

Monthly Financials

Vizo Financial Corporate Credit Union

January 2022 Edition | December 2021 Financials



David Brehmer
President & CEO

Corporate Update

"Winter is a season of recovery and preparation." -Paul Theroux

Whether your winters are white with snow or more on the dry side, the signs of renewal and rebirth are everywhere. Even in the credit union world, we're looking ahead. Finding new technologies to serve members, growing our expertise and sharing our people-first philosophies with our members. Vizo Financial is doing our best to help your institution make strides in all of these areas, with new resources and opportunities on the horizon. Keep reading to learn more!

We've Launched a New Podcast!

A new year brings a new form of education and credit union conversation for Vizo Financial. We're so excited to share with you our new podcast, *Financial Minds: Meet the Experts!*

In the podcast, marketing and business development director, Jaime Agostino, sits down with experts in all areas of the financial industry to ask relevant questions and discuss hot topics that impact credit unions. We see this as another way to provide education to our member credit unions through a different platform - one you can access on your drive to work, on your lunch break or whenever you can.

New episodes are released weekly, and three episodes are now available for your listening pleasure:

- Episode 1: David Brehmer, Vizo Financial
- Episode 2: Rodney May, Vizo Financial, and Scott Collins, CU*Answers
- Episode 3: Mike Umscheid, ARCSys

You can find *Financial Minds: Meet the Experts* on the [Podcast](#) page of our [website](#), on our [YouTube channel](#) or on [Apple Podcasts](#)!

Save the Date: Financial Strategies Workshop

New and effective financial strategies have been incredibly important in the last two years, haven't they? With rates set to start rising and more changes ahead, Vizo Financial is happy to announce the dates of this year's Financial Strategies Workshops!

The workshops will take place on the following dates at various locations. We hope you're able to make it to one of these workshops and learn more about financial strategies to benefit your credit union!

- March 23, 2022 - Richmond, Va.
- April 13, 2022 - Pittsburgh, Pa.
- April 28, 2022 - Charlotte, N.C.
- May 10, 2022 - Hershey, Pa.

Look for more event details and registration coming soon!

More Webinars for CUs...See What's Coming!

Education has always been a priority for Vizo Financial, but we're taking it to the next level and offering even more opportunities for learning and growth in 2022. Here are just a few of our upcoming webinars for credit unions in the first quarter:

[Having Meaningful Conversations with Employees](#)

Joe Bertotto, chief culture officer, Vizo Financial
February 15, 2022 at 2:00 p.m. ET

[The World of Faster Payments](#)

Jessica Lelii, assistant director of education, Macha/PAR
February 23, 2022 at 2:00 p.m. ET

[Leadership Book Club Webinar Series - Group 1](#)

Joe Bertotto, chief culture officer, Vizo Financial
Begins March 3, 2022 at 10:00 a.m. ET
*This series includes more sessions, as well as additional groups with different dates/times.

[Balance Sheet Strategies for Any Rate Environment](#)

Lisa Boylen, senior ALM analyst, Vizo Financial
March 16, 2022 at 2:00 p.m. ET

[The Impact of the FOMC Pivot](#)

Fred Eisel, chief investment officer, Vizo Financial
March 29, 2022 at 2:00 p.m. ET

Register for these webinars and get more details on the [Upcoming Webinars page](#) of our [website](#)!

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



Financial Condition & Performance December 2021

Enclosed please find Vizo Financial Corporate Credit Union's financial statements and supplementary financial information as of December 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 \$4.331 billion compared to \$4.453 billion in November and \$4.485 billion in October. Comparing total deposits, which include the Excess Balance Account (EBA) balances, overall average deposits decreased \$147.1 million in December. The spread between the single day high and low balances was \$1.049 billion compared to \$995.5 million in November and \$1.444 billion in October (including EBA balances). Volatility of total member balances (on-balance sheet + EBA) continues to be low, inching up to 11%.

Average off-balance sheet credit union balances – those held in our EBA – averaged \$5.048 billion and ended the month at \$4.964 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 December, this average stood at \$9.379 billion. Our 12-month rolling average assets decreased dropping from \$6.140 billion to \$6.002 billion. We are targeting an asset size of \$6 billion for 2022.

