Monthly Financials

Vizo Financial Corporate Credit Union

November 2022 Edition | October 2022 Financials

David Brehmer
President & CEO

Corporate Update

When I look back on the events we've held, the communities we've served, the challenges we've met, and the moments of good news we've shared this year, I am very thankful for being part of this wonderful cooperative movement. After several decades in this industry and many Thanksgiving seasons where I've reflected upon the things I'm grateful for, I can honestly say that credit unions have always given me a sense of gratitude and purpose. I continue to be proud of our movement and the great things we achieve in the name of our cooperative spirit and people helping people philosophy.

Let Us Introduce DefenseStorm!

As credit unions become increasingly involved in the virtual world, cybersecurity remains a top priority. That makes this the perfect time to introduce a new suite of credit union cybersecurity solutions through our partnership with DefenseStorm!

Thanks to our partnership, we're offering credit unions the chance to take their cybersecurity programs to the next level with DefenseStorm's CyberFraud and CyberSecurity solutions. CyberFraud proactively stops fraudulent activity before funds ever leave your institution, while CyberSecurity proactively monitors and detects threats, responds to potential issues and documents everything for audit and reporting purposes.

DefenseStorm solutions also boast state-of-the-art security technologies, including an all-in-one data engine that incorporates your institution's unique cybersecurity infrastructure, and the power of human intelligence from the Threat Ready Active Compliance (TRAC) support team.

And we can attest to the validity of DefenseStorm. In fact, Vizo Financial is using these same cybersecurity programs to enhance our own cyber defenses.

Want to know more? Join us for our **Cyber Storms are Brewing: Be Ready to Defend** webinar on December 7 at 2:00 p.m. ET to learn more about our partnership and see a live demo of the CyberSecurity and CyberFraud solutions!

We also invite you to check out the **Additional Services** page of our **website** or contact your corporate account manager at **accountmanagers@vfccu.org**.

Market Commentary & FOMC Update Videos

How can you keep up with the markets and economy? We're glad you asked!

Vizo Financial offers weekly and monthly market commentaries to keep your credit union apprised of current economic and market trends. Read the latest on the **Market Commentary** page of our **website**, or subscribe to the Vizo Financial Market Commentary notification list to have updates sent directly to your email.

From our Market Commentary page, you'll also have access to the latest FOMC Update video. This video features our chief credit officer, Tim Sustak, as he provides a recap of the most recent Federal Open Market Committee (FOMC) Meeting, as well as what the meeting results mean for CUs.

Holiday Closings Page

The biggest season of the year is here - holiday season! That means we've got lots of holiday closings coming up:

- Christmas Day (observance) - Monday, December 26
- New Year's Day (observance) - Monday, January 2

Just as a reminder, you can find all of these dates and our 2023 closings listed on our **Holiday Closings** webpage.

Save the Dates: 2023 Events Are Coming

Ready for our 2023 events? We sure are! Get a head start and save these dates in your calendar now:

Winter TechCon
February 15-16, 2023

GAC Reception
February 26, 2023

Risk Management Conference
April 20-21, 2023

Annual Meeting
June 21, 2023

Small Credit Union Workshop
August 9-10, 2023

Summer TechCon
August 23-24, 2023

Financial Conference
September 13-15, 2023

Payments Conference
October 25-26, 2023

We're also working on dates and locations for in-person Financial Strategies and Leadership workshops, so don't forget to check our **Upcoming Events** page for updates!

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

Financial Condition & Performance October 2022

Enclosed please find Vizo Financial Corporate Credit Union's financial statements and supplementary financial information as of October 31, 2022. 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 $4.899 billion virtually unchanged from September's $4.888 billion. Comparing total deposits, which include the EBA balances, overall average overnight deposits dropped another $359 million as credit union liquidity continues to tighten. Total average overnight deposits stood at $5.028 billion compared to $5.388 billion in September and $5.954 billion in August. The spread between the single day high and low balances was $1.233 billion, compared to $1.382 billion in September and $1.524 billion in August (includes EBA balances). Volatility of short-term member balances has increased significantly over the last several months (on-balance sheet plus EBA) but has stabilized somewhat with October coming in at 21%.

Average off-balance sheet credit union balances – those held in our Excess Balance Account (EBA) – averaged just $129 million and ended the month at just over $95 million. The EBA has proved to be a key tool for controlling the size of our balance sheet, however, with liquidity coming down dramatically we moved the majority of EBA funds back onto the balance sheet in September.

