

Third Quarter 2024 Financial Review



The top economic story of the third quarter involved the Fed's decision to cut its Fed Funds rate by 50 bps at its September meeting. That marked a shift from its tightening monetary policy that began over two and a half years ago. The 50 bps cut surprised many, and signaled the Fed was getting more and more worried about the weakening labor market.

So, are we confident rates are definitely heading lower from here? Not really! The Fed seems intent to bring Fed Funds closer to a historical norm, but medium-term Treasury yields are noticeably higher in the month following the Fed cut. The Fed will still have to rely on incoming economic data which has been very unpredictable. Adding to overall uncertainty is the upcoming Presidential election and continuously growing geopolitical tensions. The good news is our balance sheet continues to be 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 9 months was \$16,082,140 which is up 46.41% compared to last year when it was \$10,984,290. This increase is still primarily due to the few remaining interest rate increases since the first quarter of 2023.
- Dividends paid to member credit unions of \$11,934,918 was up 52.81% compared to last year's \$7,886,183, due again to rising interest rates but also an increase in member deposits.
- We've had no borrowing interest expense so far this year compared to \$75,807 in the first 9 months of last year.
- CUSO income for the nine months ended September 30, 2024, is a \$1,963 which is much improved compared to last year's loss of (\$84,321) for the same timeframe.
- We have seen a year over year growth in the off-balance sheet funds that we manage. The Fee Income we derive from managing those off-balance sheet amounts has also increased. Fee Income for the first nine months now shows a 9.24% increase compared to last year.
- Overall, Total Operating Expenses are 18.29% higher so far this year than in 2023. This difference is partially due to professional fees and various costs related to the search for and hiring of our new CEO as well as the extra CEO compensation from early June through September.
- The recovery of losses experienced in 2009, which were caused by the write down of investment values at US Central, continues. Prior to this year, Tricorp had already recovered 100% of the retained earnings that was lost in 2009, and we had started to recover some of our Paid in Capital investment as well. There have been no additional paid in capital recoveries received so far this year whereas last year in the first nine months we received \$3,254,202 in combined recoveries. Some small additional recovery of Paid in Capital is still possible however no recoveries are expected for the remainder of this year.

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Balance Sheet Highlights

- Total Assets as of September 30, 2024, are \$429.1 million which is 13.97% higher than in September of 2023. Due to the volatility in the size of our balance sheet we rely on a 12 month Moving Daily Average Net Assets (MDANA) to reflect balance sheet trends more accurately. MDANA of \$375.7 million on September 30 is 24.32% higher than the balance of \$302.2 million at 09/30/2023.
- Net Fixed Assets on September 30 is 15.58% higher than it was one year ago. This increase is primarily due to a large investment in a new core data processing system. Currently all our office furniture and fixtures are fully depreciated while our technology assets' book value is at 54.1% of cost.
- We are happy to report a 20% reduction in PCC this quarter. We have received approval from NCUA to start returning unneeded PCC to members at a rate of 20% per year, as long as specific capital benchmarks are maintained.
- Undivided Earnings are \$3,228,436 or 8.08% higher at 09/30/2024 than the balance one year ago, which represents our unaudited net income for the last 12 months.
- The Unrealized Loss on our Available for Sale securities as of September 30, 2024, of (\$1,145,700) has improved since September 2023 when it was (\$3,527,779).

Capital and Other Ratios Highlights

- Our Retained Earnings ratio shows an decrease in the past 12 months from 13.21% to 11.49%. The Capital Ratio is at 14.65% compared to 18.26% last year. While we have been very profitable, the rapid growth in our MDANA in the past year has outpaced our income, causing our retained earnings and capital ratios to decline slightly. Additionally, the return of 20% of our PCC also decreases our Capital Ratio.
- The base level NEV ratio as of 09-30-2024 is 12.94% 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 -3.45% to 12.55%. 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 122.58%. These ratios far exceed the regulatory minimum of 8%. The Weighted Average Life (WAL) of our balance sheet on September 30 is 1.05 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, 2024 and 2023 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 2024 Financial Review

TRICORP FCU Statement of Financial Position (Unaudited) September 30, 2024 and 2023