We target a minimum balance of \$500 million in our Fed account to ensure we always have sufficient liquidity to support member settlement and lending activity. Since the pandemic, our Fed balances have greatly exceeded that target level. In 2020, our Fed balances averaged \$2.471 billion with an average low of \$1.949 billion. In 2021, our Fed balances have steadily come down due to shifting funds to our EBA account but still averaged \$1.692 billion with an average low of \$1.0 billion. However, in December, our Fed balances averaged \$1.026 billion with a low of \$455.8 million, so it appears we have managed back to pre-pandemic levels of cash on the balance sheet.

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 up from the prior month, coming in at \$4.865 billion compared to \$4.692 billion in November but below October's \$5.204 billion. Month-end figures can vary considerably depending on the day of the week on which a month ends. Of this month's total, \$277.0 million were in certificates, while the remaining balances were distributed between the various PSA and settlement deposit accounts.
- › Month-end assets came in at \$5.384 billion. Average assets were lower, coming in at \$5.093 billion. Excluding non-perpetual capital accounts, our total net equity is at \$455.8 million. The unrealized gain/loss/AOCL figure was down, although still sits at a gain of \$12.4 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 \$229.0 million. Gross operating income for the month came in at \$567,535. Distributions to members via PCC dividends totaled \$136,476. Our net increase to retained earnings was \$431,059.
- › Our 12-month average assets continue to drop due to our success in holding a large portion of member funds in our EBA. This has helped our leverage/tier 1 capital ratio which finished the month at 7.23% as well as our retained earnings ratio which now stands at 3.82%. *Our total capital ratio ended the month at 7.37%.*
- › The net economic value (NEV) dollar value of assets came in at \$454.9 million at the end of December, with an NEV ratio of 8.45% compared to the prior month's 8.77%. 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 7.98% with a negative fluctuation of 6.2%. 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.

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› Total capital stands at \$442.4 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 \$9.4 million as of month-end, so without this reduction, our gross total capital amounts to \$451.8 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	\$ 617 million
Security Sales*	\$ 1.058 million
EBA Balances	\$ 4.964 billion
Total Off-Balance Sheet	\$ 6.639 billion

*Security sales reflect sales over the past 18 months

Unrealized Gains/Losses

Market values showed some volatility in December as the outlook for rising rates had some impact on fixed rate instruments. December ended the month with unrealized gains of \$12.4 million, down from \$13.6 million. The SBA portfolio remains the largest percentage of our overall investment portfolio and showed unrealized gains of \$7.1 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 42.6%.*

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.

- › \$3.319 million GAIN is related to our government agency CMO securities portfolio (\$712.1 million total book value)
- › \$0.027 million GAIN is related to our agency MBS/CMBS/Notes/Callable securities (\$6.4 million total book value)
- › \$0.168 million GAIN is related to our government guaranteed mortgage securities (\$27.1 million total book value)
- › \$0.039 million LOSS is related to our agency floater portfolio (\$50.0 million total book value)
- › \$0.713 million GAIN is related to our corporate bond portfolio (\$60.4 million total book value)
- › \$0.014 million LOSS is related to our commercial paper portfolio (\$179.9 million total book value)
- › \$1.279 million GAIN is related to our credit card asset-backed securities (\$512.5 million total book value)
- › \$0.160 million GAIN is related to our auto floor-plan asset-backed securities (\$71.7 million total book value)
- › \$0.043 million LOSS is related to our student loan asset-backed securities (\$55.6 million total book value)
- › \$0.241 million LOSS is related to our U.S. treasury securities (\$148.8 million total book value)
- › \$7.074 million GAIN is related to our government guaranteed SBA portfolio (\$2.147 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.