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 October 2022, this average stood at $5.028 billion. Our 12-month rolling average assets moved up slightly going from $5.733 billion to $5.808 billion due to moving EBA funds back onto the balance sheet. We are targeting an asset size of $6 billion for 2022 and 2023.

We now target a minimum of $700 million in our Fed account to cover member settlement activity. After two years of significant amounts of excess cash, we are back to having to actively monitor the cash levels in our Fed account. In October, our Fed balances averaged $1.589 billion with a low of $1.145 billion.

While tightening liquidity continued in October, access to advances remains readily available 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 from the prior month, coming in at $5.355 billion compared to $6.226 billion in September but were up from $4.397 billion in August. Month-end figures can vary considerably depending on the day of the week on which a month ends although September's increase was primarily due to the transfer of funds from our EBA account back onto the balance sheet in recognition of tighter member liquidity. Of this month's total, $591.0 million were in certificates while the remaining balances were distributed between the various PSA and settlement deposit accounts.
- Month-end assets came in at $5.931 billion. Average assets were above that figure, coming in at $6.238 billion. Excluding non-perpetual capital accounts, our total net equity is at $492.4 million. The unrealized gain/loss/AOCL figure dropped to an unrealized loss of $25.4 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 $303.0 million. As we have previously reported, operating revenues remain volatile although in the first month of each calendar quarter our earnings continue to be strong as our full SBA portfolio re-prices. That was certainly the case in October where net income for the month totaled $2.776 million. Distributions to members via PCC dividends totaled $455,526 for a net addition to retained earnings of $2.321 million. Year-to-date, we have added $75.1 million to retained earnings.

  We expect earnings to drop in both November and December as we match Fed rate increases before our SBA portfolio re-prices which will not occur until January 1. As expected, the Fed increased its overnight rate by 75 basis points on November 3 and we are expecting another hike of 50 bps on December 15.
- Our leverage/tier 1 capital ratio is at 8.75% and our retained earnings ratio now stands at 5.22%. *Our total capital ratio ended the month at 8.89%.*
- The net economic value (NEV) (economic value of assets less the economic value of liabilities) came in at $519.4 million at the end of October with an NEV ratio of 8.76% compared to the prior month's 7.44%. 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 7.99% with a negative fluctuation of 9.8%. We are well above required regulatory NEV levels (2%).
- The available liquidity section reflects our capacity for generating liquidity. We factored out securities in the "available-for-sale" (AFS) portfolio whose current market values were lower than we realistically believed we would sell. Although 100% of our marketable securities are classified as AFS, unless the market value is positive or the unrealized loss is estimated at under $5,000, we do not include it as liquid in our "Available Liquidity" report.
- Total capital now stands at $516.5 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

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Financial Condition & Performance October 2022

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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 $526.1 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	$ 937 million
Security Sales*	$ 962 million
EBA Balances	$ 95 million
Total Off-Balance Sheet	**$ 1.994 billion**

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

Unrealized Gains/Losses

Market values continue to reflect changing market conditions which greatly impact fixed rate holdings as well as floaters with rate caps. Overall, our unrealized losses increased from $20.9 million to $25.4 million, as prices across all asset classes decreased. Our fixed rate U.S. Treasury portfolio shows the highest unrealized loss figure at $17.8 million. The Treasury portfolio is primarily used to manage our members' term certificate program, so that when our fixed rate liabilities are factored into our ALM model, our NEV has remained stable. The CMO portfolio reflects the next highest unrealized losses at $7.2 million, mainly because rate increases have reduced the spread between the rate cap and actual market rates. The SBA portfolio remains the largest percentage of our overall investment portfolio and showed unrealized gains of $4.8 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 55.9%.*

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.

- $7.195 million LOSS is related to our government agency CMO securities portfolio ($609.3 million total book value)
- $0.036 million LOSS is related to our agency MBS/CMBS securities ($4.8 million total book value)
- $0.494 million LOSS is related to our government guaranteed mortgage securities ($21.6 million total book value)
- $0.888 million LOSS is related to our agency floater portfolio ($79.8 million total book value)
- $0.132 million LOSS is related to our corporate bond portfolio ($30.0 million total book value)
- $0.882 million LOSS is related to our credit card asset-backed securities ($419.8 million total book value)
- $0.119 million LOSS is related to our auto asset-backed securities ($80.3 million total book value)
- $2.583 million LOSS is related to our student loan asset-backed securities ($74.7 million total book value)
- $17.844 million LOSS is related to our U.S. treasury securities ($628.7 million total book value)
- $4.810 million GAIN is related to our government guaranteed SBA portfolio ($2.068 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.

