Monthly Financials

Vizo Financial Corporate Credit Union

December 2017

Corporate Update

Jay Murray, CEO

David Brehmer, President

Each new year brings new resolutions, which may focus on career, education, credit union growth, or overcoming challenges. Here at Vizo Financial, we are committed to supporting you and your credit union by helping to drive credit union success through proven excellence, unmatched expertise and engaged partnerships. Together we can achieve all of our New Year's Resolutions.

CECL Solution

Vizo Financial launched our CECL Solution, powered by ARCSys, on January 18, 2018. It is a comprehensive service for credit unions to collect information and prepare for the implementation of the CECL standard that will be effective in 2021.

The software was created specifically for the purpose of assisting financial institutions with CECL calculations.

Vizo Financial will be hosting several webinar sessions to demo the ARCSys ACL Calculator and system. Click here for more details or to register.

Financial Strategies Workshop

Vizo Financial understands the importance of financial management for credit unions. These workshops are an excellent opportunity for credit unions to receive additional financial education provided by our expert staff and other industry speakers on the economy, ALM, investment and liquidity strategies and CECL.

We will be holding the workshop on the following dates:

- March 28, 2018 - Richmond, Va
- May 15, 2018 - Pittsburgh, Pa.
- May 16, 2018 - Lancaster, Pa.

Click here for more details or to register.

First Quarter Education

Each quarter, Vizo Financial will host educational webinars on various topics of interest in the credit union industry. These webinars will be led by our knowledgeable staff, many of whom are certified professionals in their areas of expertise. The first quarter education sessions include:

- Postitioning Your Portfolio
- The Ins and Outs of Vizo Financial's CECL Solution
- 2018 ACH Rules Changes and Updates
- Key Assumptions for Rising Rates
- What is a BIA and Why is it Needed?
- Social Engineering: The Human Risk Factor

For more information on our first quarter webinars or to register to attend, please click here.

Wire System

Vizo Financial's CUSO, MY CU Services, continues to work towards implementing a new wire system.

Webinars and an instructional how-to guide detailing the features and more will be available to credit unions prior to the launch of the wire system.

Look for more communications in the coming weeks regarding this new system.

GAC Reception

There is still time to register for this year's GAC Reception on February 26, 2018 from 4:15 – 6:15 p.m. at the Acadiana Restaurant.

Interested in attending? 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.

If your credit union has an exceptional service story you'd like to share about any of our staff, please send the details to marketing@vfccu.org!

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 December 31, 2017. 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 $2.696 billion in December compared to $2.634 billion in November and $2.623 billion in October. Volatility of member balances in December was up slightly from November (33% compared to 31%) with the spread between the single day high and low balances being $1.129 billion compared to $957.4 million the prior month. These trends continue to indicate a tight liquidity environment among our member credit unions.

Average off-balance sheet credit union balances -- those held in our Excess Balance Account (EBA) -- averaged just $33.4 million in December with month-end balances of $33.9 million. Combined with our on-balance sheet member deposits, average short term balances were $2.730 billion.

