

Third Quarter 2023 Financial Review



In the midst of our long-term return to more normal levels of liquidity, Tricorp has experienced an unexpected bump in liquidity in this current quarter. This bump significantly reduces our need to borrow as expected during this time of the year when liquidity is typically lower. 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. Not having to borrow as much is an unexpected cost savings. Similar to what we saw in the first two quarterly reports of 2023, you will see some large year over year variances in the attached financial statements caused by higher interest rates in the past 12 months and overall declines in liquidity in spite of this current quarter.

The rise in interest rates finally seems to have peaked at a much higher level than in recent years which means greater 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 9 months of 2023 was \$10,984,290 which is up 293.39% compared to the same period in 2022 when it was \$2,792,212. This increase is primarily due to the ongoing rapid interest rate increases.
- Dividends paid to member credit unions of \$7,810,376 was up 754.32% compared to last year's \$914,221, also due to rising interest rates.
- We had borrowing interest expense of \$75,807 so far this year compared to \$11,421 in the first nine months of last year.
- Combined CUSO income for the first nine months is a loss of (\$84,321) which is greater than last year's loss of (\$34,807). 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 (24.02%) decrease compared to last year. Other Non-interest Income however increased by 3.44%.
- Overall, our first nine months Total Operating Expenses are 8.04% higher this year compared to 2022. This difference is partially due to increases in travel, promotional costs and some new professional services. 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 year to date recovery in 2023 was \$3,254,202. Some additional recovery of Paid in Capital is still possible.

Balance Sheet Highlights

- Total Assets as of September 30, 2023 are \$377 million which is 5.43% 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.

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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 \$302 million at September 30 is approximately 16.4% lower than the balance of \$361 million at 09/30/2022. We now feel like our MDANA has reached its new normal range.

- Net Fixed Assets on September 30 is 81.75% higher 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 57.95% of cost.
- The variance in Other Assets shows a decrease of \$17.1 million compared to last year at this time which is offset largely by a similar decrease in Other Liabilities which also shows \$15.3 million of decrease compared to last year. The July 1 conversion of our core system resulted in a different treatment of future dated transactions which now do not show on our balance sheet.
- Undivided Earnings are \$5,940,876 or 17.48% higher at 09/30/2023 than the balance one year ago which represents our unaudited net income for the last 12 months. This 12 month income amount includes approximately \$3.254 million of the 2009 US Central recoveries that we have received since September 30, 2022.
- The Unrealized Loss on our Available for Sale securities as of September 30 of (\$3,527,779) is approximately the same as at September 2022 when it was (\$3,490,845). While increases in interest rates improves our income it also had 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 9.41% to 13.21% as of September 30, 2023. The Capital Ratio at is 18.26% compared to 13.59% last September. 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 09-30-2023 is 14.15% 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 -4.39% to 13.61%. 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 116.48%. These ratios far exceed the regulatory minimum of 8%. The Weighted Average Life (WAL) of our balance sheet at September 30 is currently 1.31 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, 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 – 3rd Quarter 2023 Financial Review

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

	09/30/23	09/30/22	Change
<u>Assets</u>			
Loans to Members	661,890	11,615,601	-94.30%
Cash	147,618,173	73,382,436	101.16%
Investments	216,593,717	244,310,832	-11.35%
Accrued Interest	1,060,302	520,266	103.80%
Net Fixed Assets	1,239,961	682,221	81.75%
NCUSIF Deposit	187,652	207,613	-9.61%
CUSO Investments	1,614,405	1,741,861	-7.32%
Other Assets	7,581,984	24,718,670	-69.33%
Total Assets	376,558,084	357,179,499	5.43%
<u>Liabilities</u>			
Members' Shares and Deposits			
Overnight Deposits	323,001,866	294,260,404	9.77%
Borrowed Funds	0	0	-
Interest Payable	0	0	-
Accounts Payable	80,518	80,818	-0.37%
Accrued Expenses	100,517	99,828	0.69%
Other Liabilities	104,877	15,372,087	-99.32%
Total Liabilities	323,287,779	309,813,137	4.35%
<u>Members' Equity</u>			
PCC	16,861,345	16,861,345	0.00%
Undivided Earnings	39,936,739	33,995,862	17.48%
Unrealized Gain/(Loss) AFS	(3,527,779)	(3,490,845)	-1.06%
Total Members' Equity	53,270,305	47,366,362	12.46%
Total Liabilities & Members' Equity	376,558,084	357,179,499	5.43%

