

Monthly Financials

Vizo Financial Corporate Credit Union

June 2021 Edition | May 2021 Financials



David Brehmer
President & CEO

Corporate Update

Hello, sweet summer! It seems almost poetic that the warmth and sunshine we've seen so far this season has accompanied the gradual reopening and return to somewhat normal life. I'm excited to see what this bright time has to offer our Corporate and our member credit unions. Until next month, enjoy your vacations, staycations and whatever plans you may have!

ALM Validation: A Credit Union Testimonial

Testing, testing and more testing. That's the key to validating that your ALM models are producing accurate and reliable information, right?

Good news...Vizo Financial offers a model validation service that does just that! SkyPoint FCU in Germantown, Md., currently utilizes the service, and Ngoc Tran, chief financial officer for the credit union, had these things to say:

The importance of model validation

"The impact of an ALM model validation could be huge if the assumptions and data are not accurate or realistic – it could be devastating to the financials of the credit union," said Tran. "The validation is also a requirement for the NCUA to feel comfortable that the ALM model is operating as it should be."

Top-notch service

"I was very happy with the service that I received – the team was very professional, knowledgeable and very easy to work with during the collection of data. They were always available for questions and made me feel like no question was stupid."

An emphatic recommendation

With thorough service, a team that was always ready to lend a helping hand, an up-to-date model validation system and competitive pricing, Tran was emphatic about recommending Vizo Financial's model validation service to other credit unions. "Yes, 100 percent!"

It's (Almost) Hot Dog Eating Contest Time!

Ladies and gentlemen...drum roll, please! Our 2021 Hot Dog Eating Contest for Children's Miracle Network (CMN) Hospitals will be here on July 21, 2021!

Just like last year, the contest is going virtual, which provides the perfect opportunity for credit unions everywhere to participate. And there are several ways to do so - become a sponsor, join as a contestant, make a donation and/or stream the live event as a supporter.

All the money raised during the Hot Dog Eating Contest will be donated to one of our local CMN Hospitals, Penn State Children's Hospital in Hershey, Pa. The funds will go directly toward patient treatment and child life services – a cause that is near and dear to our movement's heart!

Registration for the virtual Hot Dog Eating Contest is now open! We encourage you to check out the [registration site](#) for event details and information. And better yet, we hope you can be part of this wonderful event in support of sick and injured children. Tune in for the action on July 21!

Our 2021 Annual Meeting is Coming!

September 8, 2021 is coming soon, and it's a date you need to remember. Why? Because that's when our virtual Annual Meeting is taking place!

The event will be held online from 10:30 - 11:30 a.m. ET, where we'll be discussing the results of our board of directors election, reviewing the Corporate's financials and various executive/board reports and making important business decisions together. After all, working and standing together is the key to credit union success, right?

Register now and plan to attend from wherever you may be! And be sure to check out the details about the meeting, the candidates and the 2020 Annual Report on our now-live [Annual Meeting website](#)! See you soon!

Exceptional Service in Our Communities

Vizo Financial strives each and every day to provide excellence in our service, as well as in our communities.

On June 5, 2021, Vizo Financial and six Pittsburgh-area credit unions joined together for the 2021 Children's Hospital of Pittsburgh Foundation's Walk for Children's hybrid event. Together, we participated in the walk and collectively donated \$2,186 for the cause! Including the donation from the Pittsburgh Credit Unions team, the 2021 Walk for Children's event brought in \$779,039.81!

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



Financial Condition & Performance May 2021

Enclosed please find Vizo Financial Corporate Credit Union's financial statements and supplementary financial information as of May 31, 2021. 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 \$5.128 billion compared to \$5.636 billion in April and \$5.998 billion in March. Comparing total deposits, which include the Excess Balance Account (EBA) balances, overall average deposits decreased \$106.5 million in May. The spread between the single day high and low balances was \$1.453 billion compared to \$1.341 billion in April and \$2.615 billion in March (including EBA balances). Volatility of total member balances (on-balance sheet + EBA) was very stable, moving from 12% to 13%.

