# Monthly Financials

Vizo Financial Corporate Credit Union

**July 2023 Financials**

Enclosed please find Vizo Financial Corporate Credit Union's financial statements and supplementary financial information as of July 31, 2023. 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 $3.289 billion, virtually unchanged from June's $3.280 billion but was down from May's $3.415 billion. Comparing total deposits, which include the EBA balances, overall average overnight deposits were up $10.0 million in July. Given the overall liquidity tightness in the system, we have warehoused liquidity through the Fed's Bank Term Funding Program (BTFP) to maintain excess cash levels. The spread between the single day high and low balances was $1.005 billion, almost identical to June's fluctuation of $1.006 billion (includes EBA balances). This led to the volatility of short-term member balances remaining stable at 25%.

Average off-balance sheet credit union balances – those held in our Excess Balance Account (EBA) – averaged just $61.7 million and ended the month at $60.4 million. Despite the current low balances, the EBA will be maintained for potential future use to control the size of our balance sheet if the liquidity environment shifts.

From a seasonal cash flow perspective, March-April have historically been the months where deposits peak. Total short-term deposits (on-balance sheet plus EBA), hit a record high of $10.365 billion in April 2021. In July 2023, this average stood at $3.351 billion, reflecting the major turnaround in the liquidity environment. March was our highest balance month in 2023, with average short-term deposits of $3.943 billion. Our 12-month rolling average assets dropped from $5.701 billion to $5.692 billion. We are targeting a maximum on-balance sheet asset size of $6 billion, which, given the current liquidity environment, we expect to be well below throughout 2023.

We now target a minimum of $700 million in our Fed account to cover member settlement activity. In July, our Fed balances averaged $2.051 billion, with a low of $1.619 billion. The high average Fed balances are the result of taking advantage of warehousing liquidity at attractive pricing levels. Average liquidity borrowings in June averaged $1.0 billion, with $1.0 billion in outstanding borrowings at month-end.

While system liquidity remains tight, access to advances is readily available through our primary borrowing sources.

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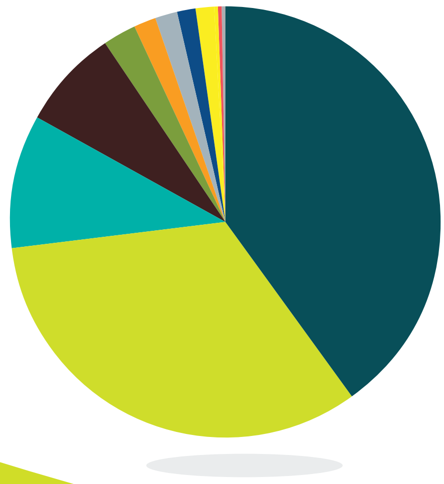
## Total Book Values as of July 31, 2023



- $2,079 - Cash/FI Deposits
- $ 1,706 - SBA Pool
- $ 525 - Agency CMO
- $ 386 - U.S. Treasuries
- $ 130 - ABS Credit Cards
- $ 84 - ABS Auto/Equipment
- $ 80 - Agency Floaters
- $ 79 - Member Loans
- $ 64 - ABS Student Loans
- $ 20 - Corporate Bonds
- $ 19 - GNMA
- $ 10 - CUSOs
- $ 3 - FHLB Stock
- $ 1 - CMBS/MBS

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

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

- On-balance sheet (month-end) member shares were down from the prior month, coming in at $3.667 billion compared to $4.341 billion in June and $3.696 billion in May. Month-end figures can vary considerably depending on the day of the week on which a month ends. Of this month's total, $450.0 million was in certificates, while the remaining balances were distributed between the various PSA and settlement deposit accounts.
- Month-end assets came in at $5.276 billion. Average net assets were above that figure, coming in at $5.382 billion. Excluding non-perpetual capital accounts but including net unrealized losses, our total net equity is $522.5 million. The overall unrealized loss/AOCL figure was nearly unchanged at $34.1 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 $340.0 million. Net operating income for the month came in at $4,719,303, which includes receipt of our employee retention credit of just over $2.2 million. This was reduced by negative CUSO income ($75,138), and transfers to accrued liabilities ($200,000). Dividends paid on PCC accounts totaled $781,754 for a net addition to retained earnings of $3,662,411.
- Our leverage/tier 1 capital ratio is at 9.61%, and our retained earnings ratio now stands at 5.97%. *Our total capital ratio ended the month at 9.75%.*
- The Net Economic Value (economic value of assets less the economic value of liabilities) (NEV), camein at $542.3 million at the end of July, with an NEV ratio of 10.28% compared to the prior month's 9.09%. The NEV ratio will fluctuate quite a bit 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 9.75% with a negative fluctuation of 6.1%. 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 at under $5,000, we do not include it as liquid in our "Available Liquidity" report.
- Total capital now stands at $555.3 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 stands at $9.6 million. Without these reductions, our gross total capital amounts to $564.9 million.

