# Monthly Financials

Vizo Financial Corporate Credit Union

July 2018

## Corporate Update

### Jay Murray, CEO
### David Brehmer, President

Can you believe we've reached the end of summer? Just for perspective, Halloween candy is already in the stores, the first day of fall is in just a few weeks and Thanksgiving is only 13 Thursdays away! But before all that, Vizo Financial has some news for you. Read below for your corporate update!

### Board Election Results

The following individuals were re-elected to Vizo Financial's board of directors for three-year terms: Lucile P. Beckwith, Palmetto Trust Federal Credit Union, Columbia, S.C.; Jerry King, DEXSTA Federal Credit Union, Wilmington, Del.; and James F. McCaw, Viriva Community Credit Union, Warminster, Pa. Robert E. Bruns, Charlotte Metro Federal Credit Union, Charlotte, N.C., was also re-elected to serve a two-year term.

Board election results were shared at Vizo Financial's Annual Meeting in Charlottesville, Va., on August 9, 2018. For additional information, click here to see our board election press release.

### Upcoming Conferences

This fall, Vizo Financial will be hosting several educational conferences for credit unions. Get the details on all of our upcoming conferences and workshops!

#### *2018 Financial Conference*

Vizo Financial's biggest financial event of the year will be held in just a couple weeks on September 12-14, 2018! We'll be at the Ballantyne Hotel in Charlotte, N.C., to talk about all things financial – investments, the economy, ALM, CECL and more! This event will feature education from financial experts and qualifies for up to 12 CPE credits! Click here to learn more and to register!

**Registration closes September 5.*

#### *2018 Payments Conference*

Payment solutions and systems take center stage in our 2018 Payments Conference! This October, Vizo Financial will be holding two separate events to bring the latest in payment information to credit unions. Learn about ACH, check payments and more from industry experts, all while earning up to eight CPE credits! Interested in attending? Click here for additional information and registration!

#### *2018 Security & Compliance Workshop*

Our final event of the year will be the 2018 Security & Compliance Workshop on November 7, 2018, at the Embassy Suites in Concord, N.C. This one-day event will be an eye-opening experience for credit unions to learn about security controls and awareness, identity theft and business continuity. Attendees can earn up to five CPE credits! Click here for registration and event details!

### Exceptional Service in Our Communities

Vizo Financial strives each and every day to provide excellence in our service, not just to our members, but also to our local communities.

Vizo Financial participated in the following community initiatives over the last few months:

- Hot Dog Eating Contest – Vizo Financial held its fifth annual Hot Dog Eating Contest at our Middletown location on July 25. The event raised $3,310 for Children's Miracle Network (CMN) Hospitals.

- Miracle Treat Day – We celebrated Miracle Treat Day on August 2. Staff at all locations were treated to Dairy Queen Blizzards, and at least $1 from each Blizzard was donated to our local CMN Hospitals.

- iCan Shine Bike Camp – On August 3, staff from the Middletown campus participated in CMN Hospitals' iCan Shine Bike Camp. This annual event helps children with disabilities learn to ride a bike independently.

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 July 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 $2.858 billion in July, compared to $3.025 billion in June and $3.125 billion in May. Volatility of member balances remained high in July although decreased slightly (31% compared to 34% in June) with the spread between the single day high and low balances being $1.083 billion compared to $1.307 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. Tightening liquidity led to withdrawals from the EBA which left month-end balances at just $9.2 million. Combined with our on-balance sheet member deposits, average short-term balances were $2.883 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 down approximately $790 million, coming in at $2.978 billion compared to $3.768 billion in June. Of this total, $264.1 million were in certificates while the remaining balances were distributed between the PSA and settlement deposit accounts.
- Month-end assets came in at $3.905 billion. Average assets were below month-end assets, coming in at $3.850 billion. Excluding non-perpetual capital accounts, our total net equity is at $302.0 million. The unrealized gain/loss/AOCL figure came in at a loss of $0.410 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 $88.2 million. Gross income for the month came in at $1,682,019. Our net increase to retained earnings was $1,313,087. Distributions to members via PCC dividends totaled $363,841.
- Our leverage/tier 1 capital ratio is 6.44% 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 July, this amounted to a reduction of $47.5 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, 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 2.25%.
- The net economic value (NEV) dollar value of assets came in at $304.4 million at the end of July with an NEV ratio of 7.80% compared to the prior month's 6.77%. 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 7.49% with a negative fluctuation of 4.3%. 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 $306.0 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 $311.3 million.

