



# Monthly Financials

Vizo Financial Corporate Credit Union

August 2019



## Corporate Update

Jay Murray, CEO

David Brehmer, President

"Act as if what you do makes a difference. It does." When you need a little inspiration, remember this quote... credit unions make a difference in countless lives. And we want to make a difference for your credit union too, through our educational opportunities, our services that ease your burdens and our constant support. Have a great month!



## Board Election Results

The following were elected to Vizo

Financial's board of directors for three-year terms: Jeff Chelius, Riverfront FCU, Reading, Pa.; Alison DeTuncq, University of Virginia Community CU, Charlottesville, Va.; and Scott Woods, South Carolina FCU, North Charleston, S.C. In addition, Daniel Berry, Duke University FCU, Durham, N.C., was elected to serve a two-year term.

Board election results were shared at Vizo Financial's Annual Meeting in Charlotte, N.C., on September 11, 2019, during the Financial Conference. For additional information, [click here](#) or go to [www.vfccu.org](http://www.vfccu.org) to see our board election press release.

## Financial Conference Recap!

Our 2019 Financial Conference was incredible. It featured 100+ attendees from 55 credit unions, a new mobile event app, expert speakers, lots of education and even more fun! Education topics included financial management, the economy, the future of ALM, portfolio strategies, commercial services, CECL, credit union bank acquisitions, financial policies and regulatory updates from the NCUA.

Mark your calendars! Next year's Financial Conference will be held on September 16-18, 2020, at the Ballantyne Hotel and Resort in Charlotte, N.C.

## Last Call for Payments Conference!

This is it...your last chance to register for our Payments Conference! October is just about here, which means we'll soon be headed to Lancaster, Pa., and Charlotte, N.C. for our two credit union-only events dedicated to education on payment systems and services. Sessions will include:

- Decoding ACH Return Codes
- Sharing is Caring - Unless It's Unlawful
- Staying Ahead of the Curve - International Payments
- The Truth About Payments: Risks and Mitigations
- How to Prepare for a Payment Systems Examination
- Check Fraud and Risk Mitigation
- Gone in 60 Seconds - Risk and Fraud in the World of Faster Payments

Register now before it's too late! [Click here](#) to start your registration or go to [www.vfccu.org](http://www.vfccu.org)!

## Webinar Recordings

Missed a webinar? That's ok...we've got you covered. Vizo Financial offers webinar recordings that are free to watch anytime your schedule allows! View our webinar recordings on ACH, CECL, ALM, risk management and more...all you have to do is [click here](#) or visit our website at [www.vfccu.org](http://www.vfccu.org)!

## Exceptional Service

Vizo Financial strives each and every day to provide excellence in our service and we will continually work to improve your member experience.

Chaz Ervin, CIO of Peoples FCU, recently worked with one of Vizo Financial's IP support specialists, to install remote branch capture software on a few of their PCs. Following the installation, he reached out to the specialist to thank her for her hard work and had this to say: "Thanks again so much for your work on these and for all the scheduling flexibility. I was afraid this was going to be a cumbersome process, but you made it go quite smooth, and I was impressed."

Thanks for sharing, Chaz.

As always, if you have any questions regarding the financials, please don't hesitate to [contact us](#).

# Financial Condition and Performance *Report*

Enclosed, please find Vizo Financial Corporate Credit Union's financial statements and supplementary financial information as of August 31, 2019. These reports include information regarding our balance sheet, income statement, asset quality, capital adequacy, liquidity and interest rate risk. It contains all the financial data required for review under Regulation 703.

## Balance Sheet

Member overnight balances averaged \$3.406 billion in August compared to \$3.479 billion in July and \$3.577 billion in June. Volatility of member balances was slightly higher (28% vs. 24% in July). The spread between the single day high and low balances was \$1.112 billion compared to \$964.2 million the month prior.

Average off-balance sheet credit union balances - those held in our Excess Balance Account (EBA) - averaged just \$5.1 million.

The summer months have historically seen greater cash outflows and while we have experienced reductions in our overnight balances, they have been far less severe than prior year trends. Compared to last August, average short-term deposits were up \$708 million in August 2019. Liquidity remains readily accessible through our primary borrowing sources. Historically, March-April represent our highest balance months of the year, while December-January and July-August represent our lowest balance trends of the year. In 2019, year-to-date average assets are up slightly from 2018 (up \$166 million), but member short term deposits are averaging \$398 million more than the first eight months of 2018.

