

Second Quarter 2023 Financial Review



Tricorp continues to ride the wave of elevated interest rates giving us significantly higher gross income in the first six months of this year compared to last year. In addition to higher interest rates, we have seen a continued decline in liquidity resulting in a return to short-term borrowing for us and for our members. Short term borrowing is a normal part of our business to smooth out the ebbs and flows of liquidity without having to disrupt our investment strategy. Similar to what we saw in the first quarterly report of 2023, you will see some large year over year variances in the attached financial statements caused by these two important factors of higher rates and reduced liquidity.

Happily, for Tricorp, the rates have gone in an upward direction for the past year which means improved income. 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 2023 was \$6,916,358 which is up 488.81% compared to the same period in 2022 when it was \$1,174,627. This increase is primarily due to the ongoing rapid interest rate increases.
- Dividends paid to member credit unions of \$4,784,486 was up 1,689.16% compared to last year's \$267,415, also due to rising interest rates.
- We had borrowing interest expense of \$73,923 in the first half of the year compared to only \$3,389 in the first half of last year.
- CUSO income for the first six months is a loss of (\$52,494) which is below last year's income of \$1,821. As high liquidity balances drain, our CUSO partners are seeing less business, negatively impacting their bottom lines.
- With our members having less liquidity, the Fee Income we derive from those off-balance sheet amounts also shrinks. Fee Income now shows a (28.34%) decrease compared to last year. Other Non-interest Income however increased by 1.04%.
- Overall, our first six months Total Operating Expenses are 7.00% higher this year compared to 2022. This difference is partially due to the timing of some large annual conference expenses that were recorded earlier in 2023 than in 2022. Also, we have experienced a higher-than-expected increase in our health insurance benefit expense.
- The recovery of losses experienced in 2009, which were caused by the write down of investment values at US Central, continues. Tricorp has now recovered 100% of the retained earnings that was lost in 2009, and we have started to recover some of our Paid in Capital investment as well. This combined recovery in the first half of 2023 was \$2,402,802. Some additional recovery of Paid in Capital is still expected later this year.

Balance Sheet Highlights

- Total Assets as of June 30, 2023 are \$381 million which is 16.84% higher than in 2022. Since December 2020 we have purposely been moving excess liquidity assets off our Balance Sheet to be more in line with normal asset levels. Due to



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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 \$303 million at June 30 is approximately 22% lower than the balance of \$389 million at 06/30/2022. We now feel like our MDANA has reached its new normal range.

- Net Fixed Assets on June 30 is 9.66% lower than it was one year ago. Currently all our office furniture and fixtures are fully depreciated while our technology equipment's book value is at 16.31% of cost.
- The variance in Other Assets shows \$12.9 million of growth compared to last year at this time which is offset largely by growth in Other Liabilities which also shows \$11.0 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 \$8,554,300 or 28.65% higher at 06/30/2023 than the balance one year ago which represents our unaudited net income for the last 12 months. This 12 month income amount includes approximately \$5.88 million of the 2009 US Central recoveries that we have received since June 30, 2022.
- The Unrealized Loss on our Available for Sale securities as of June 30 of (\$3,378,948) is well below June 2022 when it was (\$1,445,537). 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 7.14% to 12.01% as of June 30, 2023. The Capital Ratio at is 17.72% compared to 11.55% last June. A year ago the ratios were significantly improved by removing excess liquidity assets from our books. 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 06-30-2023 is 13.62% 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 -4.25% to 13.12%. 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 110.39%. These ratios far exceed the regulatory minimum of 8%. The Weighted Average Life (WAL) of our balance sheet at June 30 is currently 1.38 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 six months ended June 30, 2023 and 2022 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 – 2nd Quarter 2023 Financial Review

TRICORP FCU
Statement of Financial Position (Unaudited)
June 30, 2023 and 2022

	06/30/23	06/30/22	Change
<u>Assets</u>			
Loans to Members	1,614,134	20,271	7862.86%
Cash	128,341,856	52,365,369	145.09%
Investments	223,260,968	259,329,644	-13.91%
Accrued Interest	964,631	258,683	272.90%
Net Fixed Assets	634,279	702,072	-9.66%
NCUSIF Deposit	187,652	202,476	-7.32%
CUSO Investments	1,646,232	1,778,489	-7.44%
Other Assets	24,428,342	11,494,017	112.53%
Total Assets	381,078,093	326,151,020	16.84%
<u>Liabilities</u>			
Members' Shares and Deposits			
Overnight Deposits	313,516,615	276,247,383	13.49%
Borrowed Funds	0	0	-
Interest Payable	0	6	-100.00%
Accounts Payable	80,284	83,573	-3.94%
Accrued Expenses	99,789	101,710	-1.89%
Other Liabilities	15,486,482	4,444,313	248.46%
Total Liabilities	329,183,170	280,876,984	17.20%
<u>Members' Equity</u>			
PCC	16,861,345	16,861,345	0.00%
Undivided Earnings	38,412,527	29,858,227	28.65%
Unrealized Gain/(Loss) AFS	(3,378,948)	(1,445,537)	-133.75%
Total Members' Equity	51,894,924	45,274,035	14.62%
Total Liabilities & Members' Equity	381,078,093	326,151,020	16.84%

