Vizo financial

Monthly Financials

Vizo Financial Corporate Credit Union

May 2018

Corporate Update

Jay Murray, CEO
David Brehmer, President

Now that summer is here, Vizo Financial's schedule is really heating up! Read below to see what's in store!

ACH Receipts & Returns

MY CU Services' new ACH Receipts & Returns system will go live in just a few weeks on July 18! To prepare for the upcoming implementation, MY CU Services sends a weekly communication with important information and updates. If you would like to receive these communications, please click here to subscribe to the MY CU Services ACH Files and Returns Service Announcements - Middletown notification list. As a reminder, the new system will only impact credit unions that utilize ACH services through the Middletown location.

Third Quarter Webinars

Vizo Financial will be hosting the following educational webinars in the third quarter. For more information, or to register for any of these webinars, please click here.

- BSA/AML Basics Compliance Training
  July 25, 2018 – 2:00 p.m. ET
- What is Loan Participation?
  August 7, 2018 – 2:00 p.m. ET
- Selling on LoanStreet
  August 14, 2018 – 2:00 p.m. ET
- Patch Management and Vulnerability Protection
  August 16, 2018 - 10:00 a.m. ET
- Buying on LoanStreet
  August 23, 2018 – 2:00 p.m. ET
- Beyond Risk Assessment
  September 19, 2018 – 2:00 p.m. ET
- Pick Up the Gum Wrapper
  September 25, 2018 – 2:00 p.m. ET

Annual Meeting

We are fast-approaching our Annual Meeting on August 9. For additional information, credit unions are invited to review our Annual Meeting website, which is now live! The site contains important meeting documents and information, board nominee bios, full election schedule and more.

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:

Krispy Kreme Certificates – This campaign to sell certificates for Krispy Kreme doughnuts raised $373.50 for Palmetto Health Children's Hospital in Columbia, S.C.

A Champion's Celebration - Vizo Financial was a sponsor of A Champion's Celebration on May 11, to benefit CMN Hospitals at Penn State Children's Hospital in Hershey, Pa.

Victory Junction REACH Carnival - Staff volunteered at the Victory Junction REACH Carnival event at Brenner Children's Hospital in Winston-Salem, N.C.

Ronald McDonald House Meal - On May 24, employees volunteered to make a home-cooked meal for the families at the Ronald McDonald House in Hershey, Pa.

Rock One Sock - Staff participated in the Rock One Sock social media campaign by the National Center for Missing & Exploited Children on May 25.

Brown Bag Lunch – In June, Vizo Financial encouraged staff to ditch the drive-thru for a "brown bag" lunch and donate the money they saved to our local food banks.

Walk for Children's - Vizo Financial and Pittsburgh area credit unions participated in the Walk for Children's event to benefit the Children's Hospital of Pittsburgh of UPMC.

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 May 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 $3.125 billion in May, compared to $3.472 billion in April and $3.650 billion in March. Volatility of member balances in May was essentially unchanged (30% compared to 31% in April) with the spread between the single day high and low balances being $1.126 billion compared to $1.290 billion the prior month.

Average off-balance sheet credit union balances -- those held in our Excess Balance Account (EBA) -- averaged $44.5 million in May with month-end balances of $43.1 million. Combined with our on-balance sheet member deposits, average short term balances were $3.169 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 $313 million, coming in at $3.275 billion compared to $3.588 billion in April. Of this total, $319.4 million were in certificates while the remaining balances were distributed between the PSA and settlement deposit accounts.
- Month-end assets came in at $3.691 billion. Average assets were above month-end assets coming in at $3.830 billion. Excluding non-perpetual capital accounts, our total net equity is at $303.3 million. The unrealized gain/loss/AOCL figure came in at a gain of $0.404 million. More details regarding market values of securities are discussed later in this report under the heading "Unrealized Gains/Losses."
- Total retained earnings ended the month at $86.1 million. Gross income for the month came in at $1,547,187. Our net increase to retained earnings was $1,228,826. Distributions to members via PCC dividends totaled $318,361.
- Our leverage/tier 1 capital ratio is 6.33% 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 May, this amounted to a reduction of $49.5 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 2.19%.
- The net economic value (NEV) dollar value of assets came in at $303.6 million at the end of May with an NEV ratio of 8.22% compared to the prior month's 7.48%. The NEV ratio will fluctuate up and 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 7.73% with a negative fluctuation of 6.6%. 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 $303.9 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 $309.2 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	$ 869 million
Security Sales*	$ 299 million
EBA Balances	$ 43 million
Total Off-Balance Sheet	**$1.211 billion**