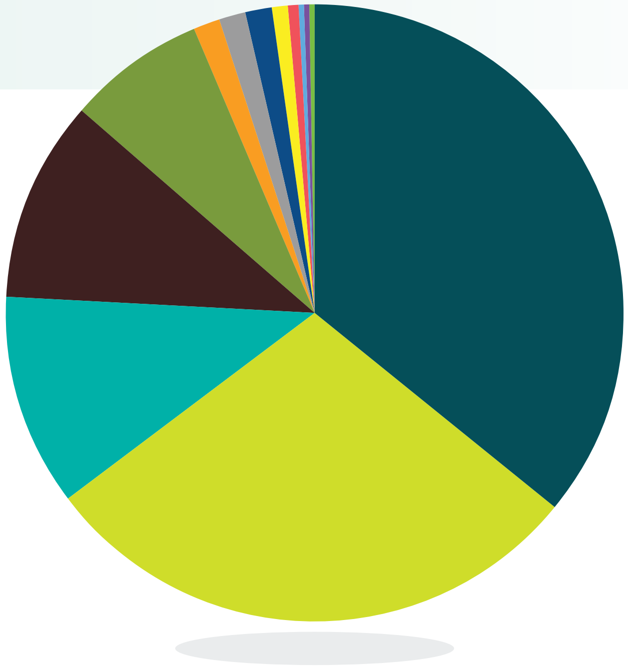
We are grateful to our members for their continued support and for the trust you place in us. If you have any questions, please do not hesitate to contact us.

David W. Brehmer
President & CEO

Investment Portfolio October 2022

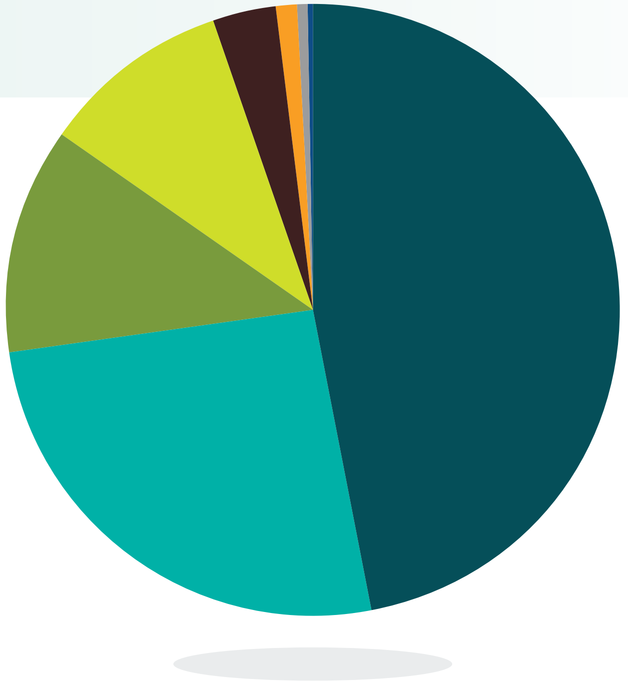
Total Book Values as of October 31, 2022

$ 2,068	SBA Pool
$ 1,676	Cash/FI Deposits
$ 629	U.S. Treasuries
$ 609	Agency CMO
$ 420	ABS Credit Cards
$ 80	ABS Auto
$ 80	Agency Floaters
$ 75	ABS Student Loans
$ 58	CLF Stock
$ 30	Corporate Bonds
$ 22	GNMA
$ 10	CUSOs
$ 5	CMBS/MBS
$ 3	FHLB Stock



Credit Quality as of October 31, 2022

$ 2,719	U.S. Gov't Guaranteed
$ 1,477	Federal Reserve
$ 694	U.S. Gov't Agency
$ 575	Asset-Backed Securities (AAA)
$ 199	CU/Bank Cash Holdings
$ 58	CLF Stock
$ 30	Corporate Bonds (AA-/AA+)
$ 10	CUSOs
$ 3	FHLB Stock