Tricorp Federal Credit Union – 2nd Quarter 2023 Financial Review

TRICORP FCU
Income Statement (Unaudited)
For the Six Months Ended June 30, 2023 and 2022

	06/30/23	06/30/22	Change
Interest Income from Loans	134,511	10,993	1123.64%
Interest and Dividend Income from Investments	6,916,358	1,174,627	488.81%
Total Interest Income	7,050,869	1,185,620	494.70%
Dividend Expense	4,784,486	267,415	1689.16%
Interest on Borrowed Money	73,923	3,389	2081.19%
Total Interest Expense	4,858,409	270,804	1694.07%
Net Interest Income	2,192,460	914,816	139.66%
CUSO Equity Method Income	(52,494)	1,821	-2982.70%
Fee Income	529,630	739,133	-28.34%
Other Operating Income	101,078	100,036	1.04%
Gross Operating Margin before Operating Expenses	2,770,674	1,755,806	57.80%
Operating Expenses:			
Salaries and Benefits	759,046	711,569	6.67%
Office Occupancy	48,222	48,704	-0.99%
Office Operations	103,323	110,975	-6.90%
Travel and Conference	40,422	20,730	94.99%
Educational and Promotional	65,946	37,812	74.41%
Professional and Outside Services	338,049	326,238	3.62%
Other	65,692	71,734	-8.42%
Total Operating Expenses	1,420,700	1,327,761	7.00%
Gain/(Loss) Investment Sales	0	0	-
Recovery of 2009 US Central OTTI loss (Net)	2,402,802	4,670,864	-48.56%
Net Change to Undivided Earnings	3,752,776	5,098,909	-26.40%

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TRICORP FCU Portfolio Diversification by Investment Issuer (Unaudited) 03/31/23

<u>Issuer</u>	<u>Percent</u>	<u>Amortized Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
SBA Pools	16.56%	37,665,212	37,525,769	(139,443)
Agency Debentures - Floating rate	25.68%	58,408,576	58,539,951	131,375
Agency Debentures - Fixed rate	1.32%	3,000,000	2,652,930	(347,070)
Total U.S. Government Agency	43.56%	99,073,788	98,718,650	(355,139)
CMO/MBS - Floating Rate	9.58%	21,795,981	21,512,838	(283,143)
CMO/MBS - Fixed Rate	4.63%	10,534,323	8,968,654	(1,565,670)
CMBS - Floating Rate	25.43%	57,850,398	57,295,189	(555,209)
CMBS - Fixed Rate	2.19%	4,977,281	4,934,900	(42,381)
Total CMO's, MBS & CMBS	41.84%	95,157,984	92,711,581	(2,446,403)
FFELPs	1.39%	3,170,031	3,065,255	(104,776)
Variable Rate Credit Card ABS	9.71%	22,091,865	22,064,658	(27,207)
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	3.40%	7,731,714	7,623,988	(107,725)
Variable Rate Equipment loan ABS	0.00%	0	0	0
Total Asset-Backed Securities	14.51%	32,993,610	32,753,902	(239,708)
FHLB Stock	0.10%	229,200	229,200	0
Brokered CDs	0.00%	0	0	0
Total Other	0.10%	229,200	229,200	0
Total Investments	100.00%	227,454,582	224,413,332	(3,041,250)

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TRICORP FCU Key Ratios and Other Information (Unaudited)

	As of 06/30/23	As of 06/30/22
* Operating Expense Ratio	0.94%	0.73%
* ROA	2.49%	2.79%
*Retained Earnings ratio	12.69%	7.67%
* Capital ratio	17.72%	11.55%
YTD Average Assets	301,639,864	365,521,270
Net Economic Value (NEV)	06/30/23	Reg 704 Min Requirements
+ 300 BP Shock		***
Actual Dollar Change	49,702,634	41,525,286
% Change	-4.25%	
NEV Ratio	13.12%	2.00%
Base Level Dollar Amount	51,906,608	
Base Level NEV Ratio	13.62%	
- 300 BP Shock		
Actual Dollar Change	54,032,794	41,525,286
% Change	4.10%	
NEV Ratio	14.10%	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.