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

Unrealized Gains/Losses

Market values improved going from unrealized losses of $1.685 million in April to unrealized gains of $0.404 million in May. The swing from unrealized losses to unrealized gains was due primarily from improvement in the SBA portfolio (up $1.8 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 25.0%.

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.

- $0.513 million LOSS is related to our government agency CMO securities portfolio ($329.6 million total book value)
- $0.398 million LOSS is related to our GNMA government guaranteed and agency MBS securities ($78.0 million total book value)
- $0.011 million LOSS is related to our government agency notes/floaters/callable securities ($20.5 million total book value)
- $0.021 million GAIN is related to our A-1+/P-1 rated commercial paper portfolio ($69.0 million total book value)
- $0.193 million GAIN is related to our AA+ rated corporate bond portfolio ($27.3 million total book value)
- $1.197 million GAIN is related to our AAA rated credit card asset-backed securities ($757.5 million total book value)
- $0.632 million GAIN is related to our AAA rated auto floor-plan asset-backed securities ($338.3 million total book value)
- $1.207 million GAIN is related to our government student loan (FFELP) portfolio ($81.2 million total book value)
- $1.925 million LOSS is related to our government guaranteed SBA portfolio ($1.003 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 2018!

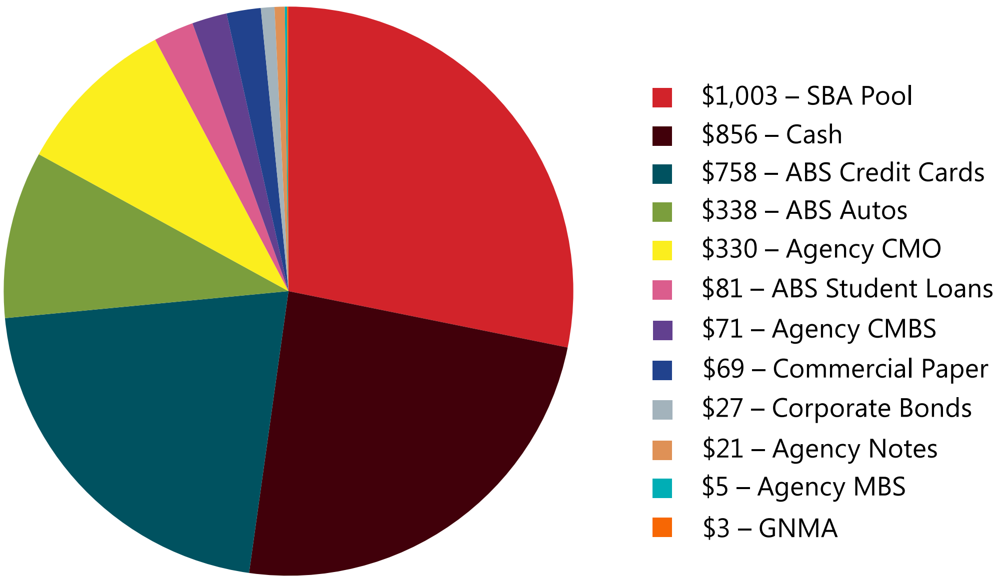
Jay R. Murray

Jay R. Murray
CEO

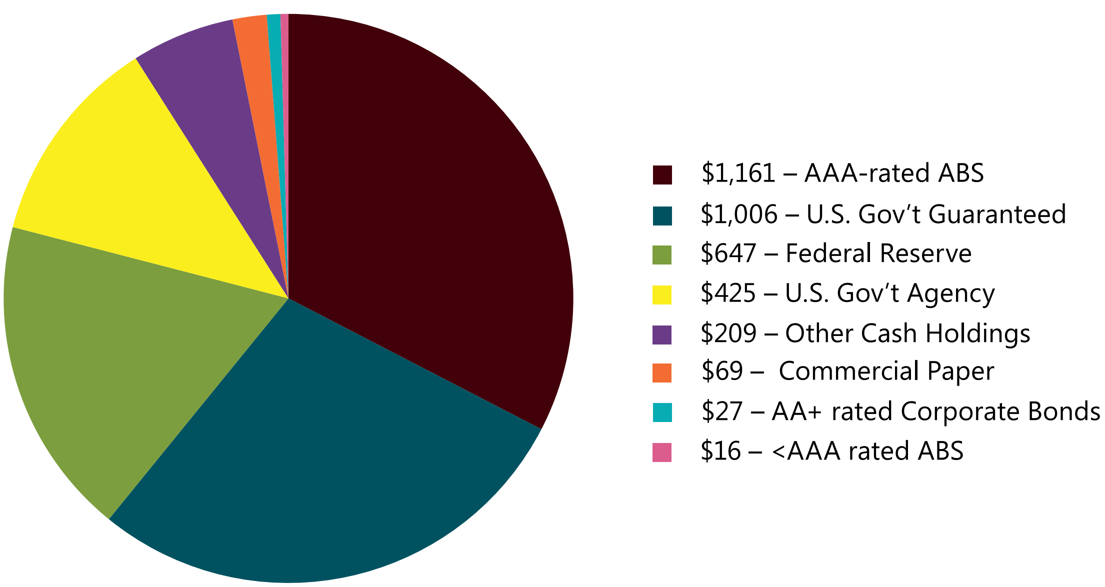
David W. Brehmer
President

Investment *Portfolio*

Total Book Values



Credit Quality



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

Balance Sheet		May 31, 2018		May 31, 2017
Assets				
Loans	$	30,318,365	$	15,362,593
Investments:				
Asset-Backed Securities (Non-Mortgage)	$	1,180,040,734	$	1,077,457,847
U.S. Gov't (Notes/Floaters/Callables)	$	20,532,039	$	31,557,409
U.S. Gov't Agency (CMOs)	$	331,959,553	$	348,556,908
U.S. Gov't Agency (MBS)	$	84,587,816	$	138,544,172
U.S. Gov't (SBA)	$	1,001,289,454	$	962,722,377
Corporate Bonds	$	27,506,150	$	27,304,500
Commercial Paper	$	69,052,400	$	0
Federal Home Loan Bank-Atlanta	$	6,048,900	$	4,848,200
Credit Union & Bank Deposits	$	208,715,667	$	160,087,816
CUSOs	$	5,266,584	$	5,020,332
Federal Reserve Bank	$	647,212,192	$	748,829,272
Receivables	$	22,687,072	$	18,040,132
Fixed Assets	$	9,405,008	$	10,050,388
Goodwill/Core Deposit Intangible	$	2,282,127	$	2,529,188
Other Assets	$	44,234,999	$	41,265,682
Total Assets:	**$**	**3,691,139,060**	**$**	**3,592,176,816**

