Monthly Financials

Vizo Financial Corporate Credit Union

June 2018

Corporate Update

Jay Murray, CEO
David Brehmer, President

The dog days of summer are upon us! Despite the heat and the whirlwind of activities that keep us busy this time of year, we hope you'll take a few minutes to catch up on Vizo Financial's latest happenings!

Financial Conference

Registration for Vizo Financial's 2018 Financial Conference is open! The event is on September 12-14, 2018, and we are looking forward to another great turnout. We invite CFOs, CEOs, board members and all other staff responsible for the financial management of the credit union to attend this conference.

This year, we'll have 11 expert speakers from various financial companies presenting on topics including:

- ALM
- Portfolio strategies
- Commercial services
- CECL
- Economy and current rate environment
- Financial impact of politics
- NCUA regulatory update

Ready to register? Want to see the full agenda, speaker bios and hotel information? Click here now!

Premium Share Accounts

What has no minimum balance requirement and can provide additional yield on your credit union's liquid funds? Vizo Financial's Premium Share Accounts (PSAs)!

The PSA is an attractive option for your credit union, as it is a flexible overnight account with lots of great features.

Click here for more information on Vizo Financial's Premium Share Accounts!

Annual Meeting

Our Annual Meeting will be held on August 9, 2018, from 10:00 – 11:00 a.m. ET, and will include the results of our 2018 board election. For additional information, visit our Annual Meeting website. The site contains important meeting documents and information, board nominee bios, full election schedule, registration and more.

Payments Conference: Save the Date

Also coming this fall is our 2018 Payments Conference! This is a fantastic event for credit unions to learn about the latest payment systems and how they can help your members. Once again, we'll be hosting two events on different dates and at different locations.

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

Save the date and look for information on the conference in the near future!

Market Commentary

Vizo Financial's chief investment officer, Fred Eisel, likes to stay current on the latest market trends and news! On a regular basis, Fred provides an overview of the big headlines and major factors impacting the markets. He even throws in some stories and humor from time to time!

To view our Market Commentary visit www.vfccu.org. You can also sign up to receive Market Commentary emails – click here to subscribe!

Exceptional Service in Our Communities

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

If a member of our team has gone above and beyond for your credit union, we want to know! These stories will be shared with our membership to show our dedication and commitment to all we serve. Please send your exceptional service story to marketing@vfccu.org, and thank you for your support!

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 June 30, 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 $3.025 billion in June, compared to $3.125 billion in May and $3.472 billion in April. Volatility of member balances in June increased (34% compared to 30% in May) with the spread between the single day high and low balances being $1.307 billion compared to $1.126 billion the prior month.

Average off-balance sheet credit union balances -- those held in our Excess Balance Account (EBA) -- averaged $42.7 million in June with month-end balances of $43.1 million. Combined with our on-balance sheet member deposits, average short term balances were $3.068 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 $493 million, coming in at $3.768 billion compared to $3.275 billion in May. Of this total, $264.8 million were in certificates while the remaining balances were distributed between the PSA and settlement deposit accounts.
- Month-end assets came in at $4.487 billion. Average assets were below month-end assets, coming in at $3.794 billion. Excluding non-perpetual capital accounts, our total net equity is at $301.3 million. The unrealized gain/loss/AOCL figure came in at a gain of $0.216 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 $86.9 million. Gross income for the month came in at $1,172,951. Our net increase to retained earnings was $846,006. Distributions to members via PCC dividends totaled $318,361.
- Our leverage/tier 1 capital ratio is 6.37% 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 June, this amounted to a reduction of $48.8 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 2.21%.
- The net economic value (NEV) dollar value of assets came in at $303.9 million at the end of June with an NEV ratio of 6.77% compared to the prior month's 8.22%. 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 6.57% with a negative fluctuation of 3.3%. 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 $304.7 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 $310.0 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	$ 833 million
Security Sales*	$ 294 million
EBA Balances	$ 43 million
Total Off-Balance Sheet	**$1.170 billion**

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

Unrealized Gains/Losses

Market values remained relatively stable with unrealized gains going from $0.404 million in May to $0.216 million in June. The SBA securities represent the largest unrealized loss portion of our portfolio ($1.9 million). We expect these values to jump around based on the expectation of higher rates. 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 24.6%.