Average off-balance sheet credit union balances – those held in our EBA – averaged \$5.131 billion and ended the month at \$5.100 billion. We appreciate all of the members who have moved funds into our EBA account at the Fed, which has helped control the size of our balance sheet.

From a seasonal cash flow perspective, March has historically been the month where deposits peak. However, this has not been the case in 2020 or 2021, due primarily to government stimulus packages that, both years, brought in over \$2 billion to the Corporate. Therefore, from a total deposit perspective, April 2021 recorded our highest combined balances (on-balance sheet + EBA) to date, averaging \$10.365 billion. In May, this total came down slightly to \$10.259 billion. The big difference now is that 50% of these deposits are now off-balance sheet in our EBA. For the first time in 18 months, in May, our 12-month rolling average assets decreased, dropping by \$124.3 million to \$6.827 billion, down from \$6.952 billion in April. In June, we expect our rolling 12-month average assets to drop once again, and then continue to come down the rest of 2021.

In May, we allowed cash flows to cover our slight outflow of deposits. It appears we may have peaked with increasing deposits, although we will still have to see whether pending periodic stimulus payments have an impact on member balances. Member participation in the EBA program now seems broad enough to give us the ability to control the size of our balance sheet going forward.

Pre-pandemic, we targeted maintaining a minimum balance of \$500 million in our Fed account to ensure we always had sufficient liquidity to support our member

settlement and lending activity. In 2020, our Fed balances averaged \$2.471 billion with an average low of \$1.949 billion. So far in 2021, our Fed balances are averaging \$2.317 billion with an average low of \$1.632 billion. In May, our Fed balances dropped below \$1 billion for the first time in 2021, and averaged just \$1.254 billion.

Liquidity is currently very high on the balance sheet and remains readily accessible through our primary borrowing sources.

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

- ▶ On-balance sheet (month-end) member shares were down, coming in at \$5.817 billion compared to \$6.569 billion in April. Month-end figures vary considerably depending on the day of the week on which a month ends. Of this month's total, \$459.6 million were in certificates, while the remaining balances were distributed between the various PSA and settlement deposit accounts.
- ▶ Month-end assets came in at \$6.291 billion. Average assets were slightly below month-end assets, coming in at \$6.095 billion. Excluding non-perpetual capital accounts, our total net equity is at \$395.4 million. The unrealized gain/loss/AOCL figure was up slightly, coming in at a gain of \$23.0 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 \$158.2 million. Gross income for the month came in at \$1,619,659. Distributions to members via PCC dividends totaled \$136,467. Our net increase to retained earnings was \$1,483,193.
- ▶ Our 12-month average assets decreased, which, along with stable earnings, increased our leverage/tier 1 capital ratio to 5.33% (up from 5.21%). Likewise, our retained earnings ratio ended the month at 2.32% (up from 2.25%). Despite being below 2.50%, which requires us to calculate a potential deduction of PCC from Tier 1 capital, no deduction was required this month. *Our total capital ratio also climbed to 5.45% (up from 5.33%).*
- ▶ The net economic value (NEV) dollar value of assets came in at \$395.4 million at the end of May, with an NEV ratio of 6.28% compared to the prior month's 5.59%. The NEV ratio will fluctuate up and down month-to-month since it is calculated based on month-end assets versus average assets. In the up 300 basis points scenario, the NEV ratio drops to 5.85% with a negative fluctuation of 7.4%. We are well above required regulatory NEV levels (2%).

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Financial Condition & Performance May 2021

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- › 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 at under \$5,000, we do not include it as liquid in our “Available Liquidity” report.
- › Total capital stands at \$372.1 million, excluding unrealized gains and/or 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 \$8.6 million as of month-end, so without this reduction, our gross total capital amounts to \$380.7 million.