*continued on page 3*

# 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 | $ 829 million |
| Security Sales* | $ 280 million |
| EBA Balances | $ 9 million |
| **Total Off-Balance Sheet** | **$1.118 billion** |

*Security sales reflect sales over the past 18 months*

## Unrealized Gains/Losses

Market values dropped with unrealized gains of $0.216 million in June, moving to unrealized losses of $0.410 million in July. The SBA securities represent the largest unrealized loss portion of our portfolio ($2.2 million). We expect these values to jump around based on the anticipation of prepayments speeding up due to higher rates. In July, we did increase the speed at which we are writing down our 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 24.4%.

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.

- $0.514 million LOSS is related to our government agency CMO securities portfolio ($298.9 million total book value)
- $0.447 million LOSS is related to our agency MBS/CMBS securities ($74.6 million total book value)
- $0.021 million LOSS is related to our government agency notes/floaters/callable securities ($20.5 million total book value)
- $0.049 million GAIN is related to our A-1+/P-1 rated commercial paper portfolio ($175.0 million total book value)
- $0.220 million GAIN is related to our AA+ rated corporate bond portfolio ($27.3 million total book value)
- $0.888 million GAIN is related to our AAA rated credit card asset-backed securities ($687.8 million total book value)
- $0.547 million GAIN is related to our AAA rated auto floor-plan asset-backed securities ($313.4 million total book value)
- $1.084 million GAIN is related to our government student loan (FFELP) portfolio ($76.5 million total book value)
- $2.217 million LOSS is related to our government guaranteed SBA portfolio ($958.4 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!

