

# Third Quarter 2022 Financial Review



With large amounts of cash and variable rate investments, Tricorp's balance sheet is, on average, about 90% variable rate. As interest rates continue to climb in response to high inflation, so too does our variable rate income. While we are not immune to inflation, we have a greater ability to control our bottom-line net income as rates fluctuate.

Through September 30, even without the US Central distributions, our net income continues to be ahead of budget and that favorable variance is expected to remain as interest rates continue to rise in response to the inflationary economy.

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 through September 30 is \$9,236,544 which is down 26.31% compared to 2021 when it was \$12,533,963. Ignoring the unusual income from US Central recoveries, our 2022 net income through September 30 is \$1,086,309, which is up 92.53% from 2021 when it was \$564,232. This increase is primarily due to interest rate increases.
- Dividends paid to member credit unions of \$914,221 was up 513.96% compared to the same time period last year (\$148,905), also due to rising interest rates.
- We had borrowing interest expense of \$11,421 this year compared to no borrowing last year.
- CUSO income for the first 9 months of the year is a loss of (\$34,807) which is significantly below last year's income of \$125,791. As the high liquidity continues 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 7.49% increase compared to last year. Other Non-interest Income also showed an increase of 7.19%. More recently, fee income has declined somewhat as liquidity is shrinking.
- We finally see a return to normal with expenses like Education/Promotion and Travel as the COVID pandemic subsides. Overall, our year-to-date Total Operating Expenses are 8.02% higher this year compared to 2021.
- 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 100% of those losses as of the last distribution in September. We do expect some additional recoveries in 2023 to bring Tricorp up to 100% as well. Tricorp is currently at 92.5% recovery.

## Balance Sheet Highlights

- Total Assets as of September 30, 2022 are \$357 million which is 15.28% 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 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 \$361 million at September 30 is approximately 23.9% lower than the balance of \$475 million at 09/30/21. With the excessive inflow of liquidity starting in

# Third Quarter 2022 Financial Review



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 on September 30 is 1.60% lower than it was one year ago. Currently the net book value of Furniture and Equipment is 24.58% of its cost indicating that, on average, those assets have just under one quarter of their estimated economic life remaining.
- The variance in Other Assets shows \$14.7 million of growth compared to last year which is offset largely by growth in Other Liabilities which also shows \$11.6 million of growth compared to last year. This is due primarily to net ACH future dated transactions which affect both sides of the Balance Sheet. The balance in these accounts are normally very volatile and were somewhat larger than normal this month.
- Undivided Earnings are \$9,518,525 or 38.89% higher at September 30, 2022 than the balance one year ago which represents our unaudited net income for the year. This includes approximately \$8.15 million of the 2009 US Central recoveries that we have received since September 30, 2021.
- The Unrealized Gain (Loss) on our Available for Sale securities as of September 30 of (\$3,490,845) has dropped significantly in recent months and is well below 2021 when it was an Unrealized Gain of \$2,003,093. 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 5.15% to 9.41% as of September 30, 2022. The Capital Ratio at is 13.59% compared to 8.25% last year. A year ago, the ratios were significantly improved caused by the removal of excess liquidity from our balance sheet. Currently these ratios are even higher due to the intended decrease in MDANA and the additional recoveries of 2009 US Central pass-through losses.
- The NEV ratio as of 09-30-2022 is 13.27% 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 -5.17% to 12.67%. 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 99.62%. These ratios far exceed the regulatory minimum of 8%. The Weighted Average Life (WAL) of our balance sheet at September 30 is currently 1.66 years which is 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, 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 – 3rd Quarter 2022 Financial Review

**TRICORP FCU**  
**Statement of Financial Position (Unaudited)**  
**SEPTEMBER 30, 2022 and 2021**

	09/30/22	09/30/21	Change
<b><u>Assets</u></b>			
Loans to Members	11,615,601	495,975	2241.97%
Cash	73,382,436	133,791,578	-45.15%
Investments	244,310,832	274,076,748	-10.86%
Accrued Interest	520,266	170,149	205.77%
Net Fixed Assets	682,221	693,321	-1.60%
NCUSIF Deposit	207,613	213,306	-2.67%
CUSO Investments	1,741,861	2,172,736	-19.83%
Other Assets	24,718,670	9,975,368	147.80%
<b>Total Assets</b>	<b>357,179,499</b>	<b>421,589,181</b>	<b>-15.28%</b>
<b><u>Liabilities</u></b>			
Members' Shares and Deposits			
Overnight Deposits	294,260,404	374,397,862	-21.40%
Borrowed Funds	0	0	-
Interest Payable	0	0	-
Accounts Payable	80,818	8,638	835.61%
Accrued Expenses	99,828	96,381	3.58%
Other Liabilities	15,372,087	3,744,525	310.52%
<b>Total Liabilities</b>	<b>309,813,137</b>	<b>378,247,406</b>	<b>-18.09%</b>
<b><u>Members' Equity</u></b>			
PCC	16,861,345	16,861,345	0.00%
Undivided Earnings	33,995,862	24,477,337	38.89%
Unrealized Gain/(Loss) AFS	(3,490,845)	2,003,093	-274.27%
<b>Total Members' Equity</b>	<b>47,366,362</b>	<b>43,341,775</b>	<b>9.29%</b>
<b>Total Liabilities &amp; Members' Equity</b>	<b>357,179,499</b>	<b>421,589,181</b>	<b>-15.28%</b>

