Monthly Financials

Vizo Financial Corporate Credit Union

October 2021 Edition | September 2021 Financials

David Brehmer
President & CEO

Corporate Update

Vizo Financial celebrated our 5-year anniversary on October 1, 2021, and our success throughout the past five years is due in no small part to the trust and belief you have placed in us. We are humbled to be your Corporate, and we cannot wait to continue to drive credit union success through proven EXCELLENCE, unmatched EXPERTISE and engaged PARTNERSHIPS. Keep reading below to find out how we are driving credit union success this month!

Annual Meeting Results

As you know, we held our 2021 Annual Meeting on September 8, 2021. During the meeting, we announced the results of the board election. Daniel Berry, Duke University Federal Credit Union, Durham, N.C. and Paul Hughes, Greenville Federal Credit Union, Greenville, S.C. were both elected to Vizo Financial's board of directors for three-year terms.

However, 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. As a result, a runoff election was conducted from September 9, 2021, until September 30, 2021. Jerry King, DEXSTA Federal Credit Union, Wilmington, Del. was elected to Vizo Financial's board of directors for the remaining three-year term board seat per the runoff election results.

Vizo Financial is excited to welcome these three individuals to our board of directors!

CECL

The days are long, but the years are short! That certainly couldn't be any more true for credit unions and adopting CECL. With the NCUA now saying every federal credit union over $10 million in assets will have to adopt the new CECL (Current Expected Credit Loss) model by January 1, 2023, the time to start the implementation process is now and with our comprehensive and affordable CECL solution, you can!

Vizo Financial's CECL solution, powered by ARCSys, makes the CECL monthly calculation process seamless. Our staff, along with ARCSys' staff, provide significant assistance with data loading, data analysis, modeling and so much more as part of your monthly fee. In addition, we help you update your model annually through our Statistical Team.

Are you ready to get started and see a demo? Contact your **corporate account manager** today!

Upcoming Webinars

We have some top-notch education awaiting you in the fourth quarter! For more information on the following webinars, visit the **Upcoming Webinars** page on our website at **www.vfccu.org**!

Meet CUaxis and CU*Answers
Rodney May, chief engagement officer, Vizo Financial
*Chris Smigiel, national sales manager, CU*Answers*
October 27, 2021 at 10:00 a.m. ET

Tabletop Exercise – Threats to Your Credit Union
Mark Clarke, business continuity administrator, Vizo Financial
November 2, 2021 at 2:00 p.m. ET

Market Update and Outlook for 2022
Fred Eisel, chief investment officer, Vizo Financial
November 18, 2021 at 10:00 a.m. ET

The Future Impact of Mobile Banking Apps
David DeFazio, partner, StrategyCorps
December 2, 2021 at 2:00 p.m. ET

The CARES Act for Credit Unions
John Miller, Shareholder, Doeren Mayhew
Nicole Preston, senior tax manager, Doeren Mayhew
December 9, 2021 at 2:00 p.m. ET

Annual ALM Tune-Up
Lisa Boylen, senior ALM consultant, Vizo Financial
December 16, 2021 at 10:00 a.m. ET

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

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Financial Condition & Performance September 2021

Enclosed please find Vizo Financial Corporate Credit Union's financial statements and supplementary financial information as of September 30, 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 $4.441 billion compared to $4.540 billion in August and $4.695 billion in July. Comparing total deposits, which include the Excess Balance Account (EBA) balances, overall average deposits decreased $124.4 million in September. The spread between the single day high and low balances was $1.133 billion compared to $1.145 billion in August and $1.115 billion in July (including EBA balances). Volatility of total member balances (on-balance sheet + EBA) continues to be low, staying at 11%.

Average off-balance sheet credit union balances – those held in our EBA – averaged $5.258 billion and ended the month at $5.210 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 September, this average dropped to $9.699 billion. Our 12-month rolling average assets decreased dropping from $6.453 billion down to $6.359 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 $1.832 billion with an average low of $1.190 billion. In September, our Fed balances averaged $1.460 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 very similar to the prior month, coming in at $4.728 billion compared to $4.717 billion in August and $5.686 billion in July. Month-end figures vary considerably depending on the day of the week on which a month ends. Of this month's total, $338.6 million were in certificates, while the remaining balances were distributed between the various PSA and settlement deposit accounts.
- Month-end assets came in at $5.255 billion. Average assets were above month-end assets, coming in at $5.406 billion. Excluding non-perpetual capital accounts, our total net equity is at $457.5 million. The unrealized gain/loss/AOCL figure was down slightly, coming in at a gain of $15.7 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 $227.5 million. Gross operating income for the month came in at $890,046. Distributions to members via PCC dividends totaled $132,064. In addition, we distributed $59.6 million in recovery payments to capital member credit unions who lost capital with the corporate back in 2009. Our net increase to retained earnings was $757,982.
- Our 12-month average assets decreased for a fifth consecutive month, which continued to help our leverage/tier 1 capital ratio which finished the month at 6.81% (up from 6.70%). Likewise, our retained earnings ratio ended the month at 3.58% (up from 3.51%). *Our total capital ratio also climbed to 6.94% (up from 6.83%).*
- The net economic value (NEV) dollar value of assets came in at $457.8 million at the end of September, with an NEV ratio of 8.71% compared to the prior month's 8.62%. 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 8.39% with a negative fluctuation of 4.1%. 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.