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	\$ 552 million
Security Sales*	\$ 930 million
EBA Balances	\$ 5.100 billion
Total Off-Balance Sheet	\$ 6.582 billion

*Security sales reflect sales over the past 18 months

Unrealized Gains/Losses

Market values were fairly stable in May, with unrealized gains increasing slightly from \$22.9 million to \$23.0 million. In June, you will see a significant drop in our unrealized gains, as we are moving to a different market pricing source which we believe to be more accurate. The anticipated large drop in unrealized gains will be primarily in the SBA portfolio. We have enough collateral to borrow our full line at the Federal Home Loan Bank if needed, and all remaining securities are acceptable collateral for the Fed’s Discount Window. *From a credit perspective, our portfolio remains solid with a total risk-based capital ratio of 31.2%.*

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.

- › \$5.252 million GAIN is related to our government agency CMO securities portfolio (\$864.6 million total book value)
- › \$0.062 million GAIN is related to our agency MBS/CMBS/Notes/Callable securities (\$7.7 million total book value)
- › \$0.193 million GAIN is related to our government guaranteed mortgage securities (\$33.2 million total book value)
- › \$0.877 million GAIN is related to our corporate bond portfolio (\$60.4 million total book value)
- › \$0.036 million GAIN is related to our commercial paper portfolio (\$84.9 million total book value)
- › \$2.256 million GAIN is related to our credit card asset-backed securities (\$547.7 million total book value)
- › \$0.502 million GAIN is related to our auto floor-plan asset-backed securities (\$108.0 million total book value)
- › \$0.108 million GAIN is related to our student loan asset-backed securities (\$58.9 million total book value)
- › \$13.732 million GAIN is related to our government guaranteed SBA portfolio (\$2.471 billion total book value)

Market values and the associated unrealized gains/losses indicate an estimate of what the sale price 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. 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.