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

Financial Condition & Performance October 2022

Balance Sheet		October 31, 2022		October 31, 2021
Assets				
Loans	$	75,316,180	$	1,693,062
Investments:				
Asset-Backed Securities (Non-Mortgage)	$	571,262,235	$	665,884,462
U.S. Gov't (Notes/Floaters/Callables)	$	78,900,752	$	0
U.S. Gov't Agency (CMOs)	$	623,209,545	$	780,199,099
U.S. Gov't Agency (MBS)	$	4,776,486	$	6,797,892
U.S. Gov't (SBA)	$	2,073,085,592	$	2,162,465,851
Corporate Bonds	$	29,864,470	$	61,278,769
U.S. Treasuries	$	610,860,111	$	0
Commercial Paper	$	0	$	0
Federal Home Loan Bank - Atlanta	$	2,691,900	$	3,692,000
Credit Union & Bank Deposits	$	199,269,955	$	103,334,780
CUSOs	$	9,566,696	$	9,513,780
Federal Reserve Bank	$	1,477,108,646	$	1,778,858,728
CLF Stock	$	57,738,003	$	57,738,003
Receivables	$	47,443,417	$	52,395,216
Fixed Assets	$	8,046,685	$	2,886,694
Goodwill/Core Deposit Intangible	$	176,447	$	2,282,127
Other Assets	$	61,553,599	$	49,127,940
Total Assets:	**$**	**5,930,870,719**	**$**	**5,738,148,403**

Liabilities				
Other Liabilities:	$	7,706,109	$	2,096,073
Accounts Payable:	$	66,984,142	$	65,551,001
Accrued for Member Distribution:	$	0	$	0
Notes Payable:	$	0	$	0
Shares	$	4,764,335,871	$	4,886,029,849
Certificates/Term Deposits	$	591,021,347	$	318,286,868
Total Shares:	**$**	**5,355,357,218**	**$**	**5,204,316,717**
Non-Perpetual Capital Accounts (NCA)	$	8,505,410	$	8,505,410
Perpetual Contributed Capital (PCC)	$	214,671,502	$	214,237,649
Reserves & Undivided Earnings	$	280,447,535	$	205,399,119
Equity Acquired in Merger	$	22,562,000	$	22,562,000
Accumulated Other Comprehensive Loss	$	(25,363,197)	$	15,480,434
Total Equity:	**$**	**500,823,250**	**$**	**466,184,612**
Total Liabilities & Equity:	**$**	**5,930,870,719**	**$**	**5,738,148,403**

Financial Condition & Performance October 2022

Income Statement YTD		October 2022		October 2021
Interest Income	$	70,574,707	$	31,090,006
Interest Expense	$	(47,867,656)	$	(3,863,940)
Net Interest Income	**$**	**22,707,051**	**$**	**27,226,066**
Correspondent Service Income	$	35,939,755	$	23,965,041
Correspondent Service Expense	$	(24,380,310)	$	(13,356,954)
Net Correspondent Income	**$**	**11,559,445**	**$**	**10,608,087**
Gross Operating Income	**$**	**34,266,496**	**$**	**37,834,153**
Operating Expense	$	(25,676,657)	$	(26,158,052)
Net Income	**$**	**8,589,839**	**$**	**11,676,101**
Non-Operating Gains/(Losses)	$	0	$	1,750,455
Amortization of Goodwill	$	(1,182,632)	$	0
CUSO Income	$	(531,743)	$	(124,047)
USC MCA Distribution	$	109,196,588	$	149,126,684
-Accrued Liability/Member Payouts	$	(35,632,865)	$	(59,659,145)
-Accrued Liability	$	(3,500,000)	$	0
Net Income before PCC Distributions	**$**	**76,939,187**	**$**	**102,770,048**
Less: Non-Controlling Interest in Net Income	$	0	$	0
Less: Equity Transfer for PCC Distribution	$	(1,793,526)	$	(1,338,252)
Net Increase to Retained Earnings	**$**	**75,145,661**	**$**	**101,431,796**

