Monthly Financials

Vizo Financial Corporate Credit Union

September 2021 Edition | August 2021 Financials

David Brehmer
President & CEO

Corporate Update

As the seasons change from summer to autumn, the one constant is our commitment to helping your credit union succeed. We are also excited this month to share with you information on our recent capital recovery, the results of our Annual Meeting and more educational opportunities like our 2021 Payments Conference. Keep reading below to get all the details!

Member Distributions

Vizo Financial is thrilled to announce that in August we received $124.9 million as our second recovery payment from the U.S. Central membership capital account (MCA) shares written off during the financial crisis in 2009. Of this amount, we reserved $60 million for distribution to our member credit unions who wrote off capital with one of the three corporates that today make up Vizo Financial (First Carolina, Mid-Atlantic Corporate, and VACORP).

During the September 14, 2021, board meeting, the Vizo Financial board approved a payout to reimburse member credit unions 63% of the corporate capital losses they incurred during the financial crisis.

The Federal CU Act (FCUA) and NCUA regulations do not allow distributions of retained earnings to non-members. Therefore, only credit unions that meet the capital requirements for full membership are eligible for this payout. Member credit unions are defined as credit unions who met the capital requirements for membership prior to the merger in October 2016, along with any credit union that has met the PCC capital requirements for membership in place since the merger.

Member distributions will occur during the last week in September. The funds will be credited to your corporate settlement account no later than September 30, 2021.

NCUA has indicated that the next projected recovery payment from the U.S. Central estate should occur sometime in the first quarter of 2022. Our goal remains to reimburse our members 100% of the corporate capital losses they incurred during the financial crisis.

Annual Meeting Recap

Our annual meeting was held virtually on September 8, 2021, and we are excited to announce the re-election of Daniel Berry, Duke University Federal Credit Union, Durham, N.C. and the election of Paul Hughes, Greenville Federal Credit Union, Greenville, S.C. to Vizo Financial's board of directors for three-year terms.

When voting closed in this year's election, two candidates were tied for the third board seat – Jerry King, president/chief executive officer of DEXSTA Federal Credit Union and Michael Thomas, chief financial officer of Service 1st Federal Credit Union.

A runoff election is being conducted between these two candidates for the remaining three-year term board seat. This runoff election is being conducted through an online, secure internet-based voting process, and each credit union's authorized representative will receive an electronic ballot from the email address noreply@directvote.net with their username and election passcode. All votes must be received by 11:59 p.m. CT on September 30, 2021.

Visit the **Annual Meeting website** for more information on the candidates, and while you're there, watch the recording of the 2021 Annual Meeting.

Payments Conference

Our virtual Payments Conference is right around the corner! We are excited to see everyone virtually on October 19-20 for this event, where payment professionals converge for an educational experience that provides a look into the latest, greatest and most talked about trends in the payments arena, from ACH to fintech and more.

We will come together with experts in the field and the people who process payments in credit unions every day to share in Vizo Financial's virtual Payments Conference, a place where education, networking, exchanging of ideas and open discussion bring the future of payments alive!

Attendees can expect educational sessions, expert speakers, the chance to earn five CPE credits and an event app that offers games and prizes! Save your virtual seat by **registering today** or go to **www.vfccu.org** for more event details!

As always, if you have any questions regarding the financials, please don't hesitate to **contact me**.

vizo financial

Financial Condition & Performance August 2021

Enclosed please find Vizo Financial Corporate Credit Union's financial statements and supplementary financial information as of August 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 $4.540 billion compared to $4.695 billion in July and $4.782 billion in June. Comparing total deposits, which include the Excess Balance Account (EBA) balances, overall average deposits decreased $27.1 million in August. The spread between the single day high and low balances was $1.145 billion compared to $1.115 billion in July and $931.8 million in June (including EBA balances). Volatility of total member balances (on-balance sheet + EBA) was very stable, staying at 11%.