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.

- $0.459 million LOSS is related to our government agency CMO securities portfolio ($308.7 million total book value)
- $0.433 million LOSS is related to our agency MBS/ CMBS securities ($74.9 million total book value)
- $0.020 million LOSS is related to our government agency notes/floaters/callable securities ($20.5 million total book value)
- $0.059 million GAIN is related to our A-1+/P-1 rated commercial paper portfolio ($168.4 million total book value)
- $0.200 million GAIN is related to our AA+ rated corporate bond portfolio ($27.2 million total book value)
- $1.075 million GAIN is related to our AAA rated credit card asset-backed securities ($729.5 million total book value)
- $0.563 million GAIN is related to our AAA rated auto floor-plan asset-backed securities ($342.3 million total book value)
- $1.167 million GAIN is related to our government student loan (FFELP) portfolio ($80.2 million total book value)
- $1.936 million LOSS is related to our government guaranteed SBA portfolio ($976.5 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!

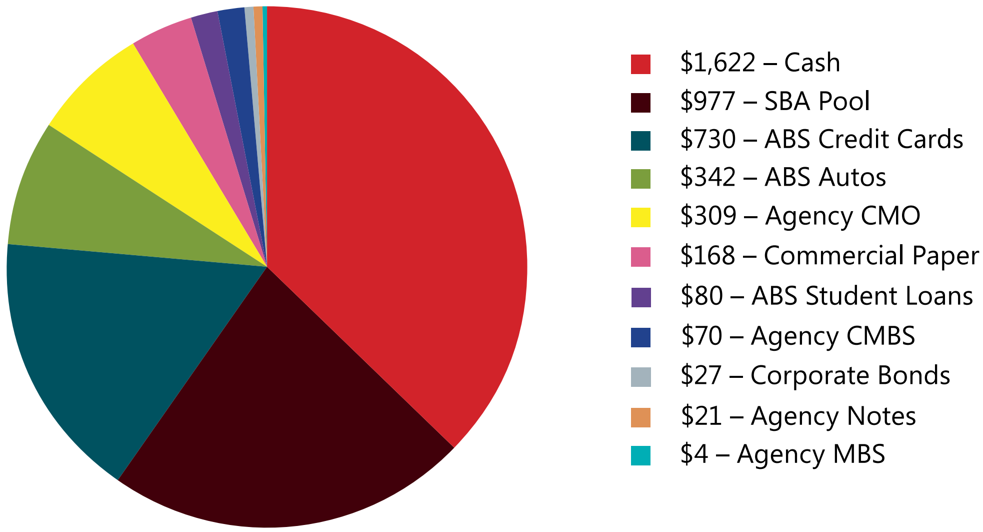
Jay R. Murray

Jay R. Murray
CEO

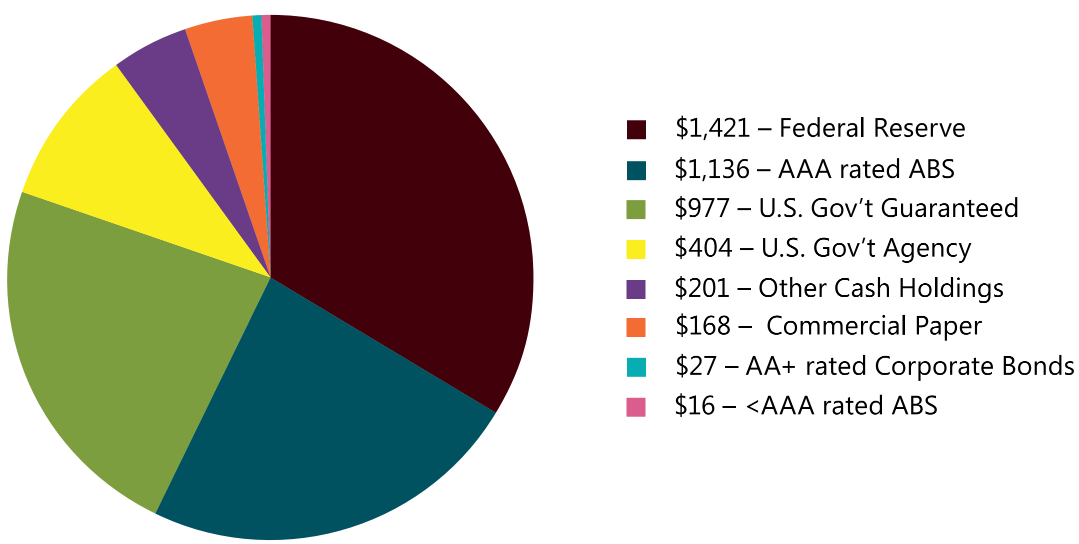
David W. Brehmer
President

Investment Portfolio

Total Book Values



Credit Quality



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

Balance Sheet	June 30, 2018	June 30, 2017
Assets		
Loans	$ 16,559,447	$ 6,379,565
Investments:		
Asset-Backed Securities (Non-Mortgage)	$ 1,154,806,575	$ 1,062,941,821
U.S. Gov't (Notes/Floaters/Callables)	$ 20,523,221	$ 22,513,415
U.S. Gov't Agency (CMOs)	$ 308,274,887	$ 341,138,493
U.S. Gov't Agency (MBS)	$ 84,118,114	$ 138,056,361
U.S. Gov't (SBA)	$ 974,614,826	$ 968,878,813
Corporate Bonds	$ 27,511,600	$ 27,323,575
Commercial Paper	$ 168,479,460	$ 0
Federal Home Loan Bank-Atlanta	$ 18,788,700	$ 16,687,900
Credit Union & Bank Deposits	$ 201,350,999	$ 153,838,307