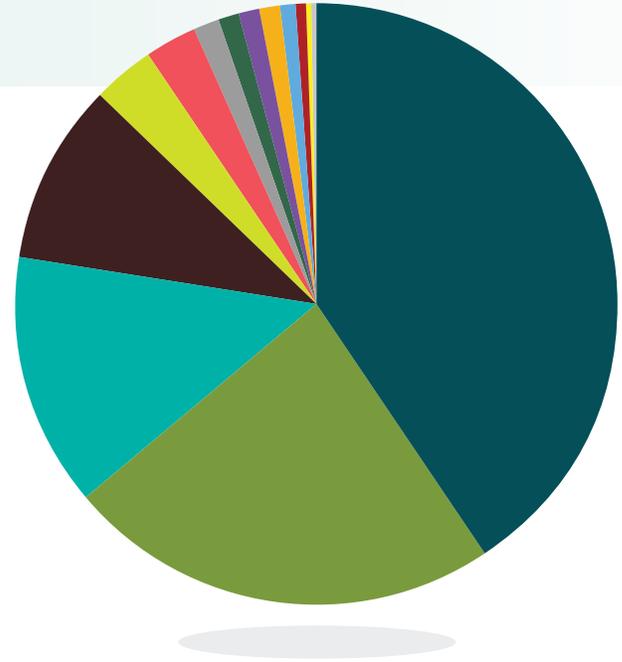
We are very grateful to our members for their continued support and for the trust you place in us. If you have any questions, please do not hesitate to contact us.



David W. Brehmer
President & CEO

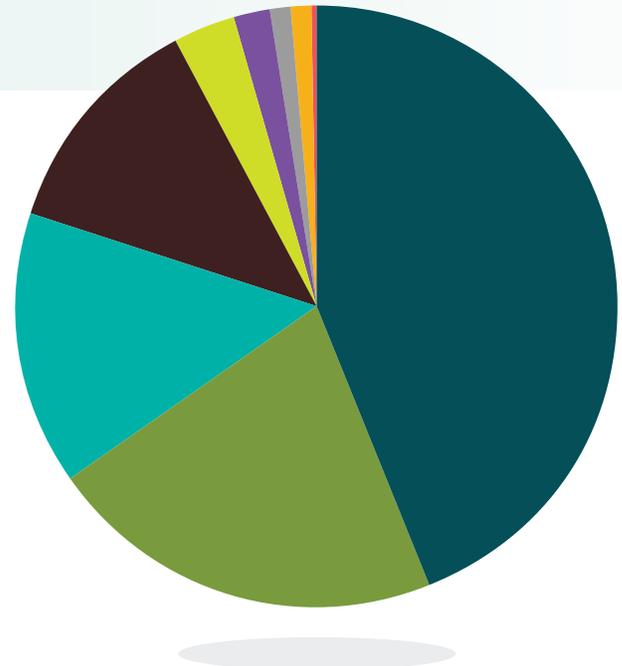
Total Book Values as of December 31, 2021

- \$ 2,147 - SBA Pool
- \$ 1,219 - Cash/FI Deposits
- \$ 712 - Agency CMO
- \$ 512 - ABS Credit Cards
- \$ 180 - Commercial Paper
- \$ 149 - U.S. Treasuries
- \$ 72 - ABS Auto
- \$ 60 - Corporate Bonds
- \$ 58 - CLF Stock
- \$ 56 - ABS Student Loans
- \$ 50 - Agency Floaters
- \$ 27 - GNMA
- \$ 9 - CUSOs
- \$ 6 - CMBS/MBS
- \$ 4 - FHLB Stock



Credit Quality as of December 31, 2021

- \$ 2,323 - U.S. Gov't Guaranteed
- \$ 1,122 - Federal Reserve
- \$ 769 - U.S. Gov't Agency
- \$ 640 - Asset-Backed Securities (AAA)
- \$ 180 - Commercial Paper
- \$ 97 - 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 December 2021