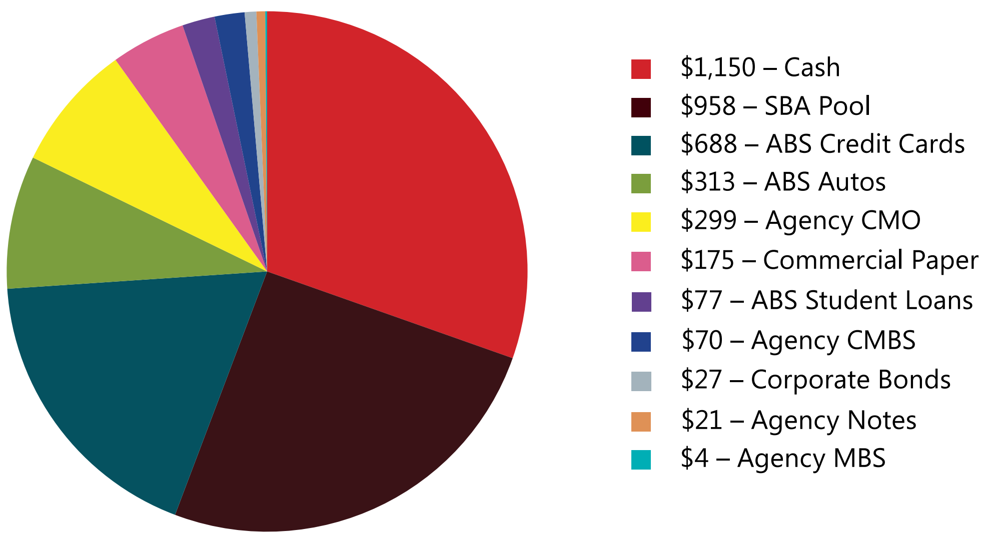
Jay R. Murray

**Jay R. Murray**
**CEO**

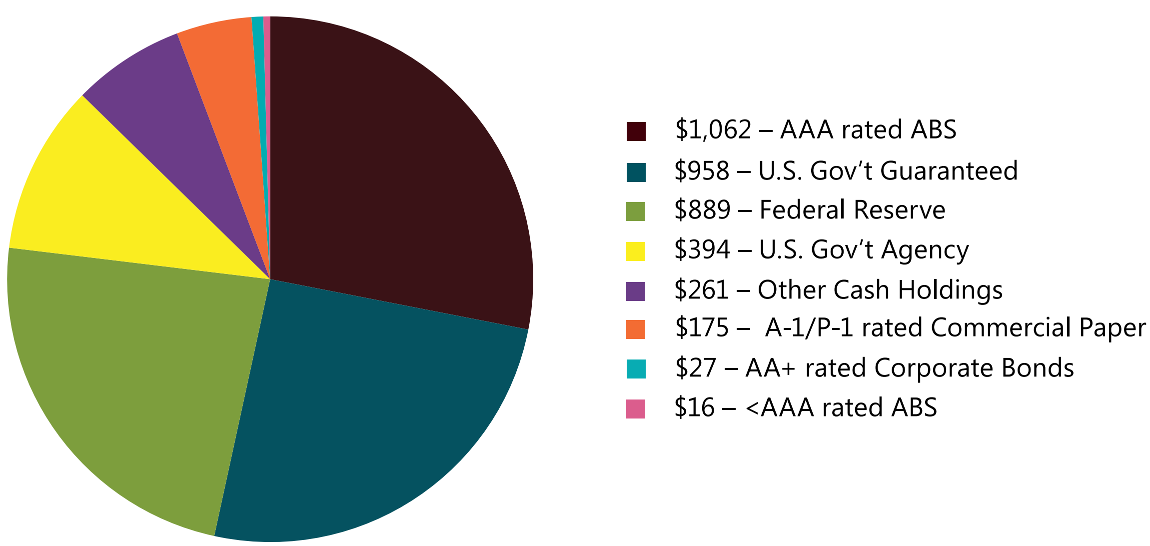
**David W. Brehmer**
**President**

# Investment *Portfolio*

## Total Book Values




## Credit Quality




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

| Balance Sheet | July 31, 2018 | July 31, 2017 |
|---|---|---|
| **Assets** | | |
| Loans | $ 32,196,431 | $ 13,951,414 |
| | | |
| Investments: | | |
| Asset-Backed Securities (Non-Mortgage) | $ 1,079,625,997 | $ 1,048,330,671 |
| U.S. Gov't (Notes/Floaters/Callables) | $ 20,522,261 | $ 22,522,075 |
| U.S. Gov't Agency (CMOs) | $ 298,342,167 | $ 373,048,039 |
| U.S. Gov't Agency (MBS) | $ 83,525,071 | $ 137,667,128 |
| U.S. Gov't (SBA) | $ 956,213,900 | $ 963,967,970 |
| Corporate Bonds | $ 27,530,675 | $ 27,416,225 |
| Commercial Paper | $ 175,017,061 | $ 0 |
| Federal Home Loan Bank-Atlanta | $ 27,574,700 | $ 16,687,900 |
| Credit Union & Bank Deposits | $ 236,129,681 | $ 154,688,237 |
| CUSOs | $ 5,300,349 | $ 5,057,964 |
| Federal Reserve Bank | $ 884,916,157 | $ 987,240,082 |
| | | |
| Receivables | $ 21,822,420 | $ 19,110,777 |
| Fixed Assets | $ 9,058,137 | $ 10,349,816 |
| Goodwill/Core Deposit Intangible | $ 2,282,127 | $ 2,458,599 |
| Other Assets | $ 44,810,046 | $ 41,984,261 |
| | | |
| **Total Assets:** | **$ 3,904,867,180** | **$ 3,824,481,158** |