Although clearly tightening, 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 about $495 million coming in at $3.306 billion compared to $2.811 billion in November. Of this total, $332.6 million were in term deposits while the remaining balances were distributed between the PSA and settlement deposit accounts.
- Month-end assets came in at $4.173 billion. Average assets were below month-end assets coming in at $3.998 billion. Excluding non-perpetual capital accounts, our total net equity is at $297.0 million. The unrealized gain/loss/AOCL figure came in at positive (gain) of $2.555 million. More details regarding market values of securities are discussed later in the report under the heading "Unrealized Gains/Losses."
- Retained earnings ended the month at $57.6 million. In addition, we have $22.6 million in "earnings acquired in a merger" which represents First Carolina's retained earnings so our actual total is $80.2 million. Gross income for the month came in at $866,714. Income was negatively impacted by recognizing a $325,000 tax liability due to merging our core processing company, AMIS, into our CUSO, MY CU Services, LLC. The consolidation will reduce ongoing expenses and eliminate future annual tax liabilities by approximately $100,000. After distributing $272,896 to members in the form of PCC dividends, our net increase to retained earnings was $629,905.
- Our leverage/tier 1 capital ratio is 6.11% based on our 12-month rolling average assets. This is above the minimum regulatory guideline for leverage/tier 1 capital ratio of 4%. Starting in October 2016 NCUA Regulations require corporates to deduct a portion of their PCC from their tier 1 capital calculations. In December, this amounted to a reduction of $56.4 million of PCC from our tier 1 capital.
- 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 effective December 22, 2017 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. In addition, under the revised regulations the retained earnings that came over in the merger and were re-classified as "*equity acquired in a merger*" is once again considered part of a corporate's total retained earnings.
- The NEV dollar value of assets came in at $298.7 million at the end of December with an NEV ratio of 7.16% compared to the prior month's 7.70%. 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 6.70% with a negative fluctuation of 6.9%. We are well above required regulatory NEV levels (2%).
- The available liquidity section reflects our capacity for generating liquidity. We factored out securities in the "available-for-sale" (AFS) portfolio whose current market values were lower than we realistically believed we would sell. Although 100% of our marketable securities are classified as AFS, unless the market value is positive or the unrealized loss is estimated at under $5,000, we do not include it as liquid in our "Available Liquidity" report.

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Vizo Financial Monthly Financials

Financial Condition and Performance Report *continued from page 2*

- Total capital stands at $298.6 million excluding unrealized gains and losses on securities and accumulated other comprehensive losses. This consists of PCC, retained earnings, equity acquired in merger and 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 $4.7 million as of month-end so without this reduction our gross total capital amounts to $303.3 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

Current Balances

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

SimpliCDs	$ 802 million
Security Sales*	$ 363 million
EBA Balances	$ 33 million
Total Off-Balance Sheet	**$1.198 billion**

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

Unrealized Gains/Losses

Market values dropped from unrealized gains of $2.712 million in November to $2.555 million in December. The SBA portfolio as a single asset class shows the highest unrealized losses at $0.7 million. This asset sector is 100% government guaranteed so it does not present any credit risk and the securities can be used 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 25.8%.

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.

- $0.427 million LOSS is related to our government agency CMO securities portfolio ($334.3 million total book value)
- $0.177 million LOSS is related to our GNMA government guaranteed and agency MBS securities ($119.2 million total book value)
- $0.034 million LOSS is related to our government agency notes/floaters/callable securities ($22.5 million total book value)
- $0.111 million GAIN is related to our corporate bond portfolio ($27.3 million total book value)
- $1.576 million GAIN is related to our AAA-rated credit card asset-backed securities ($650.5 million total book value)
- $0.973 million GAIN is related to our AAA-rated auto floor-plan asset-backed securities ($319.4 million total book value)
- $1.297 million GAIN is related to our government student loan (FFELP) portfolio ($93.2 million total book value)
- $0.764 million LOSS is related to our government guaranteed SBA portfolio ($917.3 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.

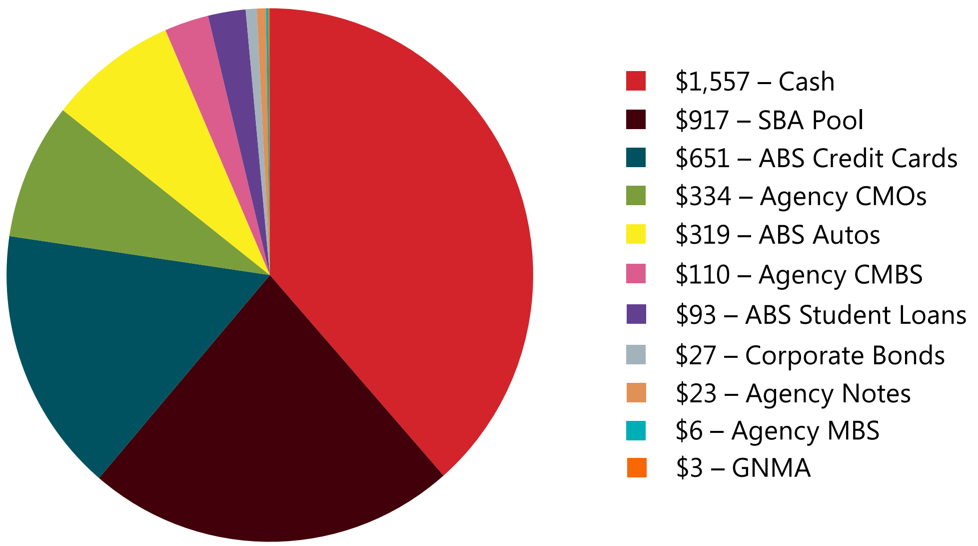
We are very grateful to our members for their continued support and for the trust you place in us each and every day. We look forward to serving you throughout 2018!