CUSOs	$ 5,279,650	$ 5,036,960
Federal Reserve Bank	$ 1,421,200,682	$ 1,668,462,795
Receivables	$ 29,607,252	$ 16,251,168
Fixed Assets	$ 9,208,812	$ 10,499,183
Goodwill/Core Deposit Intangible	$ 2,282,127	$ 2,493,893
Other Assets	$ 44,613,557	$ 41,277,329
Total Assets:	**$ 4,487,219,909**	**$ 4,481,779,578**

Liabilities		
Other Liabilities:	$ 2,250,545	$ 2,312,967
Accounts Payable:	$ 49,953,332	$ 47,511,513
Uncollected Deposits:	$ 0	$ 112,599
Notes Payable:	$ 353,540,800	$ 311,543,390
Shares	$ 3,503,754,570	$ 3,621,168,071
Certificates/Term Deposits	$ 264,795,549	$ 197,713,587
Total Shares:	$ 3,768,550,119	$ 3,818,881,658
Non-Perpetual Capital Accounts (NCA)	$ 8,913,835	$ 8,913,835
Perpetual Contributed Capital (PCC)	$ 214,196,834	$ 214,196,834
Reserves & Undivided Earnings	$ 64,354,206	$ 51,654,462
Equity Acquired in Merger	$ 22,562,000	$ 22,562,000
Accumulated Other Comprehensive Loss	$ 216,448	$ 1,557,692
Total Equity:	$ 310,243,323	$ 298,884,823
Other Equity/Non-Controlling Interest:	$ 2,681,790	$ 2,532,628
Total Liabilities & Equity:	**$ 4,487,219,909**	**$ 4,481,779,578**

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Financial Condition
& Performance

Income Statement YTD	June 2018	June 2017
Interest Income	$ 38,910,832	$ 24,908,498
Interest Expense	$ (25,477,017)	$ (13,685,721)
Net Interest Income	**$ 13,433,815**	**$ 11,222,777**
Net Correspondent Service Income	$ 8,478,865	$ 9,148,762
Gross Operating Income	**$ 21,912,680**	**$ 20,371,539**
Operating Expense	$ (13,323,471)	$ (13,718,344)
Net Income:	**$ 8,589,209**	**$ 6,653,195**
Non-Operating Gains/(Losses)	$ (14,378)	$ 143,346
Amortization of Core Deposit Intangible	$ 0	$ (472,841)
CUSO Income	$ 56,723	$ 126,859
Net Income before PCC Distributions	**$ 8,631,554**	**$ 6,450,559**
Less: Non-Controlling Interest in Net Income	$ (86,429)	$ (162,951)
Less: Equity Transfer for PCC Distribution	$ (1,857,352)	$ (1,062,112)
Net Increase to Retained Earnings	**$ 6,687,773**	**$ 5,225,496**