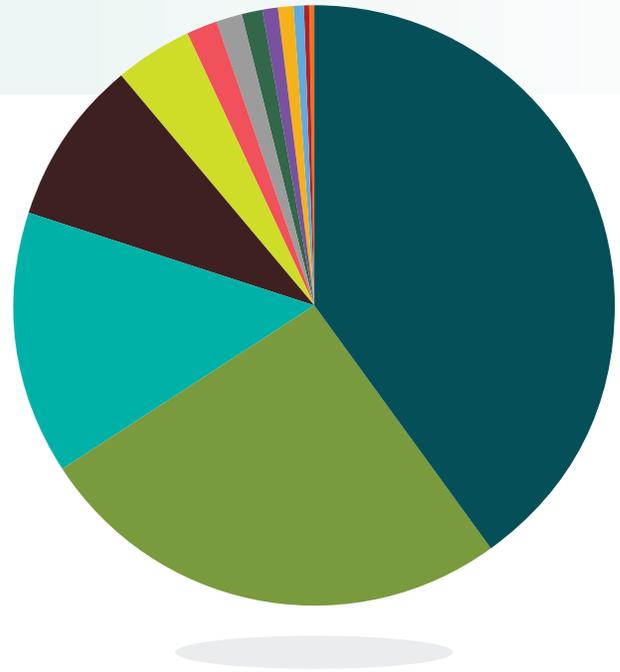


David W. Brehmer
President & CEO

Investment Portfolio May 2021

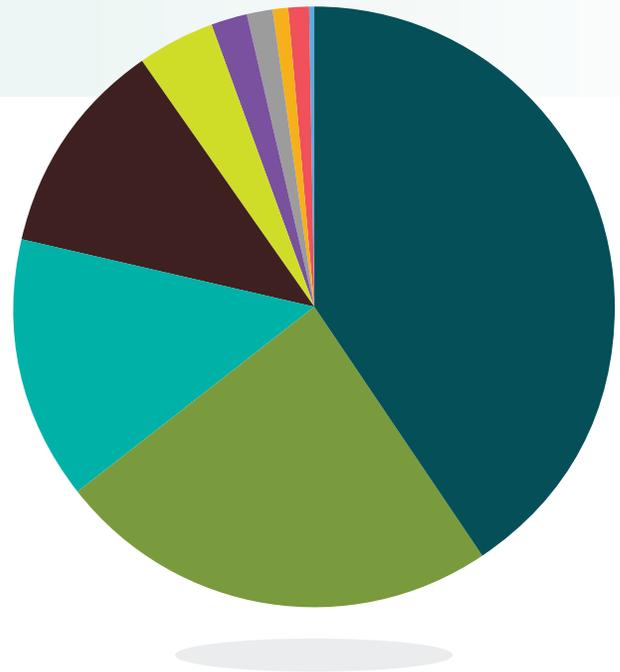
Total Book Values as of May 31, 2021

- \$ 2,471 - SBA Pool
- \$ 1,592 - Cash/FI Deposits
- \$ 865 - Agency CMO
- \$ 548 - ABS Credit Cards
- \$ 250 - Repo
- \$ 108 - ABS Auto
- \$ 85 - Commercial Paper
- \$ 60 - Corporate Bonds
- \$ 59 - ABS SL
- \$ 58 - CLF Stock
- \$ 33 - GNMA
- \$ 9 - CUSOs
- \$ 8 - CMBS/MBS
- \$ 4 - FHLB Stock



Credit Quality as of May 31, 2021

- \$ 2,504 - U.S. Gov't Guaranteed
- \$ 1,468 - Federal Reserve
- \$ 872 - U.S. Gov't Agency
- \$ 715 - Asset-Backed Securities (AAA)
- \$ 250 - Agency Repo
- \$ 124 - CU/Bank Cash Holdings
- \$ 85 - Commercial Paper
- \$ 60 - Corporate Bonds (AA-/AA+)
- \$ 58 - CLF Stock
- \$ 9 - CUSOs
- \$ 4 - FHLB Stock



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

Financial Condition & Performance May 2021

Balance Sheet	May 31, 2021		May 31, 2020	
Assets				
Loans	\$	265,817,912	\$	146,361
Investments:				
Asset-Backed Securities (Non-Mortgage)	\$	717,507,385	\$	890,496,976
U.S. Gov't (Notes/Floaters/Callables)	\$	0	\$	403,561
U.S. Gov't Agency (CMOs)	\$	903,315,823	\$	950,193,232
U.S. Gov't Agency (MBS)	\$	13,207,867	\$	16,942,450
U.S. Gov't (SBA)	\$	2,484,564,055	\$	1,838,224,953
Corporate Bonds	\$	61,333,398	\$	60,933,586
Commercial Paper	\$	84,983,000	\$	129,984,000
Federal Home Loan Bank - Atlanta	\$	3,909,500	\$	4,551,200
Credit Union & Bank Deposits	\$	124,235,312	\$	224,163,064
CUSOs	\$	8,640,263	\$	8,834,564
Federal Reserve Bank	\$	1,467,830,827	\$	3,846,051,256
CLF Stock	\$	57,738,003	\$	59,413,263
Receivables	\$	43,208,934	\$	34,518,180
Fixed Assets	\$	1,969,665	\$	5,423,631
Goodwill/Core Deposit Intangible	\$	2,282,127	\$	2,282,127
Other Assets	\$	50,626,068	\$	46,696,392
Total Assets:	\$	6,291,170,139	\$	8,119,258,796
Liabilities				
Other Liabilities:	\$	2,014,441	\$	2,771,949
Accounts Payable:	\$	62,907,492	\$	42,172,540
Accrued Liability for Member Payout:	\$	0	\$	55,788
Notes Payable:	\$	5,480,000	\$	6,860,015
Shares	\$	5,357,172,954	\$	7,013,210,174
Certificates/Term Deposits	\$	459,657,603	\$	699,957,479
Total Shares:	\$	5,816,830,557	\$	7,713,167,653
Non-Perpetual Capital Accounts (NCA)	\$	8,505,410	\$	8,505,410
Perpetual Contributed Capital (PCC)	\$	214,237,649	\$	214,196,834
Reserves & Undivided Earnings	\$	135,612,785	\$	94,520,317
Equity Acquired in Merger	\$	22,562,000	\$	22,562,000
Accumulated Other Comprehensive Loss	\$	23,019,805	\$	14,446,290
Total Equity:	\$	403,937,649	\$	354,230,851
Other Equity/Non-Controlling Interest:	\$	0	\$	0
Total Liabilities & Equity:	\$	6,291,170,139	\$	8,119,258,796