Some line items to note on this month's balance sheet:

- On-balance sheet (month-end) member shares were up approximately \$538 million, coming in at \$4.188 billion compared to \$3.650 billion in July. These figures do jump around, as the actual day of the week that a month ends does impact overall member deposit levels. Of this total, \$276.4 million were in certificates, while the remaining balances were distributed between the PSA and settlement deposit accounts.
- Month-end assets came in at \$4.687 billion. Average assets were lower than month-end assets coming in at \$4.108 billion. Excluding non-perpetual capital accounts, our total net equity is at \$314.6 million. The unrealized gain/loss/AOCL figure came in at a loss of \$2.402 million. More details regarding market values of securities are discussed later in the report under the heading "Unrealized Gains/Losses."
- Total retained earnings ended the month at \$102.8

million. Gross income for the month came in at \$1,664,210. Our net increase to retained earnings was \$1,227,600. Distributions to members via PCC dividends totaled \$436,609.

- Our leverage/tier 1 capital ratio came in at 7.95% based on our 12-month rolling average assets. This is above the minimum regulatory guideline for leverage/tier 1 capital ratio of 4%. *Our total capital ratio came in at 8.16%.*
- The amount of retained earnings a corporate has determines whether or not a corporate has to deduct any PCC from its leverage/tier 1 capital ratio calculations. If Vizo Financial's retained earnings ratio exceeds 2.50%, no deduction is required. *Our retained earnings ratio is currently at 2.63%, so no deduction was necessary in August. If this ratio drops below 2.50%, we will need to resume deducting a portion of PCC from tier 1 capital.*
- The net economic value (NEV) dollar value of assets came in at \$318.0 million at the end of August, with an NEV ratio of 6.78% compared to the prior month's 7.58%. The NEV ratio will fluctuate up and down month-to-month since it is calculated based on month-end assets versus average assets. In August, month-end assets were up \$782 million, which is the main reason for the decrease in NEV ratio this month. In the up 300 basis points scenario, the NEV ratio drops to 6.29% with a negative fluctuation of 7.8%. We are well above required regulatory NEV levels (2%).
- The available liquidity section reflects our capacity for generating liquidity. We factored out securities in the "available-for-sale" (AFS) portfolio whose current market values were lower than we realistically believed we would sell. Although 100% of our marketable securities are classified as AFS, unless the market value is positive or the unrealized loss is estimated to be under \$5,000, we do not include it as liquid in our "Available Liquidity" report.
- Total capital stands at \$319.1 million, excluding unrealized gains and losses on securities and accumulated other comprehensive losses. This consists of PCC, retained earnings, equity acquired in merger and eligible non-perpetual capital accounts (NCAs) less total equity held in unconsolidated CUSOs. NCUA regulations require us to reduce capital by the total equity held in unconsolidated CUSOs in calculating our leverage and total capital ratios. Total equity in unconsolidated CUSOs stood at \$6.5 million as of month-end, so without this reduction, our gross total capital amounts to \$325.6 million.

# Financial Condition and Performance Report *Report* continued from page 2

We also help members manage funds through the use of off-balance sheet products:

- Marketable securities
- SimpliCD brokered certificates
- Federal Reserve Bank's EBA program

## Current Balances

Current balances/usage of these off-balance sheet products are reflected below:

SimpliCDs	\$ 774 million
Security Sales*	\$ 230 million
EBA Balances	\$ 6 million
<b>Total Off-Balance Sheet</b>	<b>\$1.010 billion</b>

\*Security sales reflect sales over the past 18 months

## Unrealized Gains/Losses

Overall market values improved with unrealized losses decreasing from \$3.967 million in July to \$2.402 million in August. The primary improvements were in the SBA portfolio (+\$576,000), the agency CMO portfolio (+\$572,000) and the corporate bond portfolio (+\$381,000). We have increased the speed at which we are writing down SBA premiums and are monitoring trends closely. SBA securities are 100% government guaranteed and are accepted as collateral at the Federal Home Loan Bank so fluctuations in values do not have a significant impact on our liquidity capacity. *From a credit perspective, our portfolio remains solid with a total risk-based capital ratio of 28.6%.*

To provide additional insight on this month's unrealized gain/loss figures, we are providing a breakdown of what securities make up these changes in fair market value and book values.

