Monthly Financials

Vizo Financial Corporate Credit Union

August 2018

Corporate Update

Jay Murray, CEO
David Brehmer, President

We think it's safe to say that fall has come in a like a lion. Hopefully, changing leaves and cooler weather are all we have to look forward to next. Although the days will soon be getting shorter, Vizo Financial is ready to amp things up. We've got tons of events going on over the next few months. Read below to see what's happening!

Hurricane Florence

The recent rampage of Hurricane Florence has been on everybody's minds lately. Two of our locations and many of our member credit unions were right in the hurricane's path when it hit the Carolinas. Whether your credit union had a direct impact from Hurricane Florence, you had family and/or friends who were impacted or you felt the aftereffects (as many along the East Coast did), please know that our thoughts are with you. We send our best wishes to you all!

Payments Conference: Almost Time!

Before we know it, October will be here, and that means it's almost time for our 2018 Payments Conference! This event is perfect for credit union employees who specialize in ACH, check or any type of payment processing, as well as managers, CEOs and COOs.

Join speakers from MACHA, The Clearing House, MY CU Services, the Federal Reserve and more for education on all things payments. We'll have networking opportunities, system demos and CPE credits available to attendees!

We hope you can make it to one of our events next month. Choose whichever date and location suits your schedule.

October 10-11, 2018 – Hershey Lodge, Hershey, Pa.
October 24-25, 2018 – Embassy Suites, Concord, N.C.

Click here for additional information and registration!

Security & Compliance Workshop

Vizo Financial is excited to be hosting our Security & Compliance Workshop on November 7, 2018! This one-day workshop will be held in Concord, N.C., and will tackle different facets of risk management, including cybersecurity, identity theft, BSA/AML training and more.

The workshop will feature expert speakers from Sollievo, Vizo Financial's risk management CUSO. Each speaker will provide unique expertise and insight that you can take back to your credit union to improve your security and compliance practices.

For event details and registration, please click here!

Reception at NJCUL Annual Meeting

Our final reception of the year will take place during the New Jersey Credit Union League's Annual Meeting on October 22, 2018. Stop by for the hors d'oeuvres, bar service, videos and cash prizes. Meet with Vizo Financial staff and other credit union professionals at this fun evening event! Click here to register now!

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.

Recently, Todd Sammons, CFO at Marine Federal Credit Union, sent an email saying how happy he is with Lisa Boylen and the ALM team. He wrote, "Thanks Lisa for all of your help. You guys are life savers during our exams. The service you give during an exam cannot be topped. If anyone is ever looking at you for an ALM solution, feel free to give them my name and number."

Thank you for the kind words, Todd! If your credit union has experienced exceptional service in working with Vizo Financial or our CUSOs, please let us know. We'll be happy to share your story!

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 August 31, 2018. 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 $2.697 billion in August compared to $2.858 billion in July and $3.025 billion in June. Volatility of member balances remained high in August and was up slightly (34% compared to 31% in July) with the spread between the single day high and low balances being $1.108 billion compared to $1.083 billion the prior month.

Average off-balance sheet credit union balances - those held in our Excess Balance Account (EBA) - averaged $25.1 million in July. As liquidity tightens, we have seen more withdrawals from the EBA, which now has outstanding balances lower than any time since we started the program. Month-end balances are now just $5.6 million. Combined with our on-balance sheet member deposits, average short-term balances were $2.706 billion.

Liquidity remains readily accessible through our primary borrowing sources. Historically, the December-January and July-August periods represent our lowest balance trends of the year while March-April represent our highest balances of the year.

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

- On-balance sheet (month-end) member shares were up approximately $412 million, coming in at $3.390 billion compared to $2.978 billion in July. Of this total, $188.5 million were in certificates, while the remaining balances were distributed between the PSA and settlement deposit accounts.
- Month-end assets came in at $4.216 billion. Average assets were below month-end assets, coming in at $3.767 billion. Excluding non-perpetual capital accounts, our total net equity is at $303.7 million. The unrealized gain/loss/AOCL figure came in at a loss of $0.068 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 $89.6 million. Gross income for the month came in at $1,729,838. Our net increase to retained earnings was $1,356,858. Distributions to members via PCC dividends totaled $363,841.
- Our leverage/tier 1 capital ratio is 6.51% based on our 12-month rolling average assets. This is above the minimum regulatory guideline for leverage/ tier 1 capital ratio of 4%. Since October 2016, NCUA Regulations have required corporates to deduct a portion of their PCC from their tier 1 capital calculations. In August, this amounted to a reduction of $46.2 million of PCC from our tier 1 capital. Our total capital ratio is 7.84%.
- Accumulation of retained earnings is critical under Regulation 704. The amount of retained earnings a corporate has determines the amount of PCC that must be deducted from leverage/tier 1 capital ratio calculations. With new regulatory changes, corporates now have a retained earnings ratio target of 2.5%. Once a corporate exceeds this threshold, it will no longer need to deduct PCC from its calculation of tier 1 capital. Our retained earnings ratio is currently at 2.29%.
- The net economic value (NEV) dollar value of assets came in at $305.9 million at the end of August with an NEV ratio of 7.26% compared to the prior month's 7.80%. The NEV ratio will fluctuate up & down 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 6.99% with a negative fluctuation of 4.0%. 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 at under $5,000, we do not include it as liquid in our "Available Liquidity" report.
- Total capital stands at $307.3 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 $5.3 million as of month-end so without this reduction, our gross total capital amounts to $312.6 million.