continued on page 3

Financial Condition & Performance September 2021

continued from page 2

- Total capital stands at $441.6 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 $8.5 million as of month-end, so without this reduction, our gross total capital amounts to $450.1 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	$ 574 million
Security Sales*	$ 999 million
EBA Balances	$ 5.209 billion
Total Off-Balance Sheet	**$ 6.782 billion**

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

Unrealized Gains/Losses

Market values remained stable in September, with our unrealized gains decreasing slightly from $16.4 million to $15.7 million. The SBA portfolio remains the largest percentage of our overall investment portfolio and showed unrealized gains of $9.0 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 40.0%.*

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.

- $3.629 million GAIN is related to our government agency CMO securities portfolio ($768.4 million total book value)
- $0.042 million GAIN is related to our agency MBS/CMBS/Notes/Callable securities ($5.8 million total book value)
- $0.169 million GAIN is related to our government guaranteed mortgage securities ($29.5 million total book value)
- $0.858 million GAIN is related to our corporate bond portfolio ($60.5 million total book value)
- $1.686 million GAIN is related to our credit card asset-backed securities ($520.4 million total book value)
- $0.295 million GAIN is related to our auto floor-plan asset-backed securities ($104.7 million total book value)
- $0.059 million GAIN is related to our student loan asset-backed securities ($57.3 million total book value)
- $8.983 million GAIN is related to our government guaranteed SBA portfolio ($2.129 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.

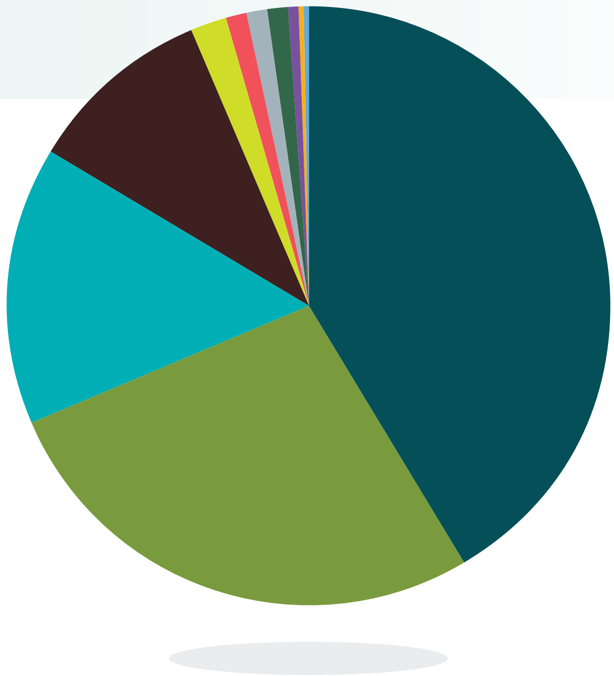
We are very grateful to our members for their continued support and for the trust you place in us. If you have any questions, please do not hesitate to contact us.

David W. Brehmer
President & CEO

Investment Portfolio September 2021

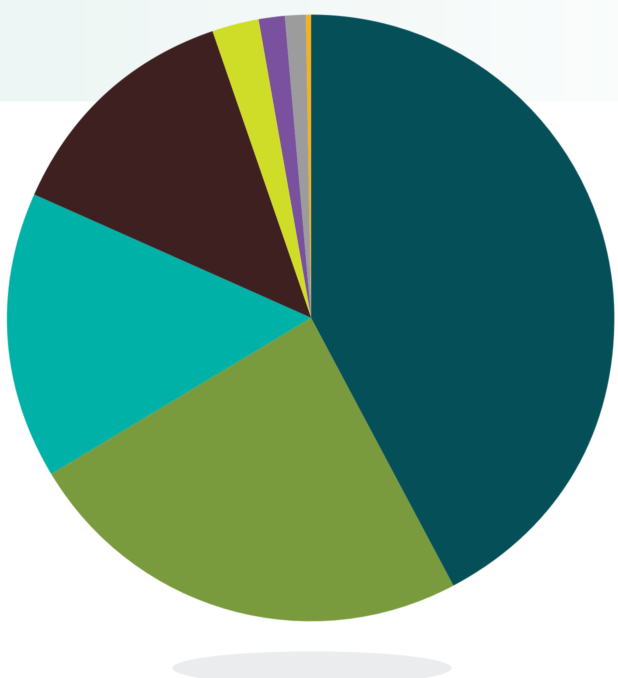
Total Book Values as of September 30, 2021