- \$0.823 million LOSS is related to our government agency CMO securities portfolio (\$603.8 million total book value)
- \$0.125 million LOSS is related to our agency MBS/CMBS/Notes/Callable securities (\$45.1 million total book value)
- \$0.031 million GAIN is related to our government guaranteed mortgage securities (\$18.1 million total book value)
- \$1.091 million GAIN is related to our corporate bond portfolio (\$60.5 million total book value)

- \$0.035 million GAIN is related to our credit card asset-backed securities (\$543.2 million total book value)
- \$0.419 million GAIN is related to our auto floor-plan asset-backed securities (\$330.6 million total book value)
- \$0.069 million GAIN is related to our government student loan (FFELP) portfolio (\$14.4 million total book value)
- \$3.099 million LOSS is related to our government guaranteed SBA portfolio (\$1.310 billion total book value)

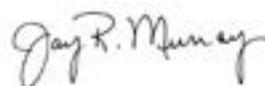
Market values and the associated unrealized gains/losses indicate an estimate of what the sale of these assets in today's markets would be, and do not necessarily reflect the actual gains/losses that would be realized if the assets were to be sold or held to maturity.

## Summary

Please take a moment to review our financial statements and do not hesitate to contact us if you have questions. We also recommend that you share this information with your board of directors to satisfy the due diligence requirements set forth in NCUA Regulation 703.

Our highest priority will remain the financial strength and safety of the organization and total transparency in the reporting of our financial condition.

We are very grateful to our members for their continued support and for the trust you place in us. If you have any questions, please do not hesitate to contact us.



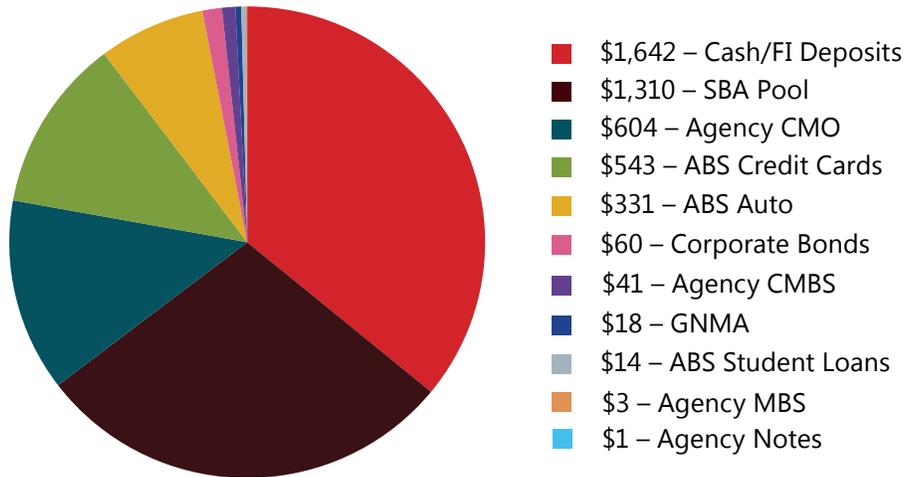
**Jay R. Murray**  
CEO



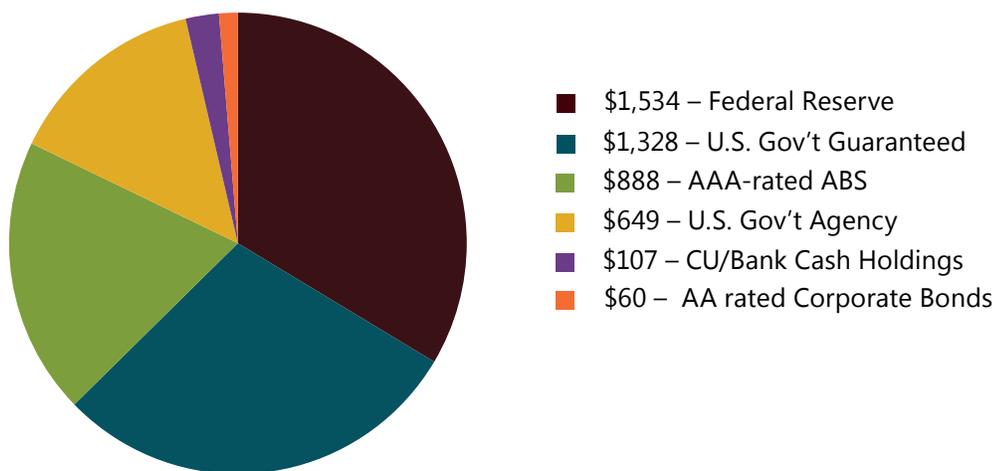
**David W. Brehmer**  
President

# Investment Portfolio

## Total Book Values



## Credit Quality



\* All figures in the charts above are in millions.