Earnings Spread/Net Operating Margin	June 2018	June 2017
Return on Average Assets	1.961%	1.285%
Interest/Dividend Expense	-1.284%	-0.706%
Net Interest Margin	**0.677%**	**0.579%**
Correspondent Service Income	0.427%	0.472%
Operating Expenses	-0.671%	-0.708%
Non-Operating Gains/(Losses)	-0.001%	0.007%
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	-0.094%	-0.055%
Net Margin	**0.337%**	**0.270%**

Asset Quality	June 2018
Non-Earning Assets/Average Assets	2.40%
Delinquent Loans/Total Loans	0.00%
Investment Portfolio	
U.S. Gov't/Agency Securities	31.43%
Asset-Backed Securities (Non-Mortgage)	26.16%
Federal Home Loan Bank	0.43%
Corporate Bonds	0.62%
Commercial Paper	3.82%
Bank & Credit Union Deposits	4.56%
Federal Reserve Bank	32.19%
CUSO Equity	0.12%
Cash & Receivables	0.67%
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	June 2018	June 2017
RUDE + Acquired Equity Capital/Monthly Average Net Assets	2.29%	1.92%
RUDE + Acquired Equity Capital/12-Month Average Net Assets	2.21%	1.91%
Tier 1 (Leverage) Capital/12-Month Average Net Assets	6.37%	5.22%
Total Capital/12-Month Average Net Assets	7.77%	7.28%
Tier 1 Capital/12-Month Average Risk-Weighted Assets	19.96%	16.81%
Total Capital/12-Month Average Risk-Weighted Assets	24.62%	24.72%
Total Capital	$ 304,717,762	$ 283,413,370
Tier 1 (Leverage) Capital	$ 247,035,052	$ 198,727,023
Tier 2 Capital	$ 57,682,710	$ 84,686,347
PCC deducted from Tier 1 Capital	$ 48,798,338	$ 84,649,313
Unrealized Gain/Loss on Securities	$ 216,448	$ 1,557,692
Monthly Average Assets	$ 3,794,077,727	$ 3,861,524,915
Average 12-Month Assets	$ 3,924,114,521	$ 3,894,652,961
Year-to-Date Average Assets	$ 4,002,071,933	$ 3,907,480,216

Liquidity & Interest Rate Risk as of June 30, 2018

Available Liquidity	**Available Within 90 Days**
Net Cash and Receivables:	$ 1,450,807,934
Net Available For Sale (AFS) securities: (securities with adequate market values to sell)	$ 1,383,642,101
Overnight & Investments Maturing within 90 days:	$ 200,606,999
Unsecured Fed Funds Lines Available:	$ 250,000,000
Secured Fed Funds Lines Available:	$ 150,000,000
Federal Home Loan Bank (FHLB) - borrowing capacity	$ 1,030,165,838
-less fixed term existing loan advances	$ (353,540,800)
Primary Sources of Liquidity:	$ 4,111,682,072
Federal Reserve Bank (FRB) Discount Window - borrowing capacity:	$ 103,689,595
Excess Balance Account (EBA) - funds held for members @ FRB:	$ 43,092,500
Secondary Sources of Liquidity:	$ 146,782,095
Total Available Liquidity:	**$ 4,258,464,167**

Interest Rate Risk

	Regulation 704 Operating Level Base Plus
Base/Current Rate Environment	
Net Economic Value (NEV):	$ 303,936,066
NEV Ratio:	6.77%
Up 3% Rate Environment	
Net Economic Value (NEV):	$ 293,815,193
NEV Ratio:	6.57%
Percentage Change:	(3.3%)
Down 1% Rate Environment	
Net Economic Value (NEV):	$ 309,291,637
NEV Ratio:	6.88%
Percentage Change:	1.8%
Down 2% Rate Environment	
Net Economic Value (NEV):	$ 319,582,253
NEV Ratio:	7.09%
Percentage Change:	5.1%

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) - $8,884,372.
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 (6/30) -- 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 $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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For more information concerning the content in this unaudited financial report, please contact Vizo Financial at (800) 622-7494.

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