

Fourth Quarter 2022 Financial Review



Even without considering this year's US Central recovery distributions, 2022 has been an outstanding year for Tricorp. With our balance sheet being over 90% variable rate, net income has far exceeded budget due to the unexpected rapid rise in interest rates pushing our income way up.

Then we add to this already outstanding year the additional \$8.15 million in US Central distributions and we have one of the best years in Tricorp's history, second only to last year when our US Central recovery was just short of \$12 million.

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 2022 is \$5,362,548 which is up 211.04% compared to 2021 when it was \$1,724,064. This increase is primarily due to rapid interest rate increases.
- Dividends paid to member credit unions of \$2,426,776 was up 1,084.6% compared to last year's \$204,860, also due to rising interest rates.
- We had borrowing interest expense of \$79,226 this year compared to no borrowing last year. The rapid tightening of liquidity in the Credit Union system has again brought on the need to borrow at times.
- CUSO income for the year is a loss of (\$77,942) which is significantly below last year's income of \$149,723. As high liquidity balances drain, our CUSO partners are seeing less business, negatively impacting their bottom lines.
- As liquidity drains, the Fee Income we derive from those off-balance sheet amounts also shrinks. Fee Income, now shows a (1.29%) decrease compared to last year. Other Non-interest Income however increased by 6.70%. We expect Fee Income to continue to decline in 2023 which is offset nicely by the increase in interest earnings.
- We have certainly seen a return to normal with expenses like Education/Promotion and Travel with the easing of COVID related restrictions. Overall, our year-to-date Total Operating Expenses are 14.11% 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 all of our members 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. Net recoveries for 2022 were \$8,150,235

Balance Sheet Highlights

- Total Assets as of December 31, 2022 are \$336 million which is 24.43% lower than in 2021. 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 \$335 million at December 31 is approximately 23.1% lower than the balance of \$435 million at 12/31/2021. 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

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now feel like our MDANA has reached its new normal range.

- Net Fixed Assets on December 31 is 6.40% lower than it was one year ago. Currently the net book value of Furniture and Equipment is 21.45% of its cost indicating that, on average, those assets have just over one fifth of their estimated economic life remaining.
- The variance in Other Assets shows \$13.6 million of growth compared to last year which is offset largely by growth in Other Liabilities which also shows \$12.6 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 balances in these accounts are normally very volatile and were somewhat larger than normal this month.
- Undivided Earnings are \$9,900,433 or 39.99% higher at year end 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 December 31, 2021.
- The Unrealized Gain (Loss) on our Available for Sale securities as of December 31 of (\$4,233,499) has dropped significantly in 2022 and is well below 2021 when it was an Unrealized Gain of \$1,380,186. 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 5.69% to 10.36% as of December 31, 2022. The Capital Ratio at is 14.89% compared to 9.06% last year. A year ago the ratios were significantly improved caused by the huge influx of liquidity. Currently these ratios are even higher due to the intended decrease in MDANA and the additional recoveries of 2009 US Central pass-through losses adding to our retained earnings.
- The NEV ratio as of 12-31-2022 is 14.16% 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 -4.98% to 13.55%. 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 101.24%. These ratios far exceed the regulatory minimum of 8%. The Weighted Average Life (WAL) of our balance sheet at December 31 is currently 1.70 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 years ended December 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 – 4th Quarter 2022 Financial Review

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

	12/31/22	12/31/21	Change
<u>Assets</u>			
Loans to Members	3,940,120	0	-
Cash	75,129,071	149,555,595	-49.77%
Investments	229,162,810	281,070,381	-18.47%
Accrued Interest	779,839	155,734	400.75%
Net Fixed Assets	620,912	663,400	-6.40%
NCUSIF Deposit	205,624	208,282	-1.28%
CUSO Investments	1,698,726	2,196,668	-22.67%
Other Assets	24,747,077	11,138,384	122.18%
Total Assets	336,284,179	444,988,444	-24.43%
<u>Liabilities</u>			
Members' Shares and Deposits	272,081,451	397,773,672	-31.60%
Borrowed Funds	0	0	-
Interest Payable	0	0	-
Accounts Payable	85,726	28,138	204.66%
Accrued Expenses	102,493	96,381	6.34%
Other Liabilities	16,726,914	4,089,404	309.03%
Total Liabilities	288,996,582	401,987,596	-28.11%
<u>Members' Equity</u>			
PCC	16,861,345	16,861,345	0.00%
Undivided Earnings	34,659,751	24,759,318	39.99%
Unrealized Gain/(Loss) AFS	(4,233,499)	1,380,186	-406.73%
Total Members' Equity	47,287,597	43,000,849	9.97%
Total Liabilities & Members' Equity	336,284,179	444,988,444	-24.43%

