Vizo financial

Monthly Financials

Vizo Financial Corporate Credit Union

April 2019

Corporate *Update*

Jay Murray, CEO

David Brehmer, President

Integrity above all. Passion for service. One unified team. Continue to learn. These are values we at Vizo Financial live by, and they're how we gauge our success as your partner. Whether we are helping your credit union implement a new service or analyzing your investment portfolio, we aim to provide you with service that is steadfast, honorable, seamless and expert-driven. Make sure to read the Exceptional Service section below to see how one credit union executive characterized her experience with Vizo Financial. These are the stories and the partnerships we live for!

International Payments Conversion

Vizo Financial's payments and technology CUSO, MY CU Services, conversion to the new international payments system occured after the close of business on Friday, May 17. Credit unions began utilizing the new system on Monday, May 20. The conversion included international wires and foreign collections.

Thank you to the credit union staff who participated in our webinars and worked diligently to prepare for the new system. We hope you are enjoying the enhancements, which included single sign-on through Zephyr, custom reports, use of previous remitter and beneficiary information, data retention up to 25 months, Reg E disclosures and more. You've truly made this conversion a success!

Webinar Recordings

We're always thinking of ways to serve you, even during our off hours, whenever and wherever you need us. Vizo Financial offers webinar recordings that are free to watch anytime your schedule allows! View our webinar recordings on ACH, CECL, ALM and more…all you have to do is visit our website at www.vfccu.org or click here!

Upcoming Events & Education

If you haven't already, mark your calendars for these upcoming events and webinars:

Portfolio Strategies in an Uncertain Rate Environment
May 23, 2019 – 10:00 a.m. ET

Fast Track for Small Businesses…The Core of Credit Unions
June 5, 2019 – 2:00 p.m. ET

CCUL Member Appreciation Luncheon
June 3, 2019 – 12:00 – 1:30 p.m. ET
Omni Grove Park Inn, Asheville, N.C.

Tabletop Exercise – Threats to Your Credit Union
June 11, 2019 – 10:00 a.m. ET

Top 10 ALM Comments from Examiners
June 19, 2019 – 2:00 p.m. ET

BSA/AML Basic Compliance Training
July 11, 2019 – 2:00 p.m. ET

Visit our website at www.vfccu.org or click here for additional details and registration on all of our events & educational opportunities!

Exceptional Service

Vizo Financial strives each and every day to provide excellence in our service and we will continually work to improve your member experience.

Annette Rusnock of Lesco FCU in Latrobe, Pa., recently retired from the credit union, but had this to say about the Corporate: "Doing business with Vizo [Financial] has been an absolute pleasure and one of Lesco's best decisions during my 40-year career. There is no doubt Vizo [Financial] will continue to serve the credit union in a positive direction for many years!"

Thank you for your unwavering support Annette, and congratulations on your retirement!

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

Financial Condition and Performance Report

Enclosed, please find Vizo Financial Corporate Credit Union's financial statements and supplementary financial information as of April 30, 2019. These reports include information regarding our balance sheet, income statement, asset quality, capital adequacy, liquidity and interest rate risk. It contains all the financial data required for review under Regulation 703.

Balance Sheet

Member overnight balances averaged $3.826 billion in April compared to $3.867 billion in March and $3.127 billion in February. Volatility of member balances was unchanged in April (24% compared to 24% in March). The spread between the single day high and low balances was $ $1.065 billion compared to $1.080 billion the month prior.

Average off-balance sheet credit union balances - those held in our Excess Balance Account (EBA) - averaged just $7.7 million.

We are now in our seasonal high balance period, so liquidity has improved significantly the last two months. Liquidity remains readily accessible through our primary borrowing sources. Historically, March-April represent our highest balance months of the year, while December-January and July-August represent our lowest balance trends of the year.