| | | |
|---|---|---|
| **Liabilities** | | |
| Other Liabilities: | $ 1,960,304 | $ 2,119,387 |
| Accounts Payable: | $ 51,171,757 | $ 47,474,778 |
| Uncollected Deposits: | $ 0 | $ 59,380 |
| Notes Payable: | $ 560,128,900 | $ 311,417,295 |
| Shares | $ 2,713,865,063 | $ 2,962,397,411 |
| Certificates/Term Deposits | $ 264,124,549 | $ 197,757,723 |
| Total Shares: | $ 2,977,989,612 | $ 3,160,155,134 |
| | | |
| Non-Perpetual Capital Accounts (NCA) | $ 8,913,835 | $ 8,913,835 |
| Perpetual Contributed Capital (PCC) | $ 214,196,834 | $ 214,196,834 |
| Reserves & Undivided Earnings | $ 65,667,293 | $ 52,850,710 |
| Equity Acquired in Merger | $ 22,562,000 | $ 22,562,000 |
| Accumulated Other Comprehensive Loss | $ (410,235) | $ 2,173,244 |
| Total Equity: | $ 310,929,727 | $ 300,696,623 |
| | | |
| Other Equity/Non-Controlling Interest: | $ 2,686,880 | $ 2,558,561 |
| | | |
| **Total Liabilities & Equity:** | **$ 3,904,867,180** | **$ 3,824,481,158** |

*unaudited financials*

## Income Statement YTD

| Income Statement YTD | July 2018 | July 2017 |
|---|---|---|
| Interest Income | $ 46,480,391 | $ 30,151,030 |
| Interest Expense | $ (30,660,549) | $ (16,697,708) |
| Net Interest Income | **$ 15,819,842** | **$ 13,453,322** |
| Net Correspondent Service Income | $ 9,865,715 | $ 10,575,156 |
| Gross Operating Income | **$ 25,685,557** | **$ 24,028,478** |
| Operating Expense | $ (15,467,846) | $ (15,870,833) |
| Net Income: | **$ 10,217,711** | **$ 8,157,645** |
| Non-Operating Gains/(Losses) | $ 18,442 | $ 143,346 |
| Amortization of Core Deposit Intangible | $ 0 | $ (551,648) |
| CUSO Income | $ 77,422 | $ 147,863 |
| Net Income before PCC Distributions | **$ 10,313,575** | **$ 7,897,206** |
| Less: Non-Controlling Interest in Net Income | $ (91,519) | $ (188,884) |
| Less: Equity Transfer for PCC Distribution | $ (2,221,193) | $ (1,286,579) |
| Net Increase to Retained Earnings | **$ 8,000,863** | **$ 6,421,743** |

## Earnings Spread/Net Operating Margin

| Earnings Spread/Net Operating Margin | July 2018 | July 2017 |
|---|---|---|
| Return on Average Assets | 2.010% | 1.330% |
| Interest/Dividend Expense | -1.326% | -0.737% |
| Net Interest Margin | **0.684%** | **0.593%** |
| Correspondent Service Income | 0.427% | 0.467% |
| Operating Expenses | -0.669% | -0.700% |
| Non-Operating Gains/(Losses) | 0.001% | 0.006% |
| Amortization of Core Deposit Intangible | 0.000% | -0.024% |
| CUSO Income | 0.003% | 0.007% |
| Non-Controlling Interest in Net Income | -0.004% | -0.008% |
| PCC Distributions | -0.096% | -0.057% |
| Net Margin | **0.346%** | **0.283%** |