Jay R. Murray

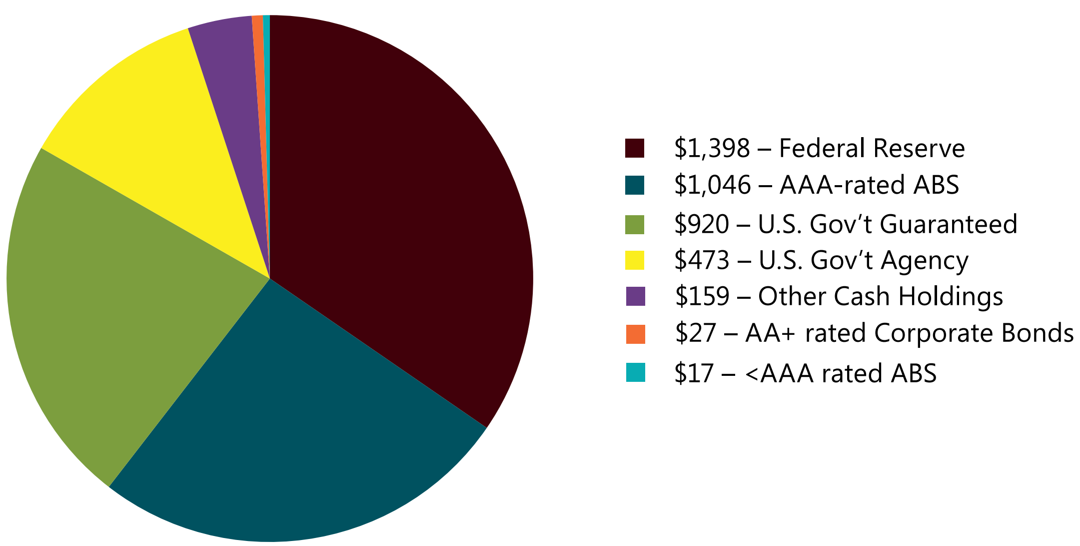
Jay R. Murray
CEO

David W. Brehmer
President

Total Book Values



Credit Quality



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

Balance Sheet	December 31, 2017	December 31, 2016
Assets		
Loans	$ 18,379,496	$ 4,375,571
Investments:		
Asset-Backed Securities (Non-Mortgage)	$ 1,066,900,908	$ 1,075,980,071
U.S. Gov't (Notes/Floaters/Callables)	$ 22,513,745	$ 91,588,815
U.S. Gov't Agency (CMOs)	$ 337,087,989	$ 251,711,195
U.S. Gov't Agency (MBS)	$ 126,333,969	$ 173,925,396
U.S. Gov't (SBA)	$ 916,492,502	$ 857,943,798
Corporate Bonds	$ 27,429,850	$ 0
Federal Home Loan Bank-Atlanta	$ 25,147,500	$ 6,089,200
Credit Union & Bank Deposits	$ 148,826,974	$ 3,744,844
CUSOs	$ 4,722,927	$ 4,910,101
Federal Reserve Bank	$ 1,398,008,138	$ 1,274,490,814
Cash & Receivables	$ 23,174,281	$ 27,776,495
Fixed Assets	$ 9,899,511	$ 8,074,750
Goodwill/Core Deposit Intangible	$ 2,282,127	$ 3,227,809
Other Assets	$ 45,945,558	$ 41,798,967
Total Assets:	**$ 4,173,145,475**	**$ 3,825,637,826**