Average off-balance sheet credit union balances – those held in our EBA – averaged $5.283 billion and ended the month at $5.289 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. From a total deposit perspective, April 2021 recorded our highest combined balances (on-balance sheet + EBA) to date, averaging $10.365 billion. In August, this total has come down slightly to $9.823 billion. We now have over 50 percent of member deposits held off-balance sheet in our EBA. Our 12-month rolling average assets decreased dropping from $6.552 billion down to $6.453 billion. We expect our rolling 12-month average assets will continue to drop over the remainder of 2021.

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 $1.879 billion with an average low of $1.223 billion. In August, our Fed balances averaged $1.310 billion.

Liquidity remains 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 $4.717 billion compared to $5.686 billion in July and $5.110 billion in June. Month-end figures vary considerably depending on the day of the week on which a month ends. Of this month's total, $355.5 million were in certificates, while the remaining balances were distributed between the various PSA and settlement deposit accounts.
- Month-end assets came in at $5.302 billion. Average assets were higher than month-end assets, coming in at $5.443 billion. Excluding non-perpetual capital accounts, our total net equity is at $457.4 million. The unrealized gain/loss/AOCL figure was up slightly, coming in at a gain of $16.4 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 $226.8 million. Gross operating income for the month came in at $951,521. Distributions to members via PCC dividends totaled $136,467. In addition, we received a recovery distribution payment from the US Central estate of $124,951,320, of which $60 million was reserved for a capital recovery payment to our capital members who wrote off capital with the corporate back in 2009. Our net increase to retained earnings was $65,766,374.
- Our 12-month average assets decreased for a fourth consecutive month, which, along with our capital recovery from US Central estate led to a nice jump in our leverage/tier 1 capital ratio to 6.70% (up from 5.60%). Likewise, our retained earnings ratio ended the month at 3.51% (up from 2.46%). *Our total capital ratio also climbed to 6.83% (up from 5.72%).*
- The net economic value (NEV) dollar value of assets came in at $457.5 million at the end of August, with an NEV ratio of 8.62% compared to the prior month's 6.36%. The net recovery payment received in August resulted in the significant jump in the NEV ratios. 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 8.22% with a negative fluctuation of 5.2%. We are well above required regulatory NEV levels (2%).

continued on page 3

Financial Condition & Performance August 2021

continued from page 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 stands at $440.8 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 $449.4 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

Off-Balance Sheet Activity

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

SimpliCDs	$ 568 million
Security Sales*	$ 979 million
EBA Balances	$ 5.289 billion
Total Off-Balance Sheet	**$ 6.836 billion**

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

Unrealized Gains/Losses

Market values remained stable in August, with our unrealized gains increasing from $15.451 million to $16.393 million. The SBA portfolio remains the largest percentage of our overall investment portfolio and showed unrealized gains of $9.239 million. 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 39.1%.*

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.

- $3.700 million GAIN is related to our government agency CMO securities portfolio ($789.3 million total book value)
- $0.050 million GAIN is related to our agency MBS/CMBS/Notes/Callable securities ($7.1 million total book value)
- $0.171 million GAIN is related to our government guaranteed mortgage securities ($30.3 million total book value)
- $0.901 million GAIN is related to our corporate bond portfolio ($60.5 million total book value)
- $1.913 million GAIN is related to our credit card asset-backed securities ($519.9 million total book value)
- $0.359 million GAIN is related to our auto floor-plan asset-backed securities ($105.2 million total book value)
- $0.060 million GAIN is related to our student loan asset-backed securities ($57.6 million total book value)
- $9.239 million GAIN is related to our government guaranteed SBA portfolio ($2.155 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.