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

- On-balance sheet (month-end) member shares were down approximately $585 million, coming in at $3.892 billion compared to $4.477 billion in March. These figures do jump around, as the actual day of the week that a month ends does impact overall member deposit levels. Of this total, $220.0 million were in certificates, while the remaining balances were distributed between the PSA and settlement deposit accounts.
- Month-end assets came in at $4.382 billion. Average assets were just above month-end assets, coming in at $4.500 billion. Excluding non-perpetual capital accounts, our total net equity is at $305.2 million. The unrealized gain/loss/AOCL figure came in at a loss of $3.798 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 $97.4 million. Gross income for the month came in at $1,401,128. Our net increase to retained earnings was $972,801. Distributions to members via PCC dividends totaled $422,571.
- Our leverage/tier 1 capital ratio came in at 8.11% based on our 12-month rolling average assets. This is above the minimum regulatory guideline for leverage/tier 1 capital ratio of 4%. *Our total capital ratio came in at 8.33%.*
- Accumulation of retained earnings is critical under Regulation 704. The amount of retained earnings a corporate has determines whether or not a corporate has to deduct any PCC from its leverage/tier 1 capital ratio calculations. If a corporate's retained earnings ratio exceeds 2.5%, no deduction is required. *Our retained earnings ratio is currently at 2.59%, so no deduction was necessary in April. If this ratio drops below 2.50%, we would need to resume deducting a portion of PCC from tier 1 capital.*
- The net economic value (NEV) dollar value of assets came in at $310.7 million at the end of April, with an NEV ratio of 7.09% compared to the prior month's 6.20%. The NEV ratio will fluctuate up and down month-to-month, since it is calculated based on month-end assets versus average assets. In April, month-end assets were down roughly $582 million, which is the reason for the increase in NEV ratio this month. In the up 300 basis points scenario, the NEV ratio drops to 6.69% with a negative fluctuation of 6.0%. 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 to be under $5,000, we do not include it as liquid in our "Available Liquidity" report.
- Total capital stands at $313.8 million, excluding unrealized gains and 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 $6.4 million as of month-end, so without this reduction our gross total capital amounts to $320.2 million.

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Financial Condition and Performance Report

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We also help members manage funds through the use of off-balance sheet products:

- Marketable securities
- SimpliCD brokered certificates
- Federal Reserve Bank's EBA program

Current Balances

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

SimpliCDs	$ 769 million
Security Sales*	$ 223 million
EBA Balances	$ 7 million
Total Off-Balance Sheet	**$ 999 million**

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

Unrealized Gains/Losses

Overall market values improved with unrealized losses, decreasing from $5.638 million in March to $3.798 million in April. The primary market values shift in April saw agency CMOs improve by approximately $1.518 million and asset-backed credit cards improve by $0.539 million. SBA securities declined by approximately $0.207 million. The SBA securities represent the largest unrealized loss portion of our portfolio ($3.437 million). We have increased the speed at which we are writing down SBA premiums and are monitoring trends closely. SBA securities are 100% government guaranteed and are accepted as collateral at the Federal Home Loan Bank, so fluctuations in values do not have a significant impact on our liquidity capacity. *From a credit perspective, our portfolio remains solid with a total risk-based capital ratio of 26.2%*.

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.

- $1.023 million LOSS is related to our government agency CMO securities portfolio ($450.9 million total book value)
- $0.211 million LOSS is related to our agency MBS/CMBS securities ($45.5 million total book value)
- $0.006 million LOSS is related to our government agency notes/floaters/callable securities ($0.5 million total book value)
- $0.044 million LOSS is related to our government guaranteed mortgage securities ($19.3 million total book value)
- $0.634 million GAIN is related to our AA+ rated corporate bond portfolio ($50.5 million total book value)
- $0.006 million GAIN is related to our A-1/P-1 rated commercial paper portfolio ($49.8 million total book value)
- $0.160 million LOSS is related to our AAA rated credit card asset-backed securities ($550.3 million total book value)
- $0.320 million GAIN is related to our AAA rated auto floor-plan asset-backed securities ($333.9 million total book value)
- $0.123 million GAIN is related to our government student loan (FFELP) portfolio ($18.1 million total book value)
- $3.437 million LOSS is related to our government guaranteed SBA portfolio ($1.210 billion total book value)

Market values and the associated unrealized gains/losses indicate an estimate of what the sale 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.