- $ 2,129 - SBA Pool
- $ 1,404 - Cash/FI Deposits
- $ 768 - Agency CMO
- $ 502 - ABS Credit Cards
- $ 105 - ABS Auto
- $ 60 - Corporate Bonds
- $ 58 - CLF Stock
- $ 57 - ABS SL
- $ 30 - GNMA
- $ 9 - CUSOs
- $ 6 - CMBS/MBS
- $ 4 - FHLB Stock



Credit Quality as of September 30, 2021

- $ 2,158 - U.S. Gov't Guaranteed
- $ 1,278 - Federal Reserve
- $ 774 - U.S. Gov't Agency
- $ 664 - Asset-Backed Securities (AAA)
- $ 126 - 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 September 2021

Balance Sheet		September 30, 2021		September 30, 2020
Assets				
Loans	$	4,959,230	$	8,080,045
Investments:				
Asset-Backed Securities (Non-Mortgage)	$	666,445,689	$	883,564,337
U.S. Gov't (Notes/Floaters/Callables)	$	0	$	401,361
U.S. Gov't Agency (CMOs)	$	801,726,105	$	1,063,477,877
U.S. Gov't Agency (MBS)	$	6,977,059	$	15,787,415
U.S. Gov't (SBA)	$	2,137,965,487	$	1,961,500,870
Corporate Bonds	$	61,310,373	$	61,274,759
Commercial Paper	$	0	$	0
Federal Home Loan Bank - Atlanta	$	3,692,000	$	4,551,200
Credit Union & Bank Deposits	$	126,276,390	$	179,687,427
CUSOs	$	8,539,193	$	8,691,404
Federal Reserve Bank	$	1,277,688,379	$	2,111,104,351
CLF Stock	$	57,738,003	$	58,244,334
Receivables	$	47,126,418	$	33,837,992
Fixed Assets	$	2,931,718	$	5,890,859
Goodwill/Core Deposit Intangible	$	2,282,127	$	2,282,127
Other Assets	$	48,923,603	$	47,420,540
Total Assets:	**$**	**5,254,581,774**	**$**	**6,445,796,898**

Liabilities				
Other Liabilities:	$	2,124,250	$	2,865,966
Accounts Payable:	$	58,202,783	$	52,677,572
Accrued Liability for Member Payout:	$	215,502	$	0
Notes Payable:	$	0	$	6,488,850
Shares	$	4,389,433,617	$	5,376,205,994
Certificates/Term Deposits	$	338,598,868	$	636,747,410
Total Shares:	**$**	**$4,728,032,485**	**$**	**$6,012,953,404**
Non-Perpetual Capital Accounts (NCA)	$	8,505,410	$	8,505,410
Perpetual Contributed Capital (PCC)	$	214,237,649	$	214,237,649
Reserves & Undivided Earnings	$	204,979,712	$	100,779,145
Equity Acquired in Merger	$	22,562,000	$	22,562,000
Accumulated Other Comprehensive Loss	$	15,721,983	$	24,726,902
Total Equity:	**$**	**466,006,754**	**$**	**370,811,106**
Total Liabilities & Equity:	**$**	**$5,254,581,774**	**$**	**$6,445,796,898**

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Financial Condition & Performance September 2021

Income Statement YTD		September 2021		September 2020
Interest Income	$	28,857,102	$	44,826,496
Interest Expense	$	(3,529,126)	$	(16,787,462)
Net Interest Income	**$**	**25,327,976**	**$**	**28,039,034**
Correspondent Service Income	$	21,377,537	$	17,849,217
Correspondent Service Expense	$	(11,737,725)	$	(6,370,423)
Net Correspondent Income	**$**	**9,639,812**	**$**	**11,478,794**
Gross Operating Income	**$**	**34,967,788**	**$**	**39,517,828**
Operating Expense	$	(23,634,118)	$	(22,468,196)
Net Income	**$**	**11,333,670**	**$**	**17,049,632**
Non-Operating Gains/(Losses)	$	1,750,455	$	464,781
Amortization of Core Deposit Intangible	$	0	$	0
CUSO Income	$	(146,635)	$	42,680
USC MCA Distribution	$	149,126,684	$	0
-Accrued Liability/Member Payout	$	(59,850,000)	$	(1,084,391)
Net Income before PCC Distributions	**$**	**102,214,174**	**$**	**16,472,702**
Less: Non-Controlling Interest in Net Income	$	0	$	(234)
Less: Equity Transfer for PCC Distribution	$	(1,201,785)	$	(1,324,918)
Net Increase to Retained Earnings	**$**	**101,012,389**	**$**	**15,147,550**