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Financial Condition and Performance Report continued from page 2

- 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	$ 828 million
Security Sales*	$ 266 million
EBA Balances	$ 4 million
Total Off-Balance Sheet	**$1.098 billion**

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

Unrealized Gains/Losses

Market values improved slightly with unrealized losses of $0.410 million in July moving to unrealized losses of $0.068 million in August. The SBA securities represent the largest unrealized loss portion of our portfolio ($2.0 million). We expect these values to jump around based on the anticipation of prepayments speeding up due to higher rates. In July, we increased the speed at which we are writing down our SBA premiums and we will be monitoring these 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 24.5%.

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.

- $0.454 million LOSS is related to our government agency CMO securities portfolio ($292.8 million total book value)
- $0.284 million LOSS is related to our agency MBS/CMBS securities ($52.1 million total book value)
- $0.020 million LOSS is related to our government agency notes/floaters/callable securities ($20.5 million total book value)
- $0.068 million GAIN is related to our A-1+/P-1 rated commercial paper portfolio ($175.3 million total book value)
- $0.216 million GAIN is related to our AA+ rated corporate bond portfolio ($27.3 million total book value)
- $0.826 million GAIN is related to our AAA rated credit card asset-backed securities ($677.7 million total book value)
- $0.607 million GAIN is related to our AAA rated auto floor-plan asset-backed securities ($312.8 million total book value)
- $0.991 million GAIN is related to our government student loan (FFELP) portfolio ($75.1 million total book value)
- $2.019 million LOSS is related to our government guaranteed SBA portfolio ($932.5 million 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 2018!