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Financial Condition & Performance May 2021

Income Statement YTD	May 2021	May 2020
Interest Income	\$ 17,116,408	\$ 31,354,436
Interest Expense	\$ (2,139,084)	\$ (14,697,265)
Net Interest Income	\$ 14,977,324	\$ 16,657,171
Net Correspondent Service Income	\$ 5,779,318	\$ 6,629,759
-Trf to Accrued Liability/Member Payout	\$ 0	\$ (1,084,391)
Gross Operating Income	\$ 20,756,642	\$ 22,202,539
Operating Expense	\$ (13,438,873)	\$ (12,317,668)
Net Income	\$ 7,317,769	\$ 9,884,871
Non-Operating Gains/(Losses)	\$ 862,616	\$ 18,464
Amortization of Core Deposit Intangible	\$ 0	\$ 0
CUSO Income	\$ (45,564)	\$ 9,803
USC MCA Distribution	\$ 24,175,364	\$ 0
Net Income before PCC Distributions	\$ 32,310,185	\$ 9,913,138
Less: Non-Controlling Interest in Net Income	\$ 0	\$ (234)
Less: Equity Transfer for PCC Distribution	\$ (664,724)	\$ (1,024,182)
Net Increase to Retained Earnings	\$ 31,645,461	\$ 8,888,722
Earnings Spread/Net Operating Margin	May 2021	May 2020
Return on Average Assets	0.605%	1.270%
Interest/Dividend Expense	-0.076%	-0.595%
Net Interest Margin	0.529%	0.675%
Correspondent Service Income	0.204%	0.269%
Operating Expenses	-0.475%	-0.499%
Non-Operating Gains/(Losses)	0.030%	0.001%
Amortization of Core Deposit Intangible	0.000%	0.000%
USC MCA Distribution	0.854%	0.000%
CUSO Income	-0.002%	0.000%
Non-Controlling Interest in Net Income	0.000%	0.000%
Trf to Accrued Liability/Member Payout	0.000%	-0.044%
PCC Distributions	-0.023%	-0.041%
Net Margin	1.118%	0.360%
Asset Quality	May 2021	
Non-Earning Assets/Average Assets	1.75%	
Delinquent Loans/Total Loans	0.00%	
Investment Portfolio		
U.S. Gov't/Agency Securities	56.97%	
Asset-Backed Securities (Non-Mortgage)	12.02%	
Federal Home Loan Bank	0.07%	
Corporate Bonds	1.03%	
Commercial Paper	1.42%	
Bank & Credit Union Deposits	2.08%	
Federal Reserve Bank	24.58%	
CUSO Equity	0.14%	
Cash & Receivables	0.72%	
Credit Ratings		
Asset-Backed Securities (Credit Card/Auto)	AAA/Aaa	
Asset-Backed Securities (Student Loans)	AAA/Aaa	
Corporate Bonds	AA- to AA+/A1 to Aa1	
Gov't Agencies/SBAs	AA+ to AAA	

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Key Financial Ratios May 2021