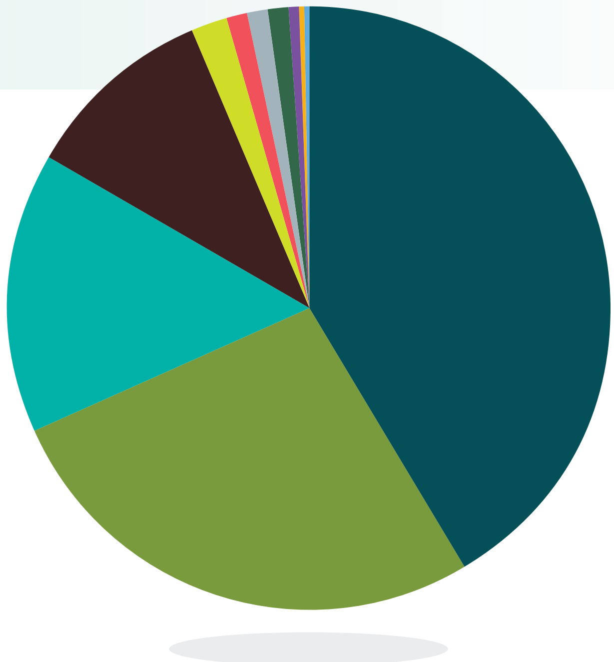
We are very grateful to our members for their continued support and for the trust you place in us. If you have any questions, please do not hesitate to contact us.

David W. Brehmer
President & CEO

Investment Portfolio August 2021

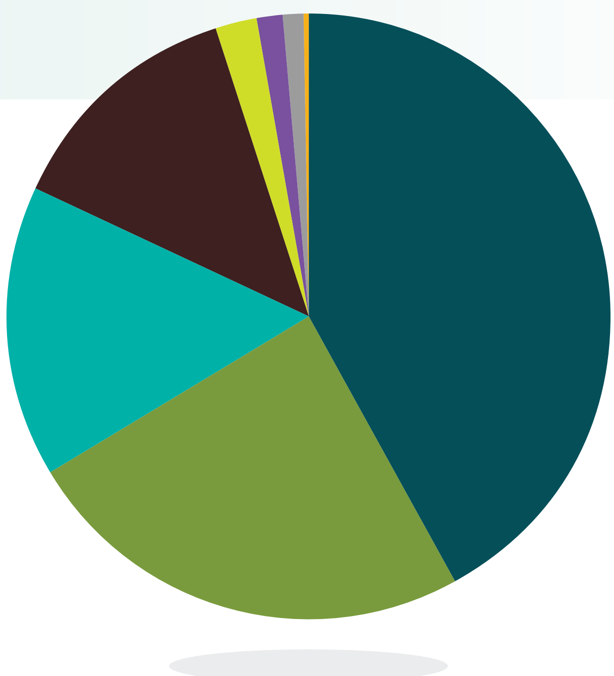
Total Book Values as of August 31, 2021

- $ 2,155 - SBA Pool
- $ 1,387 - Cash/FI Deposits
- $ 789 - Agency CMO
- $ 520 - ABS Credit Cards
- $ 105 - ABS Auto
- $ 60 - Corporate Bonds
- $ 58 - ABS SL
- $ 58 - CLF Stock
- $ 30 - GNMA
- $ 9 - CUSOs
- $ 7 - CMBS/MBS
- $ 4 - FHLB Stock



Credit Quality as of August 31, 2021

- $ 2,186 - U.S. Gov't Guaranteed
- $ 1,265 - Federal Reserve
- $ 796 - U.S. Gov't Agency
- $ 683 - Asset-Backed Securities (AAA)
- $ 122 - CU/Bank Cash Holdings
- $ 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 August 2021