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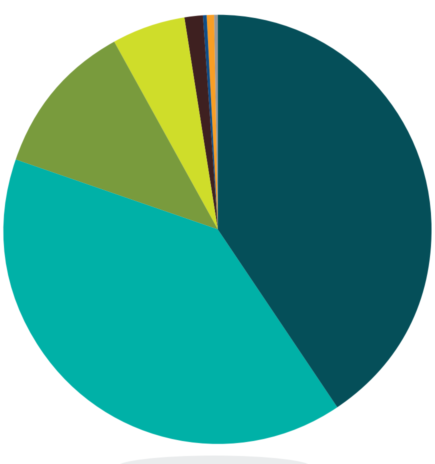
## Credit Quality as of July 31, 2023



- $ 2,111 - U.S. Gov't Guaranteed
- $ 2,063 - Federal Reserve
- $ 606 - U.S. Gov't Agency
- $ 278 - Asset-Backed Securities (AAA)
- $ 79 - Member Loans
- $ 20 - Corporate Bonds (AA-/AA+)
- $ 17 - CU/Bank Cash Holdings
- $ 10 - CUSOs
- $ 3 - FHLB Stock

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

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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

## Off-Balance Sheet Activity

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

| | | |
|---|---|---|
| SimpliCDs | $ | 1.054 billion |
| Security Sales* | $ | 497 million |
| EBA Balances | $ | 60 million |
| **Total Off-Balance Sheet** | **$** | **1.611 billion** |

**Security sales reflect sales over the past 18 months*

## Unrealized Gains/Losses

Unrealized losses for July 2023 were $34,113,335, compared to $34,325,360 in June. While the overall number improved slightly, the SBA pool's unrealized losses grew from $4.6 million to $6.1 million. This was offset by improvements in the treasury and agency CMO portfolios ($1.1 million and $0.8 million respectively). The level of unrealized losses may start to stabilize when the Fed discontinues its rate hikes. It is clear that it is not credit, but rather the rise in interest rates, that is driving the lower market values. We have over $2 billion in eligible collateral that can be used to access funds from the Federal Home Loan Bank or the Fed's Bank Term Funding Program, 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 80.7%.*

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.

- $14.896 million LOSS is related to our government agency CMO securities portfolio ($525.4 million total book value)
- $0.011 million LOSS is related to our agency MBS/CMBS securities ($0.4 million total book value)
- $0.802 million LOSS is related to our government guaranteed mortgage securities ($19.3 million total book value)
- $0.548 million LOSS is related to our agency floater portfolio ($79.8 million total book value)
- $0.018 million LOSS is related to our corporate bond portfolio ($20.0 million total book value)
- $0.407 million LOSS is related to our credit card asset-backed securities ($129.9 million total book value)
- $0.055 million LOSS is related to our auto and equipment asset-backed securities ($83.7 million total book value)
- $1.958 million LOSS is related to our student loan asset-backed securities ($64.0 million total book value)
- $9.303 million LOSS is related to our U.S. treasury securities ($385.8 million total book value)
- $6.114 million LOSS is related to our government guaranteed SBA portfolio ($1.706 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 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 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*