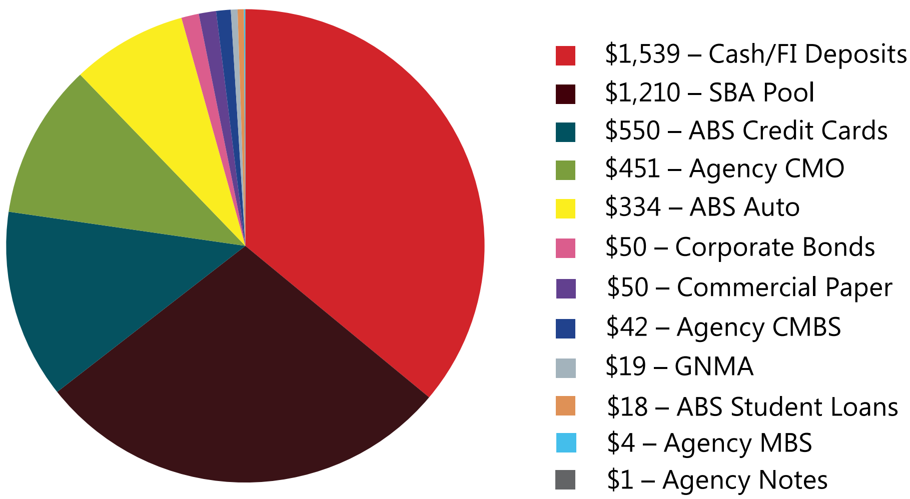
We are very grateful to our members for their continued support and for the trust you place in us each and every day. We look forward to serving you throughout 2019!

Jay R. Murray
Jay R. Murray
CEO

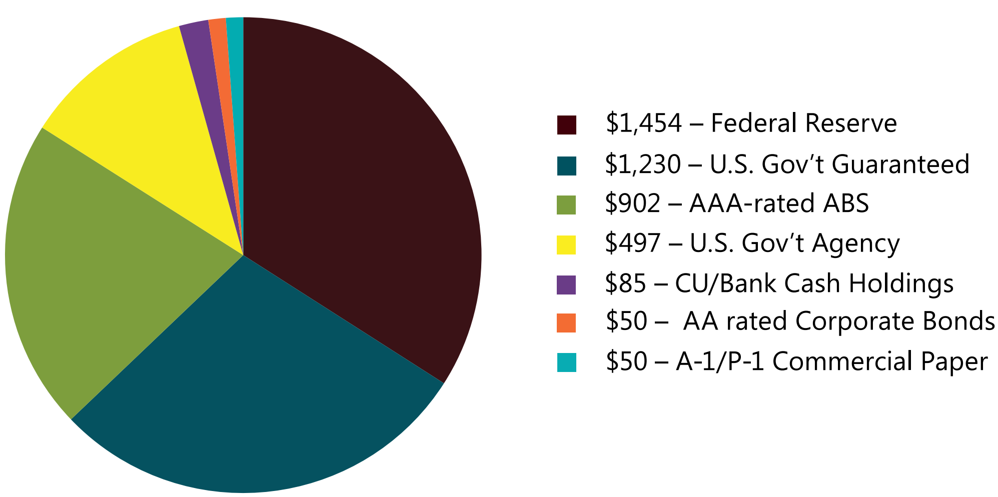
David W. Brehmer
President

Investment Portfolio

Total Book Values



Credit Quality



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

Financial Condition & Performance

Balance Sheet

	April 30, 2019	April 30, 2018
Assets		
Loans	$ 5,839,604	$ 6,594,598
Investments:		
Asset-Backed Securities (Non-Mortgage)	$ 902,690,660	$ 1,134,982,212
U.S. Gov't (Notes/Floaters/Callables)	$ 536,763	$ 30,524,085
U.S. Gov't Agency (CMOs)	$ 469,065,628	$ 338,347,188
U.S. Gov't Agency (MBS)	$ 53,348,796	$ 84,971,795
U.S. Gov't (SBA)	$ 1,206,940,026	$ 962,444,402
Corporate Bonds	$ 51,131,526	$ 27,481,625
Commercial Paper	$ 49,825,000	$ 68,925,920
Federal Home Loan Bank-Atlanta	$ 8,301,400	$ 6,048,900
Credit Union & Bank Deposits	$ 85,233,495	$ 204,201,133
CUSOs	$ 6,430,700	$ 5,266,179
Federal Reserve Bank	$ 1,453,672,191	$ 1,058,869,986
Receivables	$ 31,054,153	$ 23,804,850
Fixed Assets	$ 7,742,284	$ 9,500,424
Goodwill/Core Deposit Intangible	$ 2,282,127	$ 2,282,127
Other Assets	$ 48,027,214	$ 43,898,701
Total Assets:	**$ 4,382,121,567**	**$ 4,008,144,125**

