Monthly Financials

Vizo Financial Corporate Credit Union

July 2019

Corporate Update

Jay Murray, CEO
David Brehmer, President

Change is coming. The kids are back in school and soon the winds of autumn will reach us. What will the coming months bring? Read more below!

CECL Workshops

If CECL seems a little daunting to you, you're not alone. To be honest, it's the most disruptive change to accounting principles that financial institutions have ever seen. But you don't have to take on CECL alone because we're bringing everything you need to know to our CECL Workshops this fall!

Attend one of our workshops to learn about proposed and updated changes to the allowance for loan loss standard, best practices for implementation, how to monitor and use economic data in your analysis/forecasting, the top three CECL models, new policies and processes you'll need to implement CECL and new disclosure requirements.

The workshops will be held on September 27, at The Ballantyne Hotel in Charlotte, N.C. and October 1, at the Marriot Downtown Pittsburgh in Pittsburgh, Pa. Registration, plus info on the speakers, sessions and costs can be found here or at www.vfccu.org!

Payments Conference: Registration Open!

Registration is now open for our 2019 Payments Conference!

This conference is dedicated to education on payment systems and services and is tailored specifically for credit unions. You'll learn more about today's latest payment technologies, consumer payment trends, regulation and compliance and, ultimately, how to enhance your credit union's payment strategies! Because in the ever-changing world of payments, staying current on changes and advancements is essential.

Choose the date and location that work best for you: Lancaster, Pa., on October 9-10, 2019, or Charlotte, N.C., on October 23-24, 2019. Whichever you attend, know that we're looking forward to seeing you!

Ready to register? Click here or visit www.vfccu.org.

NEW Social Engineering Testing Services

Don't look now, but we've got a brand new service to help credit unions develop a greater defense against social engineering threats!

Our social engineering testing services allow you to perform ethical social engineering tests to evaluate the level of security awareness among your staff. By utilizing the same tactics criminals might leverage to gain access to your credit union, we can help you gauge your level of risk within the institution and adjust your security awareness training accordingly. The more proactive you are, the better prepared your CU will be when cyberthreats become reality, right?

Want to know more about our new social engineering testing services? Click here or go to www.vfccu.org!

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.

Jim Pack, SVP, chief member service officer at Coastal Credit Union and MY CU Services board member, sent an email to thank us for the support we consistently offer to the credit union.

He said, "I wanted to let you know that my team has been working closely with both Sharon Amick and Bryan Harsch on a project to upgrade our X9 file to an XML file. The team had nothing but great things to say about the support, knowledge and help your folks have provided. Thanks for all that you guys do to support Coastal."

Thank you, Jim. We're always happy to help!

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, 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 $3.479 billion in July compared to $3.577 billion in June and $3.691 billion in May. Volatility of member balances was slightly lower (24% vs. 26% in June). The spread between the single day high and low balances was $964.2 million compared to $1.061 billion the month prior.

Average off-balance sheet credit union balances - those held in our Excess Balance Account (EBA) - averaged just $6.2 million.

We are now entering the time of the year where, historically, we see greater cash outflows. That said, balances are running above where they were in 2018, so liquidity remains strong. Compared to last July, average short-term deposits were up $621 million in July 2019. 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. In 2019, year-to-date average assets are up slightly from 2018 (up $141 million), but member short term deposits are averaging $354 million more than the first seven months of 2018.

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

- On-balance sheet (month-end) member shares were down approximately $525 million, coming in at $3.650 billion compared to $4.175 billion in June. 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, $282.5 million were in certificates, while the remaining balances were distributed between the PSA and settlement deposit accounts.
- Month-end assets came in at $4.145 billion. Average assets were just about the same as month-end assets, coming in at $4.179 billion. Excluding non-perpetual capital accounts, our total net equity is at $311.8 million. The unrealized gain/loss/AOCL figure came in at a loss of $3.967 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 $101.5 million. Gross income for the month came in at $2,314,879. Our net increase to retained earnings was $1,887,404. Distributions to members via PCC dividends totaled $436,609.
- Our leverage/tier 1 capital ratio came in at 7.97% 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 8.19%.*
- 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 2.50%, no deduction is required. *Our retained earnings ratio is currently at 2.62%, so no deduction was necessary in July. If this ratio drops below 2.50%, we will need to resume deducting a portion of PCC from tier 1 capital.*
- The net economic value (NEV) dollar value of assets came in at $314.3 million at the end of July, with an NEV ratio of 7.58% compared to the prior month's 6.71%. The NEV ratio will fluctuate up and down month-to-month since it is calculated based on month-end assets versus average assets. In July, month-end assets were down $523 million, which is the main reason for the increase in NEV ratio this month. In the up 300 basis points scenario, the NEV ratio drops to 6.86% with a negative fluctuation of 10.2%. 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 $317.8 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 $6.5 million as of month-end, so without this reduction, our gross total capital amounts to $324.3 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	$ 774 million
Security Sales*	$ 233 million
EBA Balances	$ 5 million
Total Off-Balance Sheet	**$1.012 billion**