Balance Sheet	December 31, 2021	December 31, 2020
Assets		
Loans	\$ 1,208,860	\$ 140,050
Investments:		
Asset-Backed Securities (Non-Mortgage)	\$ 641,197,534	\$ 737,765,722
U.S. Gov't (Notes/Floaters/Callables)	\$ 49,961,450	\$ 0
U.S. Gov't Agency (CMOs)	\$ 742,632,696	\$ 1,006,031,224
U.S. Gov't Agency (MBS)	\$ 6,456,560	\$ 14,729,430
U.S. Gov't (SBA)	\$ 2,154,066,039	\$ 2,143,949,629
Corporate Bonds	\$ 61,162,147	\$ 61,363,849
U.S. Treasuries	\$ 148,585,940	\$ 0
Commercial Paper	\$ 179,878,726	\$ 0
Federal Home Loan Bank - Atlanta	\$ 3,692,000	\$ 4,551,200
Credit Union & Bank Deposits	\$ 97,237,882	\$ 177,169,186
CUSOs	\$ 9,438,439	\$ 8,685,828
Federal Reserve Bank	\$ 1,122,043,942	\$ 3,072,048,792
CLF Stock	\$ 57,738,003	\$ 58,244,334
Receivables	\$ 54,197,217	\$ 43,281,173
Fixed Assets	\$ 2,663,426	\$ 5,417,628
Goodwill/Core Deposit Intangible	\$ 2,282,127	\$ 2,282,127
Other Assets	\$ 49,220,066	\$ 48,140,690
Total Assets:	\$ 5,383,663,054	\$ 7,383,800,862
Liabilities		
Other Liabilities:	\$ 2,208,604	\$ 3,007,808
Accounts Payable:	\$ 51,722,508	\$ 54,559,757
Accrued Liability for Member Payout:	\$ 0	\$ 0
Notes Payable:	\$ 0	\$ 6,022,800
Shares	\$ 4,588,385,018	\$ 6,160,114,231
Certificates/Term Deposits	\$ 276,985,188	\$ 786,812,448
Total Shares:	\$ 4,865,370,206	\$ 6,946,926,679
Non-Perpetual Capital Accounts (NCA)	\$ 8,505,410	\$ 8,505,410
Perpetual Contributed Capital (PCC)	\$ 214,428,050	\$ 214,237,649
Reserves & Undivided Earnings	\$ 206,463,179	\$ 103,967,323
Equity Acquired in Merger	\$ 22,562,000	\$ 22,562,000
Accumulated Other Comprehensive Loss	\$ 12,403,097	\$ 24,011,436
Total Equity:	\$ 464,361,736	\$ 373,283,818
Total Liabilities & Equity:	\$ 5,383,663,054	\$ 7,383,800,862

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Financial Condition & Performance December 2021

Income Statement YTD	December 2021	December 2020
Interest Income	\$ 36,008,627	\$ 54,148,598
Interest Expense	\$ (4,493,675)	\$ (18,266,631)
Net Interest Income	\$ 31,514,952	\$ 35,881,967
Correspondent Service Income	\$ 29,475,213	\$ 23,644,984
Correspondent Service Expense	\$ (16,612,116)	\$ (8,486,359)
Net Correspondent Income	\$ 12,863,097	\$ 15,158,625
Gross Operating Income	\$ 44,378,049	\$ 51,040,592
Operating Expense	\$ (31,294,013)	\$ (29,567,142)
Net Income	\$ 13,084,036	\$ 21,473,450
Non-Operating Gains/(Losses)	\$ 1,750,455	\$ 488,473
Amortization of Core Deposit Intangible	\$ 0	\$ 0
CUSO Income	\$ (199,389)	\$ 37,103
USC MCA Distribution	\$ 149,126,684	\$ 0
-Less Member Distributions	\$ (59,659,145)	\$ (1,795,214)
Net Income before PCC Distributions	\$ 104,102,641	\$ 20,203,812
Less: Non-Controlling Interest in Net Income	\$ 0	\$ (234)
Less: Equity Transfer for PCC Distribution	\$ (1,606,786)	\$ (1,867,850)
Net Increase to Retained Earnings	\$ 102,495,855	\$ 18,335,728
Earnings Spread/Net Operating Margin	December 2021	December 2020
Return on Average Assets	0.600%	0.838%
Interest/Dividend Expense	-0.075%	-0.283%
Net Interest Margin	0.525%	0.555%
Correspondent Service Income	0.214%	0.235%
Operating Expenses	-0.521%	-0.457%
Non-Operating Gains/(Losses)	0.029%	0.008%
Amortization of Core Deposit Intangible	0.000%	0.000%
USC MCA Distribution	2.484%	0.000%
CUSO Income	-0.003%	0.001%
Non-Controlling Interest in Net Income	0.000%	0.000%
Trf to Accrued Liability/Member Payout	-0.994%	-0.028%
PCC Distributions	-0.027%	-0.029%
Net Margin	1.708%	0.284%
Asset Quality	December 2021	
Non-Earning Assets/Average Assets	2.31%	
Delinquent Loans/Total Loans	0.00%	
Investment Portfolio		
U.S. Gov't/Agency Securities	58.21%	
Asset-Backed Securities (Non-Mortgage)	12.03%	
Federal Home Loan Bank	0.07%	
Corporate Bonds	1.15%	
Commercial Paper	3.38%	
Bank & Credit Union Deposits	1.82%	
Federal Reserve Bank	21.06%	
CUSO Equity	0.18%	
CLF Stock	1.08%	
Cash & Receivables	1.02%	
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 December 2021