Liabilities		
Other Liabilities:	$ 2,802,458	$ 1,926,768
Accounts Payable:	$ 44,869,271	$ 37,960,192
Uncollected Deposits:	$ (1,172)	$ (50,506)
Notes Payable:	$ 510,494,980	$ 112,385,790
Shares	$ 2,973,866,196	$ 3,079,614,540
Certificates/Term Deposits	$ 332,624,059	$ 301,352,243
Total Shares:	$ 3,306,490,255	$ 3,380,966,783
Non-Perpetual Capital Accounts (NCA)	$ 8,913,835	$ 8,895,730
Perpetual Contributed Capital (PCC)	$ 214,196,834	$ 214,198,192
Reserves & Undivided Earnings	$ 57,659,033	$ 46,460,312
Equity Acquired in Merger	$ 22,562,000	$ 22,562,000
Accumulated Other Comprehensive Loss	$ 2,555,221	$ (2,043,728)
Total Equity:	$ 305,886,923	$ 290,072,506
Other Equity/Non-Controlling Interest:	$ 2,602,760	$ 2,376,293
Total Liabilities & Equity:	**$ 4,173,145,475**	**$ 3,825,637,826**

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Financial Condition & Performance

Income Statement YTD	December 2017	December 2016
Interest Income	$ 55,748,462	$ 32,767,522
Interest Expense	$ (31,724,819)	$ (13,126,702)
Net Interest Income	**$ 24,023,643**	**$ 19,640,820**
Net Correspondent Service Income	$ 17,313,903	$ 18,555,113
Gross Operating Income	**$ 41,337,546**	**$ 38,195,933**
Operating Expense	$ (27,040,253)	$ (25,721,588)
Net Income:	**$ 14,297,293**	**$ 12,474,345**
Non-Operating Gains/(Losses)	$ 346,570	$ 436,054
Amortization of Core Deposit Intangible	$ (945,682)	$ (309,841)
CUSO Income	$ 274,589	$ 119,209
Net Income before PCC Distributions	**$ 13,972,770**	**$ 12,719,767**
Less: Non-Controlling Interest in Net Income	$ (233,083)	$ (374,025)
Less: Equity Transfer for PCC Distribution	$ (2,540,966)	$ (1,942,470)
Net Increase to Retained Earnings	**$ 11,198,721**	**$ 10,403,272**

Earnings Spread/Net Operating Margin	December 2017	December 2016
Return on Average Assets	1.438%	0.824%
Interest/Dividend Expense	-0.818%	-0.330%
Net Interest Margin	**0.620%**	**0.494%**
Correspondent Service Income	0.447%	0.467%
Operating Expenses	-0.697%	-0.647%
Non-Operating Gains/(Losses)	0.009%	0.011%
Amortization of Core Deposit Intangible	-0.024%	-0.008%
CUSO Income	0.007%	0.003%
Non-Controlling Interest in Net Income	-0.006%	-0.009%
PCC Distributions	-0.066%	-0.049%
Net Margin	**0.289%**	**0.262%**

Asset Quality	December 2017
Non-Earning Assets/Average Assets	2.15%
Delinquent Loans/Total Loans	0.00%
Investment Portfolio	
U.S. Gov't/Agency Securities	34.23%
Asset-Backed Securities (Non-Mortgage)	26.04%
Federal Home Loan Bank	0.61%
Corporate Bonds	0.67%
Bank & Credit Union Deposits	3.63%
Federal Reserve Bank	34.13%
CUSO Equity	0.12%
Cash & Receivables	0.57%
Credit Ratings	
Asset-Backed Securities (Credit Card/Auto)	AAA
Asset-Backed Securities (Student Loans)	B to AAA
Corporate Bonds	AA+
Gov't Agencies/SBAs	AA+ to AAA