## Balance Sheet

| | | July 2023 | | July 2022 |
|---|---|---|---|---|
| **Assets** | | | | |
| Loans | $ | 78,575,055 | $ | 104,049,048 |
| Investments: | | | | |
| Asset-Backed Securities (Non-Mortgage) | $ | 275,245,725 | $ | 655,979,517 |
| U.S. Gov't (Notes/Floaters/Callables) | $ | 79,242,061 | $ | 79,248,958 |
| U.S. Gov't Agency (CMOs) | $ | 528,986,464 | $ | 653,212,815 |
| U.S. Gov't Agency (MBS) | $ | 352,391 | $ | 5,266,403 |
| U.S. Gov't (SBA) | $ | 1,700,185,785 | $ | 2,168,627,736 |
| Corporate Bonds | $ | 19,982,200 | $ | 29,839,030 |
| U.S. Treasuries | $ | 376,457,112 | $ | 657,596,513 |
| Commercial Paper | $ | 0 | $ | 0 |
| Federal Home Loan Bank - Atlanta | $ | 3,370,400 | $ | 2,729,400 |
| Credit Union & Bank Deposits | $ | 16,646,716 | $ | 95,749,206 |
| CUSOs | $ | 9,638,104 | $ | 10,095,906 |
| Federal Reserve Bank | $ | 2,062,616,282 | $ | 1,010,106,073 |
| CLF Stock | $ | 0 | $ | 57,738,003 |
| Receivables | $ | 49,395,828 | $ | 62,965,949 |
| Fixed Assets | $ | 6,925,616 | $ | 8,596,169 |
| Goodwill/Core Deposit Intangible | $ | 0 | $ | 176,447 |
| Accrued Income/Prepaid Expense | $ | 28,677,377 | $ | 17,179,561 |
| Other Assets | $ | 39,846,616 | $ | 39,051,298 |
| **Total Assets:** | **$** | **5,276,143,732** | **$** | **5,658,208,032** |
| **Liabilities** | | | | |
| Other Liabilities: | $ | 20,839,517 | $ | 6,972,825 |
| Accounts Payable: | $ | 57,859,510 | $ | 63,874,700 |
| Notes Payable: | $ | 1,000,000,000 | $ | 0 |
| Shares | $ | 3,216,591,452 | $ | 4,503,621,690 |
| Certificates/Term Deposits | $ | 450,048,657 | $ | 619,954,240 |
| **Total Shares:** | **$** | **3,666,640,109** | **$** | **5,123,575,930** |
| Non-Perpetual Capital Accounts (NCA) | $ | 8,332,575 | $ | 8,505,410 |
| Perpetual Contributed Capital (PCC) | $ | 216,577,308 | $ | 214,433,317 |
| Reserves & Undivided Earnings | $ | 317,446,048 | $ | 230,569,435 |
| Equity Acquired in Merger | $ | 22,562,000 | $ | 22,562,000 |
| Accumulated Other Comprehensive Loss | $ | (34,113,335) | $ | (12,285,585) |
| **Total Equity:** | **$** | **530,804,596** | **$** | **463,784,577** |
| **Total Liabilities & Equity:** | **$** | **5,276,143,732** | **$** | **5,658,208,032** |

*unaudited financials*

# Financial Condition & Performance

| Income Statement YTD | | July 2023 | | July 2022 |
|---|---|---|---|---|
| Interest Income | $ | 145,346,290 | $ | 30,814,110 |
| Interest Expense | $ | (117,420,632) | $ | (16,600,155) |
| **Net Interest Income** | **$** | **27,925,658** | **$** | **14,213,955** |
| Correspondent Service Income | $ | 16,761,690 | $ | 25,091,606 |
| Correspondent Service Expense | $ | (7,363,744) | $ | (17,589,704) |
| **Net Correspondent Income** | **$** | **9,397,946** | **$** | **7,501,902** |
| **Gross Operating Income** | **$** | **37,323,604** | **$** | **21,715,857** |
| Operating Expense | $ | (18,849,602) | $ | (16,799,896) |
| **Net Income** | **$** | **18,474,002** | **$** | **4,915,961** |
| Gain/Loss on Sale of Investments | $ | (327,750) | $ | 0 |
| Gain/Loss on Sale of Other Assets/Goodwill | $ | (176,447) | $ | (1,162,899) |
| CUSO Income | $ | (428,817) | $ | (2,533) |
| USC MCA Distribution | $ | 23,720,772 | $ | 58,129,527 |
| -Member Payout | $ | 0 | $ | (35,632,865) |
| -Accrued Liability | $ | (1,932,086) | $ | 0 |
| **Net Income before PCC Distributions** | **$** | **39,329,674** | **$** | **26,247,191** |
| Less: Non-Controlling Interest in Net Income | $ | 0 | $ | 0 |
| Less: Equity Transfer for PCC Distribution | $ | (4,935,988) | $ | (979,632) |
| **Net Increase to Retained Earnings** | **$** | **34,393,686** | **$** | **25,267,559** |