Tricorp Federal Credit Union - 4th Quarter 2022 Financial Review

TRICORP FCU Income Statement (Unaudited) For the Years Ended DECEMBER 31, 2022 and 2021

	12/31/22	12/31/21	Change
Interest Income from Loans	133,066	2,886	4511.06%
Interest and Dividend Income from Investments	5,362,548	1,724,064	211.04%
Total Interest Income	5,495,614	1,726,949	218.23%
Dividend Expense	2,426,776	204,860	1084.60%
Interest on Borrowed Money	79,226	0	-
Total Interest Expense	2,506,002	204,860	1123.27%
Net Interest Income	2,989,612	1,522,089	96.42%
CUSO Equity Method Income	(77,942)	149,723	-152.06%
Fee Income	1,319,288	1,336,472	-1.29%
Other Operating Income	196,274	183,946	6.70%
Gross Operating Margin before Operating Expenses	4,427,232	3,192,231	38.69%
Operating Expenses:			
Salaries and Benefits	1,459,550	1,191,039	22.54%
Office Occupancy	104,454	91,431	14.24%
Office Operations	219,088	226,181	-3.14%
Travel and Conference	44,355	31,306	41.68%
Educational and Promotional	62,302	59,823	4.14%
Professional and Outside Services	647,487	594,300	8.95%
Other	139,798	151,937	-7.99%
Total Operating Expenses	2,677,034	2,346,018	14.11%
Gain/(Loss) Investment Sales	0	0	-
Recovery of 2009 US Central OTTI loss (Net)	8,150,235	11,969,731	-31.91%
Net Change to Undivided Earnings	9,900,433	12,815,944	-22.75%

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TRICORP FCU Portfolio Diversification by Investment Issuer (Unaudited) 12/31/22

<u>Issuer</u>	<u>Percent</u>	<u>Amortized Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
SBA Pools	16.86%	39,354,265	39,239,698	(114,567)
Agency Debentures - Floating rate	25.02%	58,405,933	58,483,744	77,810
Agency Debentures - Fixed rate	1.29%	3,000,000	2,617,140	(382,860)
Total U.S. Government Agency	43.17%	100,760,198	100,340,581	(419,617)
CMO/MBS - Floating Rate	9.79%	22,856,011	22,497,923	(358,088)
CMO/MBS - Fixed Rate	4.66%	10,876,727	9,132,982	(1,743,744)
CMBS - Floating Rate	25.95%	60,562,353	59,208,810	(1,353,543)
CMBS - Fixed Rate	2.13%	4,970,717	4,924,650	(46,067)
Total CMO's, MBS & CMBS	42.53%	99,265,807	95,764,365	(3,501,442)
FFELPs	1.45%	3,388,350	3,259,557	(128,793)
Variable Rate Credit Card ABS	9.47%	22,096,695	22,053,425	(43,271)
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	2.92%	6,821,758	6,681,382	(140,377)
Variable Rate Equipment loan ABS	0.00%	0	0	0
Total Asset-Backed Securities	13.84%	32,306,804	31,994,363	(312,441)
FHLB Stock	0.46%	1,063,500	1,063,500	0
Brokered CDs	0.00%	0	0	0
Total Other	0.46%	1,063,500	1,063,500	0
Total Investments	100.00%	233,396,309	229,162,810	(4,233,499)

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TRICORP FCU Key Ratios and Other Information (Unaudited)

	As of 12/31/22	As of 12/31/21
* Operating Expense Ratio	0.80%	0.54%
* ROA	2.96%	2.95%
* Retained Earnings ratio	10.36%	5.69%
* Capital ratio	14.89%	9.06%
YTD Average Assets	334,643,774	435,163,213
Net Economic Value (NEV)	12/31/22	Reg 704 Min Requirements
+ 300 BP Shock		***
Actual Dollar Change	45,308,571	38,147,786
% Change	-4.98%	
NEV Ratio	13.55%	2.00%
Base Level Dollar Amount	47,684,732	
Base Level NEV Ratio	14.16%	
- 300 BP Shock		
Actual Dollar Change	50,606,483	38,147,786
% Change	6.13%	
NEV Ratio	14.90%	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.