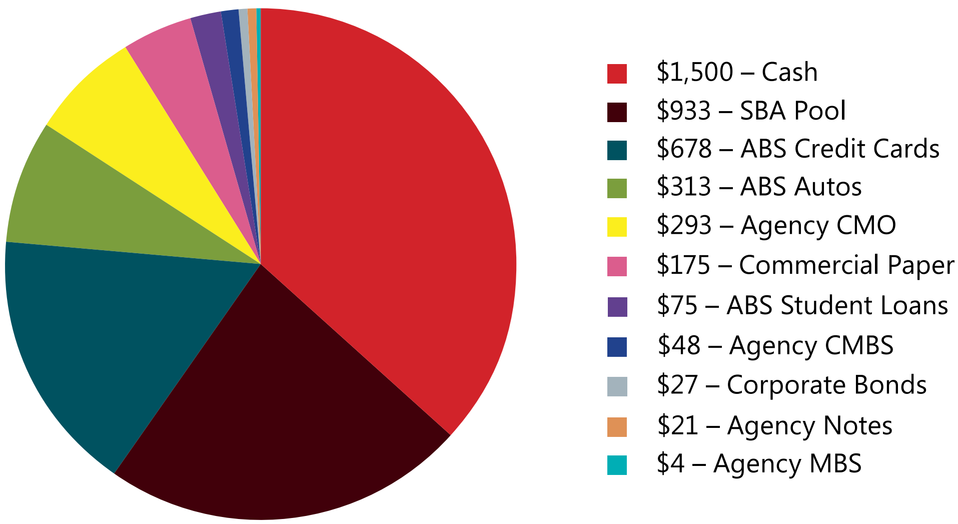
Jay R. Murray

Jay R. Murray
CEO

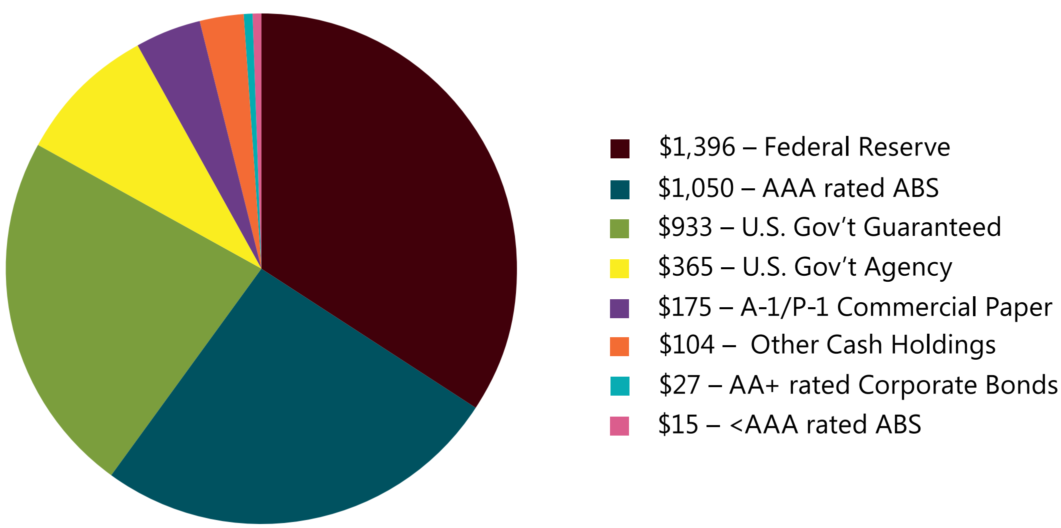
David W. Brehmer
President

Investment Portfolio

Total Book Values



Credit Quality



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

Balance Sheet	August 31, 2018	August 31, 2017
Assets		
Loans	$ 26,371,553	$ 23,592,395
Investments:		
Asset-Backed Securities (Non-Mortgage)	$ 1,068,076,436	$ 1,075,599,963
U.S. Gov't (Notes/Floaters/Callables)	$ 20,523,295	$ 22,531,051
U.S. Gov't Agency (CMOs)	$ 292,369,245	$ 365,287,089
U.S. Gov't Agency (MBS)	$ 60,923,682	$ 137,257,538
U.S. Gov't (SBA)	$ 930,481,857	$ 951,977,770
Corporate Bonds	$ 27,525,225	$ 27,375,350
Commercial Paper	$ 175,378,741	$ 0
Federal Home Loan Bank-Atlanta	$ 23,311,400	$ 25,178,400
Credit Union & Bank Deposits	$ 104,651,487	$ 158,536,863
CUSOs	$ 5,323,627	$ 5,079,119
Federal Reserve Bank	$ 1,396,031,175	$ 821,457,776
Receivables	$ 29,725,272	$ 16,226,516
Fixed Assets	$ 8,925,817	$ 10,646,681
Goodwill/Core Deposit Intangible	$ 2,282,127	$ 2,423,305
Other Assets	$ 44,582,317	$ 42,050,942
Total Assets:	**$ 4,216,483,256**	**$ 3,685,220,758**

Liabilities		
Other Liabilities:	$ 2,178,574	$ 2,256,469
Accounts Payable:	$ 49,344,692	$ 48,863,884
Uncollected Deposits:	$ (64)	$ 1,964
Notes Payable:	$ 459,957,090	$ 511,298,500
Shares	$ 3,201,197,272	$ 2,615,690,310
Certificates/Term Deposits	$ 188,481,453	$ 202,031,433
Total Shares:	$ 3,389,678,725	$ 2,817,721,743
Non-Perpetual Capital Accounts (NCA)	$ 8,913,835	$ 8,913,835
Perpetual Contributed Capital (PCC)	$ 214,196,834	$ 214,196,834
Reserves & Undivided Earnings	$ 67,014,827	$ 54,218,399
Equity Acquired in Merger	$ 22,562,000	$ 22,562,000
Accumulated Other Comprehensive Loss	$ (67,636)	$ 2,590,035
Total Equity:	$ 312,619,860	$ 302,481,103
Other Equity/Non-Controlling Interest:	$ 2,704,379	$ 2,597,095
Total Liabilities & Equity:	**$ 4,216,483,256**	**$ 3,685,220,758**

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Financial Condition & Performance

Income Statement YTD	August 2018	August 2017
Interest Income	$ 54,017,739	$ 35,522,016
Interest Expense	$ (35,631,564)	$ (19,775,691)
Net Interest Income	**$ 18,386,175**	**$ 15,746,325**
Net Correspondent Service Income	$ 11,279,568	$ 12,079,635
Gross Operating Income	**$ 29,665,743**	**$ 27,825,960**
Operating Expense	$ (17,742,437)	$ (18,043,322)
Net Income:	**$ 11,923,306**	**$ 9,782,638**
Non-Operating Gains/(Losses)	$ 18,442	$ 209,631
Amortization of Core Deposit Intangible	$ 0	$ (630,454)
CUSO Income	$ 101,663	$ 169,018
Net Income before PCC Distributions	**$ 12,043,411**	**$ 9,530,833**
Less: Non-Controlling Interest in Net Income	$ (100,657)	$ (227,418)
Less: Equity Transfer for PCC Distribution	$ (2,585,035)	$ (1,513,980)
Net Increase to Retained Earnings	**$ 9,357,719**	**$ 7,789,435**