Tricorp Federal Credit Union – 3rd Quarter 2023 Financial Review

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

	09/30/23	09/30/22	Change
Interest Income from Loans	204,532	42,725	378.72%
Interest and Dividend Income from Investments	10,984,290	2,792,212	293.39%
Total Interest Income	11,188,822	2,834,937	294.68%
Dividend Expense	7,810,376	914,221	754.32%
Interest on Borrowed Money	75,807	11,421	563.75%
Total Interest Expense	7,886,183	925,642	751.97%
Net Interest Income	3,302,639	1,909,294	72.98%
CUSO Equity Method Income	(84,321)	(34,807)	-142.25%
Fee Income	799,183	1,051,847	-24.02%
Other Operating Income	152,340	147,268	3.44%
Gross Operating Margin before Operating Expenses	4,169,841	3,073,602	35.67%
Operating Expenses:			
Salaries and Benefits	1,147,511	1,070,498	7.19%
Office Occupancy	74,633	73,135	2.05%
Office Operations	158,526	163,885	-3.27%
Travel and Conference	54,015	34,591	56.15%
Educational and Promotional	93,732	51,913	80.56%
Professional and Outside Services	527,024	487,210	8.17%
Other	91,615	106,060	-13.62%
Total Operating Expenses	2,147,055	1,987,293	8.04%
Gain/(Loss) Investment Sales	0	0	-
Recovery of 2009 US Central OTTI loss (Net)	3,254,202	8,150,235	-60.07%
Net Change to Undivided Earnings	5,276,988	9,236,544	-42.87%

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TRICORP FCU Portfolio Diversification by Investment Issuer (Unaudited) 09/30/23

<u>Issuer</u>	<u>Percent</u>	<u>Amortized Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
SBA Pools	15.05%	33,128,465	32,968,973	(159,492)
Agency Debentures - Floating rate	26.54%	58,413,689	58,560,133	146,444
Agency Debentures - Fixed rate	1.36%	3,000,000	2,632,470	(367,530)
Total U.S. Government Agency	42.95%	94,542,154	94,161,576	(380,578)
CMO/MBS - Floating Rate	8.98%	19,772,003	19,411,343	(360,660)
CMO/MBS - Fixed Rate	4.42%	9,720,230	7,847,350	(1,872,880)
CMBS - Floating Rate	23.24%	51,161,243	50,418,187	(743,056)
CMBS - Fixed Rate	1.81%	3,987,589	3,970,191	(17,397)
Total CMO's, MBS & CMBS	38.45%	84,641,064	81,647,072	(2,993,992)
FFELPs	1.32%	2,900,505	2,803,485	(97,020)
Variable Rate Credit Card ABS	10.03%	22,082,085	22,092,780	10,695
Fixed Rate Credit Card ABS	0.00%	0	0	0
Variable Rate Auto loan ABS	3.64%	8,015,067	8,034,850	19,783
Fixed Rate Auto Loan ABS	3.53%	7,767,321	7,680,654	(86,667)
Variable Rate Equipment loan ABS	0.00%	0	0	0
Total Asset-Backed Securities	18.52%	40,764,978	40,611,769	(153,209)
FHLB Stock	0.08%	173,300	173,300	0
Brokered CDs	0.00%	0	0	0
Total Other	0.08%	173,300	173,300	0
Total Investments	100.00%	220,121,496	216,593,717	(3,527,779)

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TRICORP FCU Key Ratios and Other Information (Unaudited)

	As of 09/30/23	As of 09/30/22
* Operating Expense Ratio	0.94%	0.76%
* ROA	2.30%	3.53%
*Retained Earnings ratio	13.21%	9.41%
* Capital ratio	18.26%	13.59%
YTD Average Assets	305,312,657	348,532,727
Net Economic Value (NEV)	09/30/23	Reg 704 Min Requirements ***
+ 300 BP Shock		
Actual Dollar Change	50,942,880	42,625,598
% Change	-4.39%	
NEV Ratio	13.61%	2.00%
Base Level Dollar Amount	53,281,998	
Base Level NEV Ratio	14.15%	
- 300 BP Shock		
Actual Dollar Change	55,040,437	42,625,598
% Change	3.30%	
NEV Ratio	14.55%	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.