Earnings Spread/Net Operating Margin	September 2021	September 2020
Return on Average Assets	0.616%	0.936%
Interest/Dividend Expense	-0.075%	-0.351%
Net Interest Margin	**0.541%**	**0.586%**
Correspondent Service Income	0.206%	0.240%
Operating Expenses	-0.505%	-0.469%
Non-Operating Gains/(Losses)	0.037%	0.010%
Amortization of Core Deposit Intangible	0.000%	0.000%
USC MCA Distribution	3.184%	0.000%
CUSO Income	-0.003%	0.001%
Non-Controlling Interest in Net Income	0.000%	0.000%
Trf to Accrued Liability/Member Payout	-1.278%	-0.023%
PCC Distributions	-0.026%	-0.028%
Net Margin	**2.156%**	**0.316%**

Asset Quality	September 2021
Non-Earning Assets/Average Assets	2.03%
Delinquent Loans/Total Loans	0.00%
Investment Portfolio	
U.S. Gov't/Agency Securities	56.72%
Asset-Backed Securities (Non-Mortgage)	12.83%
Federal Home Loan Bank	0.07%
Corporate Bonds	1.18%
Commercial Paper	0.00%
Bank & Credit Union Deposits	2.43%
Federal Reserve Bank	24.59%
CUSO Equity	0.16%
Cash & Receivables	0.91%
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 September 2021

Capital Adequacy	September 2021	September 2020
RUDE + Acquired Equity Capital/monthly Average Net Assets	4.21%	1.89%
RUDE + Acquired Equity Capital/12-month Average Net Assets	3.58%	2.10%
Tier 1 (Leverage) Capital/12-month Average Net Assets	6.81%	5.60%
Total Capital/12-month Average Net Assets	6.94%	5.75%
Tier 1 Capital/12-month Average Risk-Weighted Assets	39.25%	26.16%
Total Capital/12-month Average Risk-Weighted Assets	40.01%	26.83%
Total Capital	$ 441,608,751	$ 337,299,182
Tier 1 (Leverage) Capital	$ 433,240,168	$ 328,887,390
Tier 2 Capital	$ 8,368,583	$ 8,411,792
PCC deducted from Tier 1 Capital	$ 0	$ 0
Unrealized Gain/Loss on Securities	$ 15,721,983	$ 24,726,902
Monthly Average Assets	$ 5,406,469,530	$ 6,528,173,164
Average 12-month Assets	$ 6,359,311,559	$ 5,868,962,085
Year-to-date Average Assets	$ 6,262,699,758	$ 6,377,167,937

Liquidity & Interest Rate Risk as of September 30, 2021	
Available Liquidity:	**Available Within 90 Days**
Net Cash and Receivables:	$ 1,324,814,797
Net Available For Sale (AFS) securities: (securities with adequate market values to sell)	$ 1,780,394,477
Overnight & Investments Maturing within 90 days:	$ 116,116,390
Unsecured Fed Funds Lines Available:	$ 150,000,000
Secured Fed Funds Lines Available:	$ 150,000,000
Federal Home Loan Bank (FHLB) - borrowing capacity:	$ 1,601,834,377
-less fixed term existing loan advances	$ 0
Primary Sources of Liquidity:	$ 5,123,160,041
Federal Reserve (FRB) Discount Window - borrowing capacity:	$ 48,515,256
Excess Balance Account (EBA) - funds held for members @ FRB:	$ 5,209,194,068
Secondary Sources of Liquidity:	$ 5,257,709,324
Total Available Liquidity:	**$ 10,380,869,365**

Interest Rate Risk as of September 30, 2021		
		Regulation 704 Operating Level: Base Plus
Base/Current Rate Environment	Net Economic Value (NEV):	$ 457,814,586
	NEV Ratio:	8.71%
Up 3% Rate Environment	Net Economic Value (NEV):	$ 438,889,374
	NEV Ratio:	8.39%
	Percentage Change:	-4.1%
Down 1% Rate Environment	Net Economic Value (NEV):	$ 471,835,307
	NEV Ratio:	8.95%
	Percentage Change:	3.1%

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Notes to Financials September 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) – $8,368,583.
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 (9/30) – 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.

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