Earnings Spread/Net Operating Margin	August 2018	August 2017
Return on Average Assets	2.052%	1.371%
Interest/Dividend Expense	-1.354%	-0.763%
Net Interest Margin	**0.698%**	**0.608%**
Correspondent Service Income	0.429%	0.466%
Operating Expenses	-0.674%	-0.697%
Non-Operating Gains/(Losses)	0.001%	0.008%
Amortization of Core Deposit Intangible	0.000%	-0.024%
CUSO Income	0.004%	0.007%
Non-Controlling Interest in Net Income	-0.004%	-0.009%
PCC Distributions	-0.098%	-0.058%
Net Margin	**0.356%**	**0.301%**

Asset Quality	August 2018
Non-Earning Assets/Average Assets	2.41%
Delinquent Loans/Total Loans	0.00%
Investment Portfolio	
U.S. Gov't/Agency Securities	31.55%
Asset-Backed Securities (Non-Mortgage)	25.83%
Federal Home Loan Bank	0.56%
Corporate Bonds	0.67%
Commercial Paper	4.24%
Bank & Credit Union Deposits	2.53%
Federal Reserve Bank	33.77%
CUSO Equity	0.13%
Cash & Receivables	0.72%
Credit Ratings	
Asset-Backed Securities (Credit Card/Auto)	AAA/Aaa
Asset-Backed Securities (Student Loans)	B/Baa3 to 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	August 2018	August 2017
RUDE + Acquired Equity Capital/Monthly Average Net Assets	2.38%	2.02%
RUDE + Acquired Equity Capital/12-Month Average Net Assets	2.29%	1.97%
Tier 1 (Leverage) Capital/12-Month Average Net Assets	6.51%	5.34%
Total Capital/12-Month Average Net Assets	7.84%	7.56%
Tier 1 Capital/12-Month Average Risk-Weighted Assets	19.89%	17.56%
Total Capital/12-Month Average Risk-Weighted Assets	24.24%	25.38%
Total Capital	$ 307,330,256	$ 294,788,796
Tier 1 (Leverage) Capital	$ 252,201,147	$ 203,873,213
Tier 2 Capital	$ 55,129,109	$ 90,915,583
PCC deducted from Tier 1 Capital	$ 46,248,887	$ 82,024,901
Unrealized Gain/Loss on Securities	$ (67,636)	$ 2,590,035
Monthly Average Assets	$ 3,767,348,407	$ 3,810,083,066
Average 12-Month Assets	$ 3,918,555,985	$ 3,897,864,474
Year-to-Date Average Assets	$ 3,953,773,065	$ 3,891,167,082

Liquidity & Interest Rate Risk as of August 31, 2018

Available Liquidity	**Available Within 90 Days**
Net Cash and Receivables:	$ 1,425,756,447
Net Available For Sale (AFS) Securities: (securities with adequate market values to sell)	$ 1,300,623,844
Overnight & Investments Maturing within 90 days:	$ 103,907,487
Unsecured Fed Funds Lines Available:	$ 250,000,000
Secured Fed Funds Lines Available:	$ 150,000,000
Federal Home Loan Bank (FHLB) - borrowing capacity	$ 1,047,255,257
-less fixed term existing loan advances	$ (459,957,090)
Primary Sources of Liquidity:	$ 3,817,585,945
Federal Reserve Bank (FRB) Discount Window - borrowing capacity:	$ 8,077,443
Excess Balance Account (EBA) - funds held for members @ FRB:	$ 5,150,000
Secondary Sources of Liquidity:	$ 13,227,443
Total Available Liquidity:	**$ 3,830,813,388**

Interest Rate Risk

	Regulation 704 Operating Level Base Plus
Base/Current Rate Environment	
Net Economic Value (NEV):	$ 305,920,789
NEV Ratio:	7.26%
Up 3% Rate Environment	
Net Economic Value (NEV):	$ 293,619,855
NEV Ratio:	6.99%
Percentage Change:	(4.0%)
Down 1% Rate Environment	
Net Economic Value (NEV):	$ 310,094,147
NEV Ratio:	7.35%
Percentage Change:	1.4%
Down 2% Rate Environment	
Net Economic Value (NEV):	$ 319,996,718
NEV Ratio:	7.56%
Percentage Change:	4.6%

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) - $8,880,222.
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. FHLB and FRB 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 $1,346,166,000 (8/31) -- 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 $500,450.

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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