## Tricorp Federal Credit Union – 3rd Quarter 2022 Financial Review

**TRICORP FCU**  
**Income Statement (Unaudited)**  
**For the Nine Months Ended SEPTEMBER 30, 2022 and 2021**

	09/30/22	09/30/21	Change
Interest Income from Loans	42,725	2,190	1851.05%
Interest and Dividend Income from Investments	2,792,212	1,308,985	113.31%
<b>Total Interest Income</b>	<b>2,834,937</b>	<b>1,311,175</b>	<b>116.21%</b>
Dividend Expense	914,221	148,905	513.96%
Interest on Borrowed Money	11,421	0	38069966.67%
<b>Total Interest Expense</b>	<b>925,642</b>	<b>148,905</b>	<b>521.63%</b>
Net Interest Income	1,909,294	1,162,270	64.27%
CUSO Equity Method Income	(34,807)	125,791	-127.67%
Fee Income	1,051,847	978,563	7.49%
Other Operating Income	147,268	137,392	7.19%
<b>Gross Operating Margin before Operating Expenses</b>	<b>3,073,602</b>	<b>2,404,016</b>	<b>27.85%</b>
Operating Expenses:			
Salaries and Benefits	1,070,498	986,495	8.52%
Office Occupancy	73,135	66,630	9.76%
Office Operations	163,885	172,002	-4.72%
Travel and Conference	34,591	21,638	59.86%
Educational and Promotional	51,913	48,029	8.09%
Professional and Outside Services	487,210	436,096	11.72%
Other	106,060	108,892	-2.60%
<b>Total Operating Expenses</b>	<b>1,987,293</b>	<b>1,839,784</b>	<b>8.02%</b>
Gain/(Loss) Investment Sales	0	0	-
Recovery of 2009 US Central OTTI loss (Net)	8,150,235	11,969,731	-31.91%
<b>Net Change to Undivided Earnings</b>	<b>9,236,544</b>	<b>12,533,963</b>	<b>-26.31%</b>

# Tricorp Federal Credit Union – 3rd Quarter 2022 Financial Review

## TRICORP FCU Portfolio Diversification by Investment Issuer (Unaudited) 09/30/22

<u>Issuer</u>	<u>Percent</u>	<u>Amortized Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
SBA Pools	16.87%	41,795,398	41,747,208	(48,191)
Agency Debentures - Floating rate	21.59%	53,500,000	53,756,620	256,620
Agency Debentures - Fixed rate	1.21%	3,000,000	2,588,130	(411,870)
Total U.S. Government Agency	39.67%	98,295,398	98,091,958	(203,440)
CMO/MBS - Floating Rate	9.70%	24,037,026	23,803,343	(233,683)
CMO/MBS - Fixed Rate	4.56%	11,312,136	9,541,416	(1,770,720)
CMBS - Floating Rate	26.61%	65,932,265	64,991,634	(940,631)
CMBS - Fixed Rate	2.00%	4,962,702	4,941,750	(20,952)
Total CMO's, MBS & CMBS	42.87%	106,244,128	103,278,143	(2,965,986)
FFELPs	1.49%	3,683,641	3,558,271	(125,370)
Variable Rate Credit Card ABS	8.92%	22,101,549	22,057,020	(44,529)
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	2.76%	6,831,572	6,680,051	(151,520)
Variable Rate Equipment loan ABS	0.00%	0	0	0
Total Asset-Backed Securities	13.16%	32,616,762	32,295,342	(321,419)
FHLB Stock	0.09%	229,200	229,200	0
CLF Stock	4.20%	10,416,189	10,416,189	0
Brokered CDs	0.00%	0	0	0
Total Other	4.30%	10,645,389	10,645,389	0
Total Investments	100.00%	247,801,677	244,310,832	(3,490,845)

# Tricorp Federal Credit Union – 3rd Quarter 2022 Financial Review

## TRICORP FCU Key Ratios and Other Information (Unaudited)

	As of 09/30/22	As of 09/30/21
* Operating Expense Ratio	<b>0.76%</b>	0.55%
* ROA	<b>3.53%</b>	3.74%
*Retained Earnings ratio	<b>9.41%</b>	5.15%
* Capital ratio	<b>13.59%</b>	8.25%
YTD Average Assets	<b>348,532,727</b>	446,814,012
Net Economic Value (NEV)	<b>09/30/22</b>	Reg 704 Min Requirements
+ 300 BP Shock		***
Actual Dollar Change	<b>44,930,478</b>	37,903,804
% Change	<b>-5.17%</b>	
NEV Ratio	<b>12.67%</b>	2.00%
<b>Base Level Dollar Amount</b>	<b>47,379,755</b>	
<b>Base Level NEV Ratio</b>	<b>13.27%</b>	
- 300 BP Shock		
Actual Dollar Change	<b>48,997,587</b>	37,903,804
% Change	<b>3.42%</b>	
NEV Ratio	<b>13.66%</b>	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.