## Asset Quality

| Asset Quality | July 2018 |
|---|---|
| Non-Earning Assets/Average Assets | 2.16% |
| Delinquent Loans/Total Loans | 0.00% |
| **Investment Portfolio** | |
| U.S. Gov't/Agency Securities | 35.60% |
| Asset-Backed Securities (Non-Mortgage) | 28.29% |
| Federal Home Loan Bank | 0.72% |
| Corporate Bonds | 0.72% |
| Commercial Paper | 4.59% |
| Bank & Credit Union Deposits | 6.19% |
| Federal Reserve Bank | 23.19% |
| CUSO Equity | 0.14% |
| Cash & Receivables | 0.57% |
| **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 |

*unaudited financials*

# Key Financial *Ratios*

| Capital Adequacy | July 2018 | July 2017 |
|---|---|---|
| RUDE + Acquired Equity Capital/Monthly Average Net Assets | 2.29% | 1.95% |
| RUDE + Acquired Equity Capital/12-Month Average Net Assets | 2.25% | 1.94% |
| Tier 1 (Leverage) Capital/12-Month Average Net Assets | 6.44% | 5.28% |
| Total Capital/12-Month Average Net Assets | 7.80% | 7.54% |
| Tier 1 Capital/12-Month Average Risk-Weighted Assets | 19.91% | 17.16% |
| Total Capital/12-Month Average Risk-Weighted Assets | 24.40% | 25.04% |
| Total Capital | $ 306,009,519 | $ 293,442,893 |
| Tier 1 (Leverage) Capital | $ 249,600,581 | $ 201,090,899 |
| Tier 2 Capital | $ 56,408,938 | $ 92,351,994 |
| PCC deducted from Tier 1 Capital | $ 47,525,197 | $ 83,460,681 |
| Unrealized Gain/Loss on Securities | $ (410,235) | $ 2,173,244 |
| Monthly Average Assets | $ 3,850,404,512 | $ 3,874,372,293 |
| Average 12-Month Assets | $ 3,922,117,206 | $ 3,894,272,141 |
| Year-to-Date Average Assets | $ 3,980,405,159 | $ 3,902,750,512 |

## Liquidity & Interest Rate Risk as of July 31, 2018

| **Available Liquidity** | **Available Within 90 Days** |
|---|---|
| Net Cash and Receivables: | $ 906,738,577 |
| Net Available For Sale (AFS) securities: (securities with adequate market values to sell) | $ 1,322,357,971 |
| Overnight & Investments Maturing within 90 days: | $ 235,385,681 |
| Unsecured Fed Funds Lines Available: | $ 250,000,000 |
| Secured Fed Funds Lines Available: | $ 150,000,000 |
| Federal Home Loan Bank (FHLB) - borrowing capacity | $ 1,041,357,254 |
| -less fixed term existing loan advances | $ (560,128,900) |
| Primary Sources of Liquidity: | $ 3,345,710,583 |
| Federal Reserve Bank (FRB) Discount Window - borrowing capacity: | $ 56,578,345 |
| Excess Balance Account (EBA) - funds held for members @ FRB: | $ 9,042,500 |
| Secondary Sources of Liquidity: | $ 65,620,845 |
| Total Available Liquidity: | **$ 3,411,331,428** |

## Interest Rate Risk

| | **Regulation 704 Operating Level Base Plus** |
|---|---|
| **Base/Current Rate Environment** | |
| Net Economic Value (NEV): | $ 304,481,206 |
| NEV Ratio: | 7.80% |
| **Up 3% Rate Environment** | |
| Net Economic Value (NEV): | $ 291,369,674 |
| NEV Ratio: | 7.49% |
| Percentage Change: | (4.3%) |
| **Down 1% Rate Environment** | |
| Net Economic Value (NEV): | $ 311,701,153 |
| NEV Ratio: | 7.97% |
| Percentage Change: | 2.4% |
| **Down 2% Rate Environment** | |
| Net Economic Value (NEV): | $ 322,619,171 |
| NEV Ratio: | 8.22% |
| Percentage Change: | 6.0% |

# 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) - $8,883,741.
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 $1,475,730,900 (7/31) -- 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 $205,450.

## 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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