Balance Sheet		August 31, 2021		August 31, 2020
Assets				
Loans	$	8,225,955	$	1,387,992
Investments:				
Asset-Backed Securities (Non-Mortgage)	$	685,048,391	$	871,010,524
U.S. Gov't (Notes/Floaters/Callables)	$	0	$	401,921
U.S. Gov't Agency (CMOs)	$	823,488,576	$	1,062,497,560
U.S. Gov't Agency (MBS)	$	7,151,687	$	16,045,841
U.S. Gov't (SBA)	$	2,164,701,375	$	1,958,401,569
Corporate Bonds	$	61,354,600	$	61,336,030
Commercial Paper	$	0	$	0
Federal Home Loan Bank - Atlanta	$	3,692,000	$	4,551,200
Credit Union & Bank Deposits	$	122,406,071	$	172,883,578
CUSOs	$	8,569,914	$	8,675,115
Federal Reserve Bank	$	1,264,900,878	$	2,301,913,250
CLF Stock	$	57,738,003	$	58,244,334
Receivables	$	40,885,361	$	33,283,256
Fixed Assets	$	2,990,936	$	6,029,157
Goodwill/Core Deposit Intangible	$	2,282,127	$	2,282,127
Other Assets	$	49,052,125	$	47,252,640
Total Assets:	**$**	**5,302,487,999**	**$**	**6,606,196,094**

Liabilities				
Other Liabilities:	$	1,864,284	$	2,663,864
Accounts Payable:	$	57,431,973	$	56,963,045
Accrued Liability for Member Payout:	$	60,000,000	$	0
Notes Payable:	$	0	$	6,537,600
Shares	$	4,361,718,352	$	5,562,647,339
Certificates/Term Deposits	$	355,553,868	$	609,621,437
Total Shares:	**$**	**$4,717,272,220**	**$**	**$6,172,268,776**
Non-Perpetual Capital Accounts (NCA)	$	8,505,410	$	8,505,410
Perpetual Contributed Capital (PCC)	$	214,237,649	$	214,237,649
Reserves & Undivided Earnings	$	204,221,731	$	99,078,272
Equity Acquired in Merger	$	22,562,000	$	22,562,000
Accumulated Other Comprehensive Loss	$	16,392,732	$	23,379,478
Total Equity:	**$**	**465,919,522**	**$**	**367,762,809**
Total Liabilities & Equity:	**$**	**$5,302,487,999**	**$**	**$6,606,196,094**

unaudited financials

Financial Condition & Performance August 2021

Income Statement YTD		August 2021		August 2020
Interest Income	$	26,237,371	$	41,369,272
Interest Expense	$	(3,196,995)	$	(16,332,155)
Net Interest Income	**$**	**23,040,376**	**$**	**25,037,117**
Correspondent Service Income	$	18,781,342	$	15,894,475
Correspondent Service Expense	$	(10,125,731)	$	(5,598,559)
Net Correspondent Income	**$**	**8,655,611**	**$**	**10,295,916**
Gross Operating Income	**$**	**31,695,987**	**$**	**35,333,033**
Operating Expense	$	(21,133,084)	$	(20,056,027)
Net Income	**$**	**10,562,903**	**$**	**15,277,006**
Non-Operating Gains/(Losses)	$	1,750,455	$	464,781
Amortization of Core Deposit Intangible	$	0	$	0
CUSO Income	$	(115,913)	$	26,391
USC MCA Distribution	$	149,126,684	$	0
-Accrued Liability/Member Payout	$	(60,000,000)	$	(1,084,391)
Net Income before PCC Distributions	**$**	**101,324,129**	**$**	**14,683,787**
Less: Non-Controlling Interest in Net Income	$	0	$	(234)
Less: Equity Transfer for PCC Distribution	$	(1,069,721)	$	(1,236,876)
Net Increase to Retained Earnings	**$**	**100,254,408**	**$**	**13,446,677**

Earnings Spread/Net Operating Margin	August 2021	August 2020
Return on Average Assets	0.619%	0.973%
Interest/Dividend Expense	-0.075%	-0.384%
Net Interest Margin	**0.543%**	**0.589%**
Correspondent Service Income	0.204%	0.242%
Operating Expenses	-0.498%	-0.472%
Non-Operating Gains/(Losses)	0.041%	0.011%
Amortization of Core Deposit Intangible	0.000%	0.000%
USC MCA Distribution	3.517%	0.000%
CUSO Income	-0.003%	0.001%
Non-Controlling Interest in Net Income	0.000%	0.000%
Trf to Accrued Liability/Member Payout	-1.415%	-0.026%
PCC Distributions	-0.025%	-0.029%
Net Margin	**2.364%**	**0.316%**