Capital Adequacy	December 2021	December 2020
RUDE + Acquired Equity Capital/monthly Average Net Assets	4.50%	1.88%
RUDE + Acquired Equity Capital/12-month Average Net Assets	3.82%	1.96%
Tier 1 (Leverage) Capital/12-month Average Net Assets	7.23%	5.15%
Total Capital/12-month Average Net Assets	7.37%	5.28%
Tier 1 Capital/12-month Average Risk-Weighted Assets	41.78%	26.24%
Total Capital/12-month Average Risk-Weighted Assets	42.59%	26.90%
Total Capital	\$ 442,372,571	\$ 340,482,133
Tier 1 (Leverage) Capital	\$ 434,014,790	\$ 332,081,144
Tier 2 Capital	\$ 8,357,781	\$ 8,400,989
PCC deducted from Tier 1 Capital	\$ 0	\$ 0
Unrealized Gain/Loss on Securities	\$ 12,403,097	\$ 24,011,436
Monthly Average Assets	\$ 5,092,977,685	\$ 6,747,162,570
Average 12-month Assets	\$ 6,002,360,653	\$ 6,445,162,693
Year-to-date Average Assets	\$ 6,002,360,653	\$ 6,445,162,693

Liquidity & Interest Rate Risk as of December 31, 2021

Available Liquidity:	Available Within 90 Days
Net Cash and Receivables:	\$ 1,176,241,159
Net Available For Sale (AFS) securities: (securities with adequate market values to sell)	\$ 1,939,498,244
Overnight & Investments Maturing within 90 days:	\$ 87,077,882
Unsecured Fed Funds Lines Available:	\$ 150,000,000
Secured Fed Funds Lines Available:	\$ 150,000,000
Federal Home Loan Bank (FHLB) - borrowing capacity:	\$ 1,544,883,912
-less fixed term existing loan advances	\$ 0
Primary Sources of Liquidity:	\$ 5,047,701,197
Federal Reserve (FRB) Discount Window - borrowing capacity:	\$ 252,870,079
Excess Balance Account (EBA) - funds held for members @ FRB:	\$ 4,964,257,068
Secondary Sources of Liquidity:	\$ 5,217,127,147
Total Available Liquidity:	\$ 10,264,828,344

Interest Rate Risk as of December 31, 2021

		Regulation 704 Operating Level: Base Plus
Base/Current Rate Environment	Net Economic Value (NEV):	\$ 454,893,408
	NEV Ratio:	8.45%
Up 3% Rate Environment	Net Economic Value (NEV):	\$ 426,674,268
	NEV Ratio:	7.98%
	Percentage Change:	-6.2%
Down 1% Rate Environment	Net Economic Value (NEV):	\$ 467,889,939
	NEV Ratio:	8.67%
	Percentage Change:	2.9%

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Notes to Financials December 2021

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) -- \$8,357,780.
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 \$1,576,374,600 (12/31) - 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