	09/30/24	09/30/23	Change
<u>Assets</u>			
Loans to Members	310,894	661,890	-53.03%
Cash	207,533,406	147,618,173	40.59%
Investments	208,815,006	216,593,717	-3.59%
Accrued Interest	1,277,438	1,060,302	20.48%
Net Fixed Assets	1,433,199	1,239,961	15.58%
NCUSIF Deposit	189,418	187,652	0.94%
CUSO Investments	1,614,996	1,614,405	0.04%
Other Assets	7,972,841	7,581,984	5.16%
Total Assets	429,147,199	376,558,084	13.97%
<u>Liabilities</u>			
Members' Shares and Deposits			
Overnight Deposits	373,102,614	323,001,866	15.51%
Borrowed Funds	0	0	-
Interest Pauable	0	0	-
Accounts Payable	84,398	80,518	4.82%
Accrued Expenses	123,017	100,517	22.38%
Other Liabilities	328,619	104,877	213.34%
Total Liabilities	373,638,648	323,287,779	15.57%
<u>Members' Equity</u>			
PCC	13,489,076	16,861,345	-20.00%
Undivided Earnings	43,165,175	39,936,739	8.08%
Unrealized Gain/(Loss) AFS	(1,145,700)	(3,527,779)	67.52%
Total Members' Equity	55,508,551	53,270,305	4.20%
Total Liabilities & Members' Equity	429,147,199	376,558,084	13.97%

Tricorp Federal Credit Union – 3rd Quarter 2024 Financial Review

TRICORP FCU
Income Statement (Unaudited)
For the Nine Months Ended September 30, 2024 and 2023

	09/30/24	09/30/23	Change
Interest Income from Loans	30,643	204,532	-85.02%
Interest and Dividend Income from Investments	16,082,140	10,984,290	46.41%
Total Interest Income	16,112,783	11,188,822	44.01%
Dividend Expense	11,934,918	7,810,376	52.81%
Total Interest Expense	0	75,807	-100.00%
	11,934,918	7,886,183	51.34%
Net Interest Income	4,177,865	3,302,639	26.50%
CUSO Equity Method Income	1,963	(84,321)	102.33%
Fee Income	873,015	799,183	9.24%
Other Operating Income	158,198	152,340	3.85%
Gross Operating Margin before Operating Expenses	5,211,041	4,169,841	24.97%
Operating Expenses:			
Salaries and Benefits	1,360,870	1,147,511	18.59%
Office Occupancy	76,312	74,633	2.25%
Office Operations	177,180	158,526	11.77%
Travel and Conference	65,982	54,015	22.15%
Educational and Promotional	74,952	93,732	-20.04%
Professional and Outside Services	630,726	527,024	19.68%
Other	153,786	91,615	67.86%
Total Operating Expenses	2,539,807	2,147,055	18.29%
Gain/(Loss) Investment Sales	0	0	-
Recovery of 2009 US Central OTTI loss (Net)	0	3,254,202	-100.00%
Net Change to Undivided Earnings	2,671,233	5,276,988	-49.38%

Tricorp Federal Credit Union – 3rd Quarter 2024 Financial Review

TRICORP FCU Portfolio Diversification by Investment Issuer (Unaudited) 09/30/24

<u>Issuer</u>	<u>Percent</u>	<u>Amortized Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
SBA Pools	13.39%	28,120,935	28,174,958	54,024
Agency Debentures - Floating rate	27.83%	58,424,482	58,737,613	313,132
Agency Debentures - Fixed rate	1.43%	3,000,000	2,817,780	(182,220)
Total U.S. Government Agency	42.65%	89,545,416	89,730,352	184,935
CMO/MBS - Floating Rate	7.75%	16,274,136	16,156,035	(118,101)
CMO/MBS - Fixed Rate	8.40%	17,645,972	16,572,452	(1,073,520)
CMBS - Floating Rate	22.29%	46,792,500	46,597,221	(195,279)
Total CMO's, MBS & CMBS	38.44%	80,712,608	79,325,708	(1,386,900)
FFELPs	1.02%	2,145,206	2,103,003	(42,203)
Variable Rate Credit Card ABS	8.03%	16,865,256	16,891,584	26,328
Variable Rate Auto loan ABS	9.53%	20,011,820	20,083,960	72,140
Total Asset-Backed Securities	18.59%	39,022,282	39,078,547	56,264
FHLB Stock	0.09%	180,400	180,400	0
Brokered CDs	0.24%	500,000	500,000	0
Total Other	0.32%	680,400	680,400	0
Total Investments	100.00%	209,960,707	208,815,006	(1,145,700)

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TRICORP FCU Key Ratios and Other Information (Unaudited)

	As of 09/30/24	As of 09/30/23
* Operating Expense Ratio	0.97%	1.05%
* ROA	1.01%	2.59%
* Retained Earnings ratio	11.49%	13.21%
* Capital ratio	14.65%	18.26%
YTD Average Assets	397,198,544	305,312,657
Net Economic Value (NEV)	09/30/24	Reg 704
		Min Requirements
+ 300 BP Shock		***
Actual Dollar Change	53,602,481	44,415,132
% Change	-3.45%	
NEV Ratio	12.55%	2.00%
Base Level Dollar Amount	55,518,915	
Base Level NEV Ratio	12.94%	
- 300 BP Shock		
Actual Dollar Change	57,361,899	44,415,132
% Change	3.32%	
NEV Ratio	13.31%	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.