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

Unrealized Gains/Losses

Overall market values declined with unrealized losses increasing from $3.408 million in June to $3.967 million in July. Credit card asset-backed securities improved by approximately $184,000, while most other investment classes declined in value. The SBA securities continue to be the portfolio with the highest unrealized losses at $3.676 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 28.1%*.

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.

- $1.396 million LOSS is related to our government agency CMO securities portfolio ($559.7 million total book value)
- $0.179 million LOSS is related to our agency MBS/CMBS securities ($44.8 million total book value)
- $0.002 million LOSS is related to our government agency notes/floaters/callable securities ($0.5 million total book value)
- $0.030 million LOSS is related to our government guaranteed mortgage securities ($18.5 million total book value)
- $0.709 million GAIN is related to our AA+ rated corporate bond portfolio ($60.5 million total book value)
- $0.202 million GAIN is related to our AAA rated credit card asset-backed securities ($543.3 million total book value)
- $0.323 million GAIN is related to our AAA rated auto floor-plan asset-backed securities ($331.5 million total book value)
- $0.082 million GAIN is related to our government student loan (FFELP) portfolio ($15.3 million total book value)
- $3.676 million LOSS is related to our government guaranteed SBA portfolio ($1.281 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.

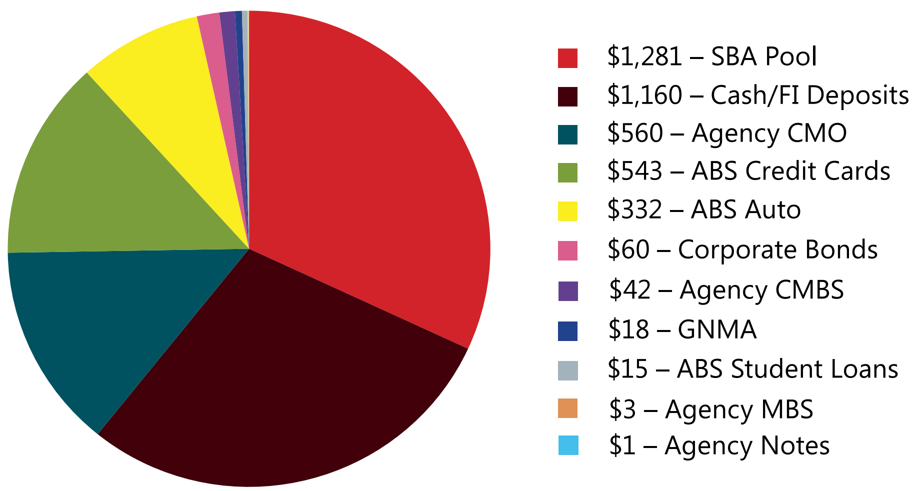
We are very grateful to our members for their continued support and for the trust you place in us each and every day. We look forward to serving you throughout 2019!