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Key Financial Ratios

Capital Adequacy	December 2017	December 2016
RUDE + Acquired Equity Capital/Monthly Average Net Assets	2.01%	1.71%
RUDE + Acquired Equity Capital/12-Month Average Net Assets	2.07%	1.74%
Tier 1 (Leverage) Capital/12-Month Average Net Assets	7.47%	4.90%
Total Capital/12-Month Average Net Assets	7.70%	7.24%
Tier 1 Capital/12-Month Average Risk-Weighted Assets	20.17%	15.07%
Total Capital/12-Month Average Risk-Weighted Assets	25.82%	22.99%
Total Capital	$ 298,583,098	$ 287,206,133
Tier 1 (Leverage) Capital	$ 289,694,940	$ 189,860,453
Tier 2 Capital	$ 8,888,158	$ 97,345,680
PCC deducted from Tier 1 Capital	$ 0	$ 88,449,950
Unrealized Gain/Loss on Securities	$ 2,555,221	$ (2,043,728)
Monthly Average Assets	$ 3,998,081,203	$ 4,029,811,507
Average 12-Month Assets	$ 3,876,818,663	$ 3,964,396,554
Year-to-date Average Assets	$ 3,876,818,663	$ 3,964,396,554

Liquidity & Interest Rate Risk as of December 31, 2017

Available Liquidity	Available Within 90 Days
Net Cash and Receivables:	$ 1,421,182,419
Net Available For Sale (AFS) securities: (securities with adequate market values to sell)	$ 1,248,915,143
Overnight & Investments Maturing within 90 days:	$ 147,461,499
Unsecured Fed Funds Lines Available:	$ 230,000,000
Secured Fed Funds Lines Available:	$ 150,000,000
Federal Home Loan Bank (FHLB) - borrowing capacity	$ 1,004,610,486
-less fixed term existing loan advances	$ (510,494,980)
Primary Sources of Liquidity:	$ 3,691,674,567
Federal Reserve Bank (FRB) Discount Window - borrowing capacity:	$ 22,283,585
Excess Balance Account (EBA) - funds held for members @ FRB:	$ 33,700,000
Secondary Sources of Liquidity:	$ 55,983,585
Total Available Liquidity:	**$ 3,747,658,152**

Interest Rate Risk

	Regulation 704 Operating Level Base Plus
Base/Current Rate Environment	
Net Economic Value (NEV):	$ 298,742,217
NEV Ratio:	7.16%
Up 3% Rate Environment	
Net Economic Value (NEV):	$ 278,256,406
NEV Ratio:	6,70%
Percentage Change:	(6.9%)
Down 1% Rate Environment	
Net Economic Value (NEV):	$ 306,960,344
NEV Ratio:	7.34%
Percentage Change:	2.8%

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) - $8,888,158
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 non-mortgage related asset-backed securities are rated B to AAA.
14. Available-for-sale securities in the liquidity section includes only bonds with market values showing: 1) Gains, or 2) Unrealized losses below $5,000.
15. 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.
16. FHLB and FRB borrowing capacities reflect current market value of eligible collateral plus appropriate haircuts.
17. Primary credit access is available at the Federal Reserve Bank (FRB).
18. Current limit at FHLB-Atlanta $1,293,171,000 (12/31) -- this will vary based on assets.
19. Unsecured fed funds lines comprised of $100 million from PNC Bank, $30 million from JPM Chase, $50 million from SunTrust and $50 million from Wells Fargo.
20. Secured fed funds lines comprised of $150 million from U.S. Bank -- line secured by asset-backed securities.
21. Accumulated Other Comprehensive Loss reflects unrealized gains and losses and non-credit related market value losses not reductions in capital.
22. NEV & capital ratios are in compliance with policy and regulatory limits.
23. Under Liquidity Measures, EBA balances exclude funds held by non-PCC credit unions that totalled only $250,450.

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

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For more information concerning the content in this unaudited financial report, please contact Vizo Financial at (800) 622-7494.

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