# Financial Condition & Performance

Balance Sheet	August 31, 2019	August 31, 2018
<b>Assets</b>		
Loans	\$ 3,973,749	\$ 26,371,553
Investments:		
Asset-Backed Securities (Non-Mortgage)	\$ 888,835,259	\$ 1,068,076,436
U.S. Gov't (Notes/Floaters/Callables)	\$ 541,301	\$ 20,523,295
U.S. Gov't Agency (CMOs)	\$ 621,125,417	\$ 292,369,245
U.S. Gov't Agency (MBS)	\$ 52,152,221	\$ 60,923,682
U.S. Gov't (SBA)	\$ 1,307,197,315	\$ 930,481,857
Corporate Bonds	\$ 61,565,894	\$ 27,525,225
Commercial Paper	\$ 0	\$ 175,378,741
Federal Home Loan Bank-Atlanta	\$ 8,467,700	\$ 23,311,400
Credit Union & Bank Deposits	\$ 107,297,953	\$ 104,651,487
CUSOs	\$ 6,477,060	\$ 5,323,627
Federal Reserve Bank	\$ 1,534,307,730	\$ 1,396,031,175
Receivables	\$ 36,311,862	\$ 29,725,272
Fixed Assets	\$ 7,251,628	\$ 8,925,817
Goodwill/Core Deposit Intangible	\$ 2,282,127	\$ 2,282,127
Other Assets	\$ 48,842,959	\$ 44,582,317
<b>Total Assets:</b>	<b>\$ 4,686,630,175</b>	<b>\$ 4,216,483,256</b>
<b>Liabilities</b>		
Other Liabilities:	\$ 3,035,831	\$ 2,178,510
Accounts Payable:	\$ 47,329,012	\$ 49,344,692
Notes Payable:	\$ 121,731,555	\$ 459,957,090
Shares	\$ 3,912,166,244	\$ 3,201,197,272
Certificates/Term Deposits	\$ 276,360,885	\$ 188,481,453
Total Shares:	\$ 4,188,527,129	\$ 3,389,678,725
Non-Perpetual Capital Accounts (NCA)	\$ 8,628,470	\$ 8,913,835
Perpetual Contributed Capital (PCC)	\$ 214,196,834	\$ 214,196,834
Reserves & Undivided Earnings	\$ 80,227,967	\$ 67,014,827
Equity Acquired in Merger	\$ 22,562,000	\$ 22,562,000
Accumulated Other Comprehensive Loss	\$ (2,402,493)	\$ (67,636)
Total Equity:	\$ 323,212,778	\$ 312,619,860
Other Equity/Non-Controlling Interest:	\$ 2,793,870	\$ 2,704,379
<b>Total Liabilities &amp; Equity:</b>	<b>\$ 4,686,630,175</b>	<b>\$ 4,216,483,256</b>

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# Financial Condition & Performance

Income Statement YTD	August 2019	August 2018
Interest Income	\$ 73,831,170	\$ 54,017,739
Interest Expense	\$ (52,606,510)	\$ (35,631,564)
Net Interest Income	<b>\$ 21,224,660</b>	<b>\$ 18,386,175</b>
Net Correspondent Service Income	\$ 11,121,847	\$ 11,269,968
Gross Operating Income	<b>\$ 32,346,507</b>	<b>\$ 29,656,143</b>
Operating Expense	\$ (19,252,043)	\$ (17,732,837)
Net Income:	<b>\$ 13,094,464</b>	<b>\$ 11,923,306</b>
Non-Operating Gains/(Losses)	\$ 246,698	\$ 18,442
Amortization of Core Deposit Intangible	\$ 0	\$ 0
CUSO Income	\$ 70,432	\$ 101,663
Net Income before PCC Distributions	<b>\$ 13,411,594</b>	<b>\$ 12,043,411</b>
Less: Non-Controlling Interest in Net Income	\$ (27,842)	\$ (100,657)
Less: Equity Transfer for PCC Distribution	\$ (3,422,524)	\$ (2,585,035)
Net Increase to Retained Earnings	<b>\$ 9,961,228</b>	<b>\$ 9,357,719</b>