Jay R. Murray
CEO

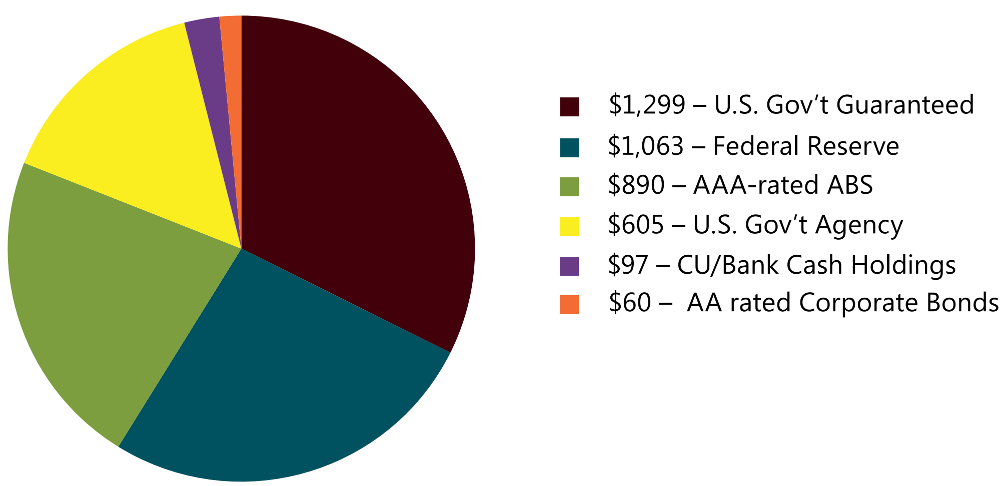
David W. Brehmer
President

Investment Portfolio

Total Book Values



Credit Quality



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

Financial Condition & Performance

Balance Sheet	July 31, 2019	July 31, 2018
Assets		
Loans	$ 14,244,428	$ 32,196,431
Investments:		
Asset-Backed Securities (Non-Mortgage)	$ 890,633,035	$ 1,079,625,997
U.S. Gov't (Notes/Floaters/Callables)	$ 539,533	$ 20,522,261
U.S. Gov't Agency (CMOs)	$ 576,688,907	$ 298,342,167
U.S. Gov't Agency (MBS)	$ 52,390,783	$ 83,525,071
U.S. Gov't (SBA)	$ 1,276,916,091	$ 956,213,900
Corporate Bonds	$ 61,185,255	$ 27,530,675
Commercial Paper	$ 0	$ 175,017,061
Federal Home Loan Bank-Atlanta	$ 8,467,700	$ 27,574,700
Credit Union & Bank Deposits	$ 97,378,252	$ 236,129,681
CUSOs	$ 6,463,231	$ 5,300,349
Federal Reserve Bank	$ 1,062,624,551	$ 884,916,157
Receivables	$ 39,384,544	$ 21,822,420
Fixed Assets	$ 7,444,598	$ 9,058,137
Goodwill/Core Deposit Intangible	$ 2,282,127	$ 2,282,127
Other Assets	$ 48,840,041	$ 44,810,046
Total Assets:	**$ 4,145,483,076**	**$ 3,904,867,180**

Liabilities		
Other Liabilities:	$ 2,673,513	$ 1,960,304
Accounts Payable:	$ 46,562,015	$ 51,171,757
Notes Payable:	$ 122,780,970	$ 560,128,900
Shares	$ 3,367,757,815	$ 2,713,865,063
Certificates/Term Deposits	$ 282,492,616	$ 264,124,549
Total Shares:	$ 3,650,250,431	$ 2,977,989,612
Non-Perpetual Capital Accounts (NCA)	$ 8,628,470	$ 8,913,835
Perpetual Contributed Capital (PCC)	$ 214,196,834	$ 214,196,834
Reserves & Undivided Earnings	$ 79,000,367	$ 65,667,293
Equity Acquired in Merger	$ 22,562,000	$ 22,562,000
Accumulated Other Comprehensive Loss	$ (3,967,170)	$ (410,235)
Total Equity:	$ 320,420,501	$ 310,929,727
Other Equity/Non-Controlling Interest:	$ 2,795,646	$ 2,686,880
Total Liabilities & Equity:	**$ 4,145,483,076**	**$ 3,904,867,180**

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Financial Condition & Performance

Income Statement YTD		July 2019		July 2018
Interest Income	$	65,156,356	$	46,480,390
Interest Expense	$	(46,624,832)	$	(30,660,549)
Net Interest Income	**$**	**18,531,524**	**$**	**15,819,841**
Net Correspondent Service Income	$	9,732,657	$	9,856,532
Gross Operating Income	**$**	**28,264,181**	**$**	**25,676,373**
Operating Expense	$	(16,859,289)	$	(15,458,663)
Net Income:	**$**	**11,404,892**	**$**	**10,217,710**
Non-Operating Gains/(Losses)	$	287,665	$	(18,442)
Amortization of Core Deposit Intangible	$	0	$	0
CUSO Income	$	56,603	$	77,422
Net Income before PCC Distributions	**$**	**11,749,160**	**$**	**10,313,574**
Less: Non-Controlling Interest in Net Income	$	(29,617)	$	(91,519)
Less: Equity Transfer for PCC Distribution	$	(2,985,914)	$	(2,221,193)
Net Increase to Retained Earnings	**$**	**8,733,629**	**$**	**8,000,862**