*unaudited financials*

| Earnings Spread/Net Operating Margin | July 2023 | July 2022 |
|---|---|---|
| Return on Average Assets | 4.521% | 0.897% |
| Interest/Dividend Expense | -3.653% | -0.483% |
| **Net Interest Margin** | **0.869%** | **0.414%** |
| Correspondent Service Income | 0.292% | 0.218% |
| Operating Expenses | -0.586% | -0.489% |
| Gain/Loss on Sale of Investments | -0.010% | 0.000% |
| Gain/Loss on Other Assets/Goodwill | -0.005% | -0.034% |
| USC MCA Distribution | 0.738% | 1.691% |
| CUSO Income | -0.013% | 0.000% |
| Non-Controlling Interest in Net Income | 0.000% | 0.000% |
| Accrued Liability/Member Payout | -0.060% | -1.037% |
| PCC Distributions | -0.154% | -0.029% |
| **Net Margin** | **1.070%** | **0.735%** |

| Capital Adequacy | | July 2023 | | July 2022 |
|---|---|---|---|---|
| RUDE + Acquired Equity Capital/Monthly Average Net Assets | | 6.32% | | 4.61% |
| RUDE + Acquired Equity Capital/12-month Average Net Assets | | 5.97% | | 4.47% |
| Tier 1 (Leverage) Capital/12-month Average Net Assets | | 9.61% | | 8.08% |
| Total Capital/12-month Average Net Assets | | 9.75% | | 8.23% |
| Tier 1 Capital/12-month Average Risk-Weighted Assets | | 79.55% | | 48.09% |
| Total Capital/12-month Average Risk-Weighted Assets | | 80.76% | | 48.96% |
| Total Capital | $ | 555,275,221 | $ | 465,801,067 |
| Tier 1 (Leverage) Capital | $ | 546,947,252 | $ | 457,468,846 |
| Tier 2 Capital | $ | 8,327,969 | $ | 8,332,221 |
| PCC deducted from Tier 1 Capital | $ | 0 | $ | 0 |
| Unrealized Gain/Loss on Securities | $ | (34,113,335) | $ | (12,285,585) |
| Monthly Average Assets | $ | 5,382,460,053 | $ | 5,485,190,397 |
| Average 12-month Assets | $ | 5,692,305,283 | $ | 5,660,864,776 |
| Year-to-date Average Assets | $ | 5,534,530,413 | $ | 5,916,741,801 |

*unaudited financials*

# Key Financial Ratios

## Liquidity & Interest Rate Risk as of July 31, 2023

| **Available Liquidity:** | | **Available Within 90 Days** |
|---|---|---|
| Net Cash and Receivables: | $ | 2,112,012,110 |
| Net Available For Sale (AFS) securities:<br>(securities with adequate market values to sell) | $ | 693,919,280 |
| Overnight & Investments Maturing within 90 days: | $ | 9,154,716 |
| Unsecured Fed Funds Lines Available: | $ | 150,000,000 |
| Secured Fed Funds Lines Available: | $ | 75,000,000 |
| Federal Home Loan Bank (FHLB) - borrowing capacity: | $ | 1,998,527,212 |
| -less fixed term existing loan advances | $ | (1,000,000,000) |
| Primary Sources of Liquidity: | $ | 4,038,613,318 |
| Federal Reserve (FRB) Discount Window - borrowing capacity: | $ | 201,395,141 |
| Excess Balance Account (EBA) - funds held for members @ FRB: | $ | 60,361,000 |
| Secondary Sources of Liquidity: | $ | 261,756,141 |
| **Total Available Liquidity:** | **$** | **4,300,369,459** |

## Interest Rate Risk as of July 31, 2023

| | | | **Regulation 704 Operating Level: Base Plus** |
|---|---|---|---|
| **Base/Current Rate Environment** | Net Economic Value (NEV): | $ | 542,320,351 |
| | NEV Ratio: | | 10.28% |
| **Up 3% Rate Environment** | Net Economic Value (NEV): | $ | 509,141,521 |
| | NEV Ratio: | | 9.75% |
| | Percentage Change: | | -6.1% |
| **Down 3% Rate Environment** | Net Economic Value (NEV): | $ | 577,252,079 |
| | NEV Ratio: | | 10.83% |
| | Percentage Change: | | 6.4% |

*unaudited financials*

1. Tier 1 (Leverage) Capital = Reserves, Undivided Earnings, Equity Acquired in Merger, & 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) – $8,327,968.
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 LOC limit at FHLB-Atlanta $1,784,023,800 (7/31) – this will vary based on assets. Borrowing capacity reflects collateral available for accessing line.
21. Unsecured fed funds lines: $100 million from PNC Bank; $50 million from Corporate One.
22. Secured fed funds lines comprised of $75 million from US 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.

## 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, EVP

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

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