Capital Adequacy	May 2021	May 2020
RUDE + Acquired Equity Capital/monthly Average Net Assets	2.60%	1.54%
RUDE + Acquired Equity Capital/12-month Average Net Assets	2.32%	2.37%
Tier 1 (Leverage) Capital/12-month Average Net Assets	5.33%	6.53%
Total Capital/12-month Average Net Assets	5.45%	6.70%
Tier 1 Capital/12-month Average Risk-Weighted Assets	30.56%	26.36%
Total Capital/12-month Average Risk-Weighted Assets	31.26%	27.05%
Total Capital	\$ 372,155,157	\$ 330,870,781
Tier 1 (Leverage) Capital	\$ 363,772,171	\$ 322,444,587
Tier 2 Capital	\$ 8,382,986	\$ 8,426,194
PCC deducted from Tier 1 Capital	\$ 0	\$ 0
Unrealized Gain/Loss on Securities	\$ 23,019,805	\$ 14,446,290
Monthly Average Assets	\$ 6,095,256,856	\$ 7,587,475,096
Average 12-month Assets	\$ 6,827,281,218	\$ 4,936,915,556
Year-to-date Average Assets	\$ 6,843,967,693	\$ 5,926,883,234

Liquidity & Interest Rate Risk as of May 31, 2021

Available Liquidity:	Available Within 90 Days
Net Cash and Receivables:	\$ 1,511,039,761
Net Available For Sale (AFS) securities: (securities with adequate market values to sell)	\$ 1,736,993,712
Overnight & Investments Maturing within 90 days:	\$ 112,835,312
Unsecured Fed Funds Lines Available:	\$ 150,000,000
Secured Fed Funds Lines Available:	\$ 150,000,000
Federal Home Loan Bank (FHLB) - borrowing capacity:	\$ 2,160,465,300
-less fixed term existing loan advances	\$ (5,480,000)
Primary Sources of Liquidity:	\$ 5,815,854,085
Federal Reserve (FRB) Discount Window - borrowing capacity:	\$ 42,114,525
Excess Balance Account (EBA) - funds held for members @ FRB:	\$ 5,100,047,874
Secondary Sources of Liquidity:	\$ 5,142,162,399
Total Available Liquidity:	\$ 10,958,016,484

Interest Rate Risk as of May 31, 2021

		Regulation 704 Operating Level: Base Plus
Base/Current Rate Environment	Net Economic Value (NEV):	\$ 395,471,185
	NEV Ratio:	6.28%
Up 3% Rate Environment	Net Economic Value (NEV):	\$ 366,162,482
	NEV Ratio:	5.85%
	Percentage Change:	(7.4%)
Down 1% Rate Environment	Net Economic Value (NEV):	\$ 413,579,429
	NEV Ratio:	6.55%
	Percentage Change:	4.6%

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Notes to Financials May 2021

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) - \$8,382,985.
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/or Fitch (AAA).
14. Student loan asset-backed securities are rated by Moody's (Aaa) and S&P (AAA).
15. Corporate bonds ratings ranges are from S&P (AA+/AA-) and Moody's (A1/Aa1).
16. Available-for-sale securities in the liquidity section includes only bonds with market values showing: 1) Gains, or 2) Unrealized losses below \$5,000.
17. 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.
18. All borrowing capacities reflect current market value of eligible collateral plus appropriate haircuts.
19. Primary credit access is available at the Federal Reserve Bank (FRB).
20. Current limit at FHLB-Atlanta \$2,160,465,300 (5/31) - this will vary based on assets.
21. Unsecured fed funds lines: \$100 million from PNC Bank; \$50 million from Corporate One.
22. Secured fed funds lines comprised of \$150 million from U.S. Bank - line secured by asset-backed securities.
23. Accumulated Other Comprehensive Loss reflects unrealized gains and losses and non-credit related market value losses not reductions in capital.
24. NEV & capital ratios are in compliance with policy and regulatory limits.
25. Under Liquidity Measures, EBA balances exclude funds held by non-PCC credit unions that totaled 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

David W. Brehmer, President & CEO
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.



7900 Triad Center Drive
Suite 410
Greensboro, NC 27409

1201 Fulling Mill Road
Middletown, PA 17057

www.vfccu.org