Asset Quality	August 2021
Non-Earning Assets/Average Assets	1.91%
Delinquent Loans/Total Loans	0.00%
Investment Portfolio	
U.S. Gov't/Agency Securities	57.16%
Asset-Backed Securities (Non-Mortgage)	13.07%
Federal Home Loan Bank	0.07%
Corporate Bonds	1.17%
Commercial Paper	0.00%
Bank & Credit Union Deposits	2.34%
Federal Reserve Bank	24.14%
CUSO Equity	0.16%
Cash & Receivables	0.78%
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

unaudited financials

Key Financial Ratios August 2021

Capital Adequacy	August 2021	August 2020
RUDE + Acquired Equity Capital/monthly Average Net Assets	4.17%	1.83%
RUDE + Acquired Equity Capital/12-month Average Net Assets	3.51%	2.15%
Tier 1 (Leverage) Capital/12-month Average Net Assets	6.70%	5.78%
Total Capital/12-month Average Net Assets	6.83%	5.93%
Tier 1 Capital/12-month Average Risk-Weighted Assets	38.32%	26.13%
Total Capital/12-month Average Risk-Weighted Assets	39.07%	26.80%
Total Capital	$ 440,823,650	$ 335,618,198
Tier 1 (Leverage) Capital	$ 432,451,466	$ 327,202,806
Tier 2 Capital	$ 8,372,184	$ 8,415,392
PCC deducted from Tier 1 Capital	$ 0	$ 0
Unrealized Gain/Loss on Securities	$ 16,392,732	$ 23,379,478
Monthly Average Assets	$ 5,442,722,623	$ 6,633,957,372
Average 12-month Assets	$ 6,452,786,862	$ 5,658,885,351
Year-to-date Average Assets	$ 6,369,728,537	$ 6,358,292,284

Liquidity & Interest Rate Risk as of August 31, 2021	
Available Liquidity:	**Available Within 90 Days**
Net Cash and Receivables:	$ 1,305,786,239
Net Available For Sale (AFS) securities: (securities with adequate market values to sell)	$ 2,023,320,426
Overnight & Investments Maturing within 90 days:	$ 112,246,071
Unsecured Fed Funds Lines Available:	$ 150,000,000
Secured Fed Funds Lines Available:	$ 150,000,000
Federal Home Loan Bank (FHLB) - borrowing capacity:	$ 1,652,106,617
-less fixed term existing loan advances	$ 0
Primary Sources of Liquidity:	$ 5,393,459,353
Federal Reserve (FRB) Discount Window - borrowing capacity:	$ 23,949,101
Excess Balance Account (EBA) - funds held for members @ FRB:	$ 5,288,397,068
Secondary Sources of Liquidity:	$ 5,312,346,169
Total Available Liquidity:	**$ 10,705,805,522**

Interest Rate Risk as of August 31, 2021		
		Regulation 704 Operating Level: Base Plus
Base/Current Rate Environment	Net Economic Value (NEV):	$ 457,480,809
	NEV Ratio:	8.62%
Up 3% Rate Environment	Net Economic Value (NEV):	$ 433,805,760
	NEV Ratio:	8.22%
	Percentage Change:	(5.2%)
Down 1% Rate Environment	Net Economic Value (NEV):	$ 473,292,669
	NEV Ratio:	8.89%
	Percentage Change:	3.5%

unaudited financials

Notes to Financials August 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) – $8,372,183.
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 $1,671,498,300 (8/31) – 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.

Vizo financial

7900 Triad Center Drive
Suite 410
Greensboro, NC 27409

1201 Fulling Mill Road
Middletown, PA 17057

www.vfccu.org