Earnings Spread/Net Operating Margin	October 2022	October 2021
Return on Average Assets	1.427%	0.605%
Interest/Dividend Expense	-0.968%	-0.075%
Net Interest Margin	**0.459%**	**0.530%**
Correspondent Service Income	0.234%	0.206%
Operating Expenses	-0.519%	-0.509%
Non-Operating Gains/(Losses)	0.000%	0.034%
Amortization of Core Deposit Intangible	-0.024%	0.000%
USC MCA Distribution	2.208%	2.902%
CUSO Income	-0.011%	-0.002%
Non-Controlling Interest in Net Income	0.000%	0.000%
Accrued Liability/Member Payout	-0.721%	-1.161%
PCC Distributions	-0.036%	-0.026%
Net Margin	**1.590%**	**1.974%**

Asset Quality	October 2022
Non-Earning Assets/Average Assets	2.03%
Delinquent Loans/Total Loans	0.00%
Investment Portfolio	
U.S. Gov't Guaranteed Securities	46.39%
U.S. Agency Securities	12.22%
Asset-Backed Securities (non-mortgage)	9.87%
Fed Home Loan Bank	0.05%
Corporate Bonds	0.52%
Commercial Paper	0.00%
Bank & Credit Union Deposits	3.44%
Federal Reserve Bank	25.53%
CUSO Equity	0.17%
CLF Stock	1.00%
Cash & Receivables	0.82%
Credit Ratings	
Asset-Backed Securities (Credit Card/Auto)	AAA/Aaa
Asset-Backed Securities (Student Loans)	AAA/Aaa
Commercial Paper	A-1/P-1
Corporate Bonds	AA- to AA+/A1 to Aa1
Gov't Agencies/SBAs	AA+ to AAA

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Key Financial Ratios October 2022

Capital Adequacy		October 2022		October 2021
RUDE + Acquired Equity Capital/monthly Average Net Assets		4.86%		4.27%
RUDE + Acquired Equity Capital/12-month Average Net Assets		5.22%		3.64%
Tier 1 (Leverage) Capital/12-month Average Net Assets		8.75%		6.91%
Total Capital/12-month Average Net Assets		8.89%		7.05%
Tier 1 Capital/12-month Average Risk-Weighted Assets		55.0%		40.2%
Total Capital/12-month Average Risk-Weighted Assets		55.9%		41.0%
Total Capital	$	516,445,498	$	441,049,969
Tier 1 (Leverage) Capital	$	508,114,341	$	432,684,988
Tier 2 Capital	$	8,331,157	$	8,364,981
PCC deducted from Tier 1 Capital	$	0	$	0
Unrealized Gain/Loss on Securities	$	(25,363,197)	$	15,480,434
Monthly Average Assets	$	6,238,179,235	$	5,337,594,393
Average 12-month Assets	$	5,808,355,666	$	6,258,293,359
Year-to-date Average Assets	$	5,937,386,984	$	6,170,189,222

Liquidity & Interest Rate Risk as of October 31, 2022		
Available Liquidity:		**Available Within 90 Days**
Net Cash and Receivables:	$	1,524,552,063
Net Available For Sale (AFS) securities: (securities with adequate market values to sell)	$	1,555,599,680
Overnight & Investments Maturing within 90 days:	$	191,293,955
Unsecured Fed Funds Lines Available:	$	150,000,000
Secured Fed Funds Lines Available:	$	150,000,000
Federal Home Loan Bank (FHLB) - borrowing capacity:	$	1,687,705,200
-less fixed term existing loan advances	$	0
Primary Sources of Liquidity:	$	5,259,150,898
Federal Reserve (FRB) Discount Window - borrowing capacity:	$	489,927,120
Excess Balance Account (EBA) - funds held for members @ FRB:	$	95,301,000
Secondary Sources of Liquidity:	$	585,228,120
Total Available Liquidity:	**$**	**5,844,379,018**

Interest Rate Risk as of October 31, 2022			
	Regulation 704 Operating Level: Base Plus		
Base/Current Rate Environment	Net Economic Value (NEV):	$	519,438,901
	NEV Ratio:		8.76%
Up 3% Rate Environment	Net Economic Value (NEV):	$	468,291,928
	NEV Ratio:		7.99%
	Percentage Change:		-9.8%
Down 2% Rate Environment	Net Economic Value (NEV):	$	545,680,641
	NEV Ratio:		9.14%
	Percentage Change:		5.1%

Notes to Financials October 2022

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) – $8,331,156.
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 $1,687,705,200 (10/31) – 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 $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.

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