Liabilities		
Other Liabilities:	$ 2,548,499	$ 1,642,402
Accounts Payable:	$ 49,288,928	$ 56,002,780
Notes Payable:	$ 118,724,700	$ 53,856,900
Shares	$ 3,672,182,672	$ 3,269,137,579
Certificates/Term Deposits	$ 220,028,584	$ 318,602,549
Total Shares:	$ 3,892,211,256	$ 3,587,740,128
Non-Perpetual Capital Accounts (NCA)	$ 8,672,378	$ 8,913,835
Perpetual Contributed Capital (PCC)	$ 214,246,834	$ 214,196,766
Reserves & Undivided Earnings	$ 74,865,954	$ 62,279,373
Equity Acquired in Merger	$ 22,562,000	$ 22,562,000
Accumulated Other Comprehensive Loss	$ (3,797,857)	$ (1,685,353)
Total Equity:	$ 316,549,309	$ 306,266,621
Other Equity/Non-Controlling Interest:	$ 2,798,875	$ 2,635,294
Total Liabilities & Equity:	**$ 4,382,121,567**	**$ 4,008,144,125**

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Financial Condition & Performance

Income Statement YTD

	April 2019	April 2018
Interest Income	$ 35,604,125	$ 25,530,451
Interest Expense	$ (25,592,257)	$ (16,386,703)
Net Interest Income	**$ 10,011,868**	**$ 9,143,748**
Net Correspondent Service Income	$ 5,495,100	$ 5,573,965
Gross Operating Income	**$ 15,506,968**	**$ 14,717,713**
Operating Expense	$ (9,493,904)	$ (8,873,700)
Net Income:	**$ 6,013,064**	**$ 5,844,013**
Non-Operating Gains/(Losses)	$ 285,074	$ (3,491)
Amortization of Core Deposit Intangible	$ 0	$ 0
CUSO Income	$ 24,072	$ 43,252
Net Income before PCC Distributions	**$ 6,322,210**	**$ 5,883,774**
Less: Non-Controlling Interest in Net Income	$ (32,847)	$ (39,933)
Less: Equity Transfer for PCC Distribution	$ (1,690,147)	$ (1,230,898)
Net Increase to Retained Earnings	**$ 4,599,216**	**$ 4,612,943**

Earnings Spread/Net Operating Margin

	April 2019	April 2018
Return on Average Assets	2.705%	1.895%
Interest/Dividend Expense	-1.945%	-1.217%
Net Interest Margin	**0.761%**	**0.679%**
Correspondent Service Income	0.418%	0.414%
Operating Expenses	-0.721%	-0.659%
Non-Operating Gains/(Losses)	0.022%	0.000%
Amortization of Core Deposit Intangible	0.000%	0.000%
CUSO Income	0.002%	0.003%
Non-Controlling Interest in Net Income	-0.002%	-0.003%
PCC Distributions	-0.128%	-0.091%
Net Margin	**0.349%**	**0.342%**

Asset Quality

	April 2019
Non-Earning Assets/Average Assets	2.12%
Delinquent Loans/Total Loans	0.00%
Investment Portfolio	
U.S. Gov't/Agency Securities	40.06%
Asset-Backed Securities (Non-Mortgage)	20.90%
Federal Home Loan Bank	0.19%
Corporate Bonds	1.18%
Commercial Paper	1.15%
Bank & Credit Union Deposits	1.97%
Federal Reserve Bank	33.66%
CUSO Equity	0.15%
Cash & Receivables	0.72%
Credit Ratings	
Asset-Backed Securities (Credit Card/Auto)	AAA/Aaa
Asset-Backed Securities (Student Loans)	AAA/Aaa
Corporate Bonds	AA+/Aa1
Commercial Paper	A-1+/P-1
Gov't Agencies/SBAs	AA+ to AAA

