,449,352</b>	<b>55.60%</b>
<b>Total Liabilities &amp; Members' Equity</b>	<b>389,248,420</b>	<b>480,832,006</b>	<b>-19.05%</b>

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### Income Statement For the Three Months Ended MARCH 31, 2022 and 2021

	03/31/22	03/31/21	Change
Interest Income from Loans	125	134	-6.83%
Interest and Dividend Income from Investments	426,605	450,372	-5.28%
<b>Total Interest Income</b>	<b>426,731</b>	<b>450,506</b>	<b>-5.28%</b>
Dividend Expense	57,330	43,866	30.69%
Interest on Borrowed Money	0	0	-
<b>Total Interest Expense</b>	<b>57,330</b>	<b>43,866</b>	<b>30.69%</b>
Net Interest Income	369,400	406,640	-9.16%
CUSO Equity Method Income	(1,826)	52,376	-103.49%
Fee Income	365,492	290,118	25.98%
Other Operating Income	45,987	41,191	11.64%
<b>Gross Operating Margin before Operating Expenses</b>	<b>779,054</b>	<b>790,325</b>	<b>-1.43%</b>
Operating Expenses:			
Salaries and Benefits	357,562	320,194	11.67%
Office Occupancy	22,187	22,324	-0.61%
Office Operations	55,213	56,937	-3.03%
Travel and Conference	3,755	3,059	22.78%
Educational and Promotional	14,510	17,319	-16.22%
Professional and Outside Services	161,024	143,732	12.03%
Other	34,236	36,715	-6.75%
<b>Total Operating Expenses</b>	<b>648,486</b>	<b>600,279</b>	<b>8.03%</b>
Gain/(Loss) Investment Sales	0	0	-
Recovery of 2009 US Central OTTI loss (Net)	4,670,864	0	-
<b>Net Change to Undivided Earnings</b>	<b>4,801,431</b>	<b>190,046</b>	<b>2426.45%</b>

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### Portfolio Diversification by Investment Issuer

03/31/22

<u>Issuer</u>	<u>Percent</u>	<u>Amortized Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
SBA Pools	15.62%	40,056,582	40,379,386	322,804
Agency Debentures - Floating rate	21.64%	55,500,000	55,864,926	364,926
Agency Debentures - Fixed rate	1.17%	3,000,000	2,761,890	(238,110)
<b>Total U.S. Government Agency</b>	<b>38.43%</b>	<b>98,556,582</b>	<b>99,006,202</b>	<b>449,620</b>
CMO/MBS - Floating Rate	10.77%	27,622,318	27,627,633	5,315
CMO/MBS - Fixed Rate	4.89%	12,545,894	11,682,537	(863,357)
CMBS - Floating Rate	28.29%	72,572,296	72,398,256	(174,041)
CMBS - Fixed Rate	0.59%	1,508,561	1,512,243	3,682
<b>Total CMO's, MBS &amp; CMBS</b>	<b>44.54%</b>	<b>114,249,068</b>	<b>113,220,668</b>	<b>(1,028,400)</b>
FFELPs	1.58%	4,054,027	3,962,919	(91,108)
Variable Rate Credit Card ABS	9.79%	25,113,046	25,202,448	89,402
Fixed Rate Credit Card ABS	0.00%	0	0	0
Variable Rate Auto loan ABS	0.00%	0	0	0
Fixed Rate Auto Loan ABS	1.49%	3,819,360	3,801,213	(18,147)
Variable Rate Equipment loan ABS	0.00%	0	0	0
<b>Total Asset-Backed Securities</b>	<b>12.86%</b>	<b>32,986,433</b>	<b>32,966,581</b>	<b>(19,852)</b>
FHLB Stock	0.11%	281,600	281,600	0
CLF Stock	4.06%	10,416,189	10,416,189	0
Brokered CDs	0.00%	0	0	0
<b>Total Other</b>	<b>4.17%</b>	<b>10,697,789</b>	<b>10,697,789</b>	<b>0</b>
<b>Total Investments</b>	<b>100.00%</b>	<b>256,489,872</b>	<b>255,891,240</b>	<b>(598,633)</b>

# Tricorp Federal Credit Union – 1st Quarter 2022 Financial Review

## Statistical Changes In Financial Position

	As of 03/31/22	As of 03/31/21
* Operating Expense Ratio	<b>0.66%</b>	0.51%
* ROA	<b>4.90%</b>	0.16%
*Retained Earnings ratio	<b>7.14%</b>	1.94%
* Capital ratio	<b>10.78%</b>	4.29%
YTD Average Assets	<b>391,776,920</b>	475,402,830
Net Economic Value (NEV)	<b>03/31/22</b>	Reg 704 Min Requirements
+ 300 BP Shock		***
Actual Dollar Change	<b>43,039,670</b>	36,659,166
% Change	<b>-6.08%</b>	
NEV Ratio	<b>11.14%</b>	2.00%
<b>Base Level Dollar Amount</b>	<b>45,823,957</b>	
<b>Base Level NEV Ratio</b>	<b>11.77%</b>	
- 300 BP Shock		
Actual Dollar Change	<b>45,823,957</b>	36,659,166
% Change	<b>0.00%</b>	
NEV Ratio	<b>11.77%</b>	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.