Earnings Spread/Net Operating Margin	July 2019	July 2018
Return on Average Assets	2.722%	2.010%
Interest/Dividend Expense	-1.947%	-1.326%
Net Interest Margin	**0.774%**	**0.684%**
Correspondent Service Income	0.407%	0.426%
Operating Expenses	-0.704%	-0.669%
Non-Operating Gains/(Losses)	0.012%	0.001%
Amortization of Core Deposit Intangible	0.000%	0.000%
CUSO Income	0.002%	0.003%
Non-Controlling Interest in Net Income	-0.001%	-0.004%
PCC Distributions	-0.125%	-0.096%
Net Margin	**0.365%**	**0.346%**

Asset Quality	July 2019
Non-Earning Assets/Average Assets	2.50%
Delinquent Loans/Total Loans	0.00%
Investment Portfolio	
U.S. Gov't/Agency Securities	46.81%
Asset-Backed Securities (Non-Mortgage)	21.87%
Federal Home Loan Bank	0.21%
Corporate Bonds	1.50%
Commercial Paper	0.00%
Bank & Credit Union Deposits	2.39%
Federal Reserve Bank	26.09%
CUSO Equity	0.16%
Cash & Receivables	0.97%
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	July 2019	July 2018
RUDE + Acquired Equity Capital/Monthly Average Net Assets	2.43%	2.29%
RUDE + Acquired Equity Capital/12-Month Average Net Assets	2.62%	2.25%
Tier 1 (Leverage) Capital/12-Month Average Net Assets	7.97%	6.44%
Total Capital/12-Month Average Net Assets	8.19%	7.80%
Tier 1 Capital/12-Month Average Risk-Weighted Assets	27.31%	19.91%
Total Capital/12-Month Average Risk-Weighted Assets	28.07%	24.40%
Total Capital	$ 317,868,055	$ 306,010,150
Tier 1 (Leverage) Capital	$ 309,295,970	$ 249,600,581
Tier 2 Capital	$ 8,572,085	$ 56,409,569
PCC deducted from Tier 1 Capital	$ 0	$ 47,525,197
Unrealized Gain/Loss on Securities	$ (3,967,170)	$ (410,235)
Monthly Average Assets	$ 4,179,063,039	$ 3,850,404,512
Average 12-Month Assets	$ 3,879,604,234	$ 3,922,117,206
Year-to-Date Average Assets	$ 4,121,920,558	$ 3,980,405,159

Liquidity & Interest Rate Risk as of July 31, 2019

Available Liquidity	**Available Within 90 Days**
Net Cash and Receivables:	$ 1,102,009,095
Net Available For Sale (AFS) Securities: (securities with adequate market values to sell)	$ 1,186,463,340
Overnight & Investments Maturing within 90 days:	$ 96,634,252
Unsecured Fed Funds Lines Available:	$ 300,000,000
Secured Fed Funds Lines Available:	$ 150,000,000
Federal Home Loan Bank (FHLB) - borrowing capacity	$ 1,320,932,231
-less fixed term existing loan advances	$ (122,780,970)
Primary Sources of Liquidity:	$ 4,033,257,948
Federal Reserve Bank (FRB) Discount Window - borrowing capacity:	$ 104,094,876
Excess Balance Account (EBA) - funds held for members @ FRB:	$ 4,800,000
Secondary Sources of Liquidity:	$ 108,894,876
Total Available Liquidity:	**$ 4,142,152,824**

Interest Rate Risk

	Regulation 704 Operating Level Base Plus
Base/Current Rate Environment	
Net Economic Value (NEV):	$ 314,297,892
NEV Ratio:	7.58%
Up 3% Rate Environment	
Net Economic Value (NEV):	$ 282,299,731
NEV Ratio:	6.86%
Percentage Change:	(10.2%)
Down 1% Rate Environment	
Net Economic Value (NEV):	$ 321,568,015
NEV Ratio:	7.74%
Percentage Change:	2.3%
Down 2% Rate Environment	
Net Economic Value (NEV):	$ 337,810,917
NEV Ratio:	8.10%
Percentage Change:	7.5%

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) - $8,572,085.
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 (AAA), Moody's (Aaa), and/or S&P (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 $1,489,216,200 (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; $50 million from Corporate One.
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 $400,450.

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
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Mark Brown, CFO
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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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