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Key Financial *Ratios*

Capital Adequacy	April 2019	April 2018
RUDE + Acquired Equity Capital/Monthly Average Net Assets	2.16%	2.03%
RUDE + Acquired Equity Capital/12-Month Average Net Assets	2.59%	2.16%
Tier 1 (Leverage) Capital/12-Month Average Net Assets	8.11%	6.26%
Total Capital/12-Month Average Net Assets	8.33%	7.70%
Tier 1 Capital/12-Month Average Risk-Weighted Assets	25.47%	20.28%
Total Capital/12-Month Average Risk-Weighted Assets	26.19%	25.26%
Total Capital	$ 313,853,773	$ 302,657,594
Tier 1 (Leverage) Capital	$ 305,244,088	$ 243,059,185
Tier 2 Capital	$ 8,609,685	$ 59,598,409
PCC deducted from Tier 1 Capital	$ 0	$ 50,712,775
Unrealized Gain/Loss on Securities	$ (3,797,857)	$ (1,685,353)
Monthly Average Assets	$ 4,500,405,080	$ 4,178,985,261
Average 12-Month Assets	$ 3,765,720,255	$ 3,932,130,946
Year-to-Date Average Assets	$ 4,003,186,702	$ 4,097,186,689

Liquidity & Interest Rate Risk as of April 30, 2019

Available Liquidity	**Available Within 90 Days**
Net Cash and Receivables:	$ 1,484,726,344
Net Available For Sale (AFS) Securities: (securities with adequate market values to sell)	$ 1,051,075,782
Overnight & Investments Maturing within 90 days:	$ 84,489,495
Unsecured Fed Funds Lines Available:	$ 250,000,000
Secured Fed Funds Lines Available:	$ 150,000,000
Federal Home Loan Bank (FHLB) - borrowing capacity	$ 1,144,923,489
-less fixed term existing loan advances	$ (118,724,700)
Primary Sources of Liquidity:	$ 4,046,490,410
Federal Reserve Bank (FRB) Discount Window - borrowing capacity:	$ 317,119,159
Excess Balance Account (EBA) - funds held for members @ FRB:	$ 6,900,000
Secondary Sources of Liquidity:	$ 324,019,159
Total Available Liquidity:	**$ 4,370,509,569**

Interest Rate Risk

	Regulation 704 Operating Level Base Plus
Base/Current Rate Environment	
Net Economic Value (NEV):	$ 310,706,857
NEV Ratio:	7.09%
Up 3% Rate Environment	
Net Economic Value (NEV):	$ 292,088,136
NEV Ratio:	6.69%
Percentage Change:	(6.0%)
Down 1% Rate Environment	
Net Economic Value (NEV):	$ 321,383,735
NEV Ratio:	7.31%
Percentage Change:	3.4%
Down 2% Rate Environment	
Net Economic Value (NEV):	$ 332,307,215
NEV Ratio:	7.54%
Percentage Change:	7.0%

Notes to Financials

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) - $8,609,685.
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 Fitch (AAA).
14. Student loan asset-backed securities are rated by Fitch (B to AAA), Moody's (Baa3 to Aaa), and/or S&P (AA+ to AAA).
15. Commercial paper ratings shown are from S&P (A-1+) and Moody's (P-1).
16. Corporate bonds ratings shown are from S&P (AA+) and Moody's (Aa1).
17. Available-for-sale securities in the liquidity section includes only bonds with market values showing: 1) Gains, or 2) Unrealized losses below $5,000.
18. 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.
19. All borrowing capacities reflect current market value of eligible collateral plus appropriate haircuts.
20. Primary credit access is available at the Federal Reserve Bank (FRB).
21. Current limit at FHLB-Atlanta $1,080,418,500 (4/30) -- this will vary based on assets.
22. Unsecured fed funds lines comprised of $100 million from PNC Bank, $50 million from JPM Chase, $50 million from SunTrust and $50 million from Wells Fargo.
23. Secured fed funds lines comprised of $150 million from U.S. Bank -- line secured by asset-backed securities.
24. Accumulated Other Comprehensive Loss reflects unrealized gains and losses and non-credit related market value losses not reductions in capital.
25. NEV & capital ratios are in compliance with policy and regulatory limits.
26. Under Liquidity Measures, EBA balances exclude funds held by non-PCC credit unions that totalled only $150,450.

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

Jay R. Murray, CEO
David W. Brehmer, President
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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