Earnings Spread/Net Operating Margin	August 2019	August 2018
Return on Average Assets	2.692%	2.052%
Interest/Dividend Expense	-1.918%	-1.354%
Net Interest Margin	<b>0.774%</b>	<b>0.698%</b>
Correspondent Service Income	0.405%	0.428%
Operating Expenses	-0.702%	-0.674%
Non-Operating Gains/(Losses)	0.009%	0.001%
Amortization of Core Deposit Intangible	0.000%	0.000%
CUSO Income	0.003%	0.004%
Non-Controlling Interest in Net Income	-0.001%	-0.004%
PCC Distributions	-0.125%	-0.098%
Net Margin	<b>0.363%</b>	<b>0.356%</b>

Asset Quality	August 2019
Non-Earning Assets/Average Assets	2.46%
Delinquent Loans/Total Loans	0.00%
<b>Investment Portfolio</b>	
U.S. Gov't/Agency Securities	42.84%
Asset-Backed Securities (Non-Mortgage)	19.22%
Federal Home Loan Bank	0.18%
Corporate Bonds	1.33%
Commercial Paper	0.00%
Bank & Credit Union Deposits	2.32%
Federal Reserve Bank	33.18%
CUSO Equity	0.14%
Cash & Receivables	0.79%
<b>Credit Ratings</b>	
Asset-Backed Securities (Credit Card/Auto)	AAA/Aaa
Asset-Backed Securities (Student Loans)	AAA/Aaa
Corporate Bonds	AA- to AA+
Commercial Paper	A-1+/P-1
Gov't Agencies/SBAs	AA+ to AAA

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# Key Financial Ratios

Capital Adequacy	August 2019	August 2018
RUDE + Acquired Equity Capital/Monthly Average Net Assets	2.50%	2.38%
RUDE + Acquired Equity Capital/12-Month Average Net Assets	2.63%	2.29%
Tier 1 (Leverage) Capital/12-Month Average Net Assets	7.95%	6.51%
Total Capital/12-Month Average Net Assets	8.16%	7.84%
Tier 1 Capital/12-Month Average Risk-Weighted Assets	27.86%	19.89%
Total Capital/12-Month Average Risk-Weighted Assets	28.62%	24.24%
Total Capital	\$ 319,078,225	\$ 307,330,256
Tier 1 (Leverage) Capital	\$ 310,509,741	\$ 252,201,147
Tier 2 Capital	\$ 8,568,484	\$ 55,129,109
PCC deducted from Tier 1 Capital	\$ 0	\$ 46,248,887
Unrealized Gain/Loss on Securities	\$ (2,402,493)	\$ (67,636)
Monthly Average Assets	\$ 4,107,869,201	\$ 3,767,348,407
Average 12-Month Assets	\$ 3,907,980,966	\$ 3,918,555,985
Year-to-Date Average Assets	\$ 4,120,164,138	\$ 3,953,773,065

## Liquidity & Interest Rate Risk as of August 31, 2019

### Available Liquidity

Net Cash and Receivables:
Net Available For Sale (AFS) Securities: (securities with adequate market values to sell)
Overnight & Investments Maturing within 90 days:
Unsecured Fed Funds Lines Available:
Secured Fed Funds Lines Available:
Federal Home Loan Bank (FHLB) - borrowing capacity -less fixed term existing loan advances
Primary Sources of Liquidity:
Federal Reserve Bank (FRB) Discount Window - borrowing capacity:
Excess Balance Account (EBA) - funds held for members @ FRB:
Secondary Sources of Liquidity:
Total Available Liquidity:

### Available Within 90 Days

\$ 1,570,619,592
\$ 1,345,765,874
\$ 97,385,953
\$ 300,000,000
\$ 150,000,000
\$ 1,251,858,718
\$ (121,731,555)
\$ 4,593,898,582
\$ 109,540,033
\$ 6,200,000
\$ 115,740,033
\$ 4,709,638,615

## Interest Rate Risk

### Base/Current Rate Environment

Net Economic Value (NEV):
NEV Ratio:

### Up 3% Rate Environment

Net Economic Value (NEV):
NEV Ratio:
Percentage Change:

### Down 1% Rate Environment

Net Economic Value (NEV):
NEV Ratio:
Percentage Change:

### Down 2% Rate Environment

Net Economic Value (NEV):
NEV Ratio:
Percentage Change:

### Regulation 704 Operating Level Base Plus

\$ 317,987,733
6.78%
\$ 293,282,662
6.29%
(7.8%)
\$ 328,700,780
6.99%
3.4%
\$ 335,711,680
7.13%
5.6%

# Notes to *Financials*

1. Tier 1 (Leverage) Capital = Reserves, Undivided Earnings, Equity Acquired in Merger and Perpetual Contributed Capital (PCC) less unconsolidated equity investments and less any amount of PCC that causes PCC minus retained earnings (all divided by moving daily average net assets) to exceed 2% (per NCUA Regulation 704).
2. Tier 2 Capital = The PCC that has been deducted from Tier 1 Capital + unamortized Non-perpetual Capital Accounts (NCAs) - \$8,568,484.
3. Total Capital = Tier 1 + Tier 2 Capital.
4. Equity acquired in merger reflects the value of the retained earnings that came to Vizo Financial from First Carolina.
5. Marketable Securities are classified 100% as "available-for-sale."
6. Net Economic Value (NEV) = the fair value of assets less the fair value of liabilities.
7. NEV Ratio = Dollar NEV divided by the fair value of total assets.
8. PCC qualifies as equity capital in calculating our NEV ratios. As equity, PCC is not treated as a liability when calculating Vizo Financial's NEV.
9. The regulatory minimum required capital ratios today are:
  - a) Leverage (Tier 1) Capital Ratio: 4.0%
  - b) Tier 1 Risk-based capital ratio: 4.0%
  - c) Total Risk-based capital ratio: 8.0%
10. The leverage capital ratio is calculated by dividing Tier 1 capital by MDANA (moving daily average net assets).
11. The Tier 1 risk-based capital ratio is calculated by dividing Tier 1 capital by the moving monthly average net risk-weighted assets.
12. The Total risk-based capital ratio is calculated by dividing Total capital by the moving monthly average net risk-weighted assets.
13. All credit card and auto related asset-backed securities are rated by S&P (AAA), Moody's (Aaa), and Fitch (AAA).
14. Student loan asset-backed securities are rated by Fitch (AAA), Moody's (Aaa), and/or S&P (AAA).
15. Commercial paper ratings shown are from S&P (A-1+) and Moody's (P-1).
16. Corporate bonds ratings shown are from S&P (AA+) and Moody's (Aa1).
17. Available-for-sale securities in the liquidity section includes only bonds with market values showing: 1) Gains, or 2) Unrealized losses below \$5,000.
18. Other Assets includes insurance policies held with Midland National, North American Company and Minnesota Life tied to 457F plans and a split-dollar plan to offset executive and employee benefits costs.
19. All borrowing capacities reflect current market value of eligible collateral plus appropriate haircuts.
20. Primary credit access is available at the Federal Reserve Bank (FRB).
21. Current limit at FHLB-Atlanta \$1,400,651,100 (8/31) -- this will vary based on assets.
22. Unsecured fed funds lines comprised of \$100 million from PNC Bank, \$50 million from JPM Chase, \$50 million from SunTrust and \$50 million from Wells Fargo; \$50 million from Corporate One.
23. Secured fed funds lines comprised of \$150 million from U.S. Bank -- line secured by asset-backed securities.
24. Accumulated Other Comprehensive Loss reflects unrealized gains and losses and non-credit related market value losses not reductions in capital.
25. NEV & capital ratios are in compliance with policy and regulatory limits.
26. Under Liquidity Measures, EBA balances exclude funds held by non-PCC credit unions that totalled only \$450.

## Required Credit Analysis Under Regulation 703

Except for investments that are issued or fully guaranteed as to principal and interest by the U.S. Government or its agencies, enterprises or corporations or fully insured (including accumulated interest) by the National Credit Union Administration or the Federal Deposit Insurance Corporation, you must conduct and document a credit analysis of the issuing entity and/or investment before you purchase the investment. You must update the analysis at least annually as long as you hold the investment.

**Retain this report as part of the credit analysis required under Regulation 703.**

## Financial Soundness Report

Jay R. Murray, CEO  
 David W. Brehmer, President  
 Mark Brown, CFO  
 Fred Eisel, CIO



For more information concerning the content in this unaudited financial report, please contact Vizo Financial at (800) 622-7494.

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