Liabilities				
Other Liabilities:	$	1,594,228	$	1,734,601
Accounts Payable:	$	48,291,986	$	44,028,815
Uncollected Deposits:	$	0	$	(256,516)
Notes Payable:	$	53,710,700	$	32,741,920
Shares	$	2,955,931,887	$	3,013,866,976
Certificates/Term Deposits	$	319,362,549	$	198,955,309
Total Shares:	$	3,275,294,436	$	3,212,822,285
Non-Perpetual Capital Accounts (NCA)	$	8,913,835	$	8,913,835
Perpetual Contributed Capital (PCC)	$	214,196,834	$	214,196,834
Reserves & Undivided Earnings	$	63,508,199	$	51,079,582
Equity Acquired in Merger	$	22,562,000	$	22,562,000
Accumulated Other Comprehensive Loss	$	403,905	$	1,848,955
Total Equity:	$	309,584,773	$	298,601,206
Other Equity/Non-Controlling Interest:	$	2,662,937	$	2,504,505
Total Liabilities & Equity:	**$**	**3,691,139,060**	**$**	**3,592,176,816**

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Financial Condition & Performance

Income Statement YTD	May 2018	May 2017
Interest Income	$ 32,356,100	$ 20,341,389
Interest Expense	$ (20,866,263)	$ (10,860,637)
Net Interest Income	**$ 11,489,837**	**$ 9,480,752**
Net Correspondent Service Income	$ 7,007,628	$ 7,694,598
Gross Operating Income	**$ 18,497,465**	**$ 17,175,350**
Operating Expense	$ (11,079,029)	$ (11,368,941)
Net Income:	**$ 7,418,436**	**$ 5,806,409**
Non-Operating Gains/(Losses)	$ (3,491)	$ 148,971
Amortization of Core Deposit Intangible	$ 0	$ (394,034)
CUSO Income	$ 43,658	$ 110,231
Net Income before PCC Distributions	**$ 7,458,603**	**$ 5,671,577**
Less: Non-Controlling Interest in Net Income	$ (67,576)	$ (134,828)
Less: Equity Transfer for PCC Distribution	$ (1,549,259)	$ (886,132)
Net Increase to Retained Earnings	**$ 5,841,768**	**$ 4,650,617**

Earnings Spread/Net Operating Margin	May 2018	May 2017
Return on Average Assets	1.934%	1.255%
Interest/Dividend Expense	-1.247%	-0.670%
Net Interest Margin	**0.687%**	**0.585%**
Correspondent Service Income	0.419%	0.475%
Operating Expenses	-0.662%	-0.702%
Non-Operating Gains/(Losses)	0.000%	0.009%
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	-0.093%	-0.055%
Net Margin	**0.349%**	**0.287%**

Asset Quality	May 2018
Non-Earning Assets/Average Assets	2.19%
Delinquent Loans/Total Loans	0.00%
Investment Portfolio	
U.S. Gov't/Agency Securities	39.90%
Asset-Backed Securities (Non-Mortgage)	32.73%
Federal Home Loan Bank	0.17%
Corporate Bonds	0.76%
Commercial Paper	1.92%
Bank & Credit Union Deposits	5.79%
Federal Reserve Bank	17.95%
CUSO Equity	0.15%
Cash & Receivables	0.63%
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		May 2018	May 2017
RUDE + Acquired Equity Capital/Monthly Average Net Assets		2.25%	1.91%
RUDE + Acquired Equity Capital/12-Month Average Net Assets		2.19%	1.89%
Tier 1 (Leverage) Capital/12-Month Average Net Assets		6.33%	5.19%
Total Capital/12-Month Average Net Assets		7.73%	7.26%
Tier 1 Capital/12-Month Average Risk-Weighted Assets		20.21%	16.54%
Total Capital/12-Month Average Risk-Weighted Assets		25.02%	24.42%
Total Capital	$	303,885,452	282,854,487
Tier 1 (Leverage) Capital	$	245,468,516	197,609,523
Tier 2 Capital	$	58,416,936	85,244,964
PCC deducted from Tier 1 Capital	$	49,531,933	85,208,561
Unrealized Gain/Loss on Securities	$	403,905	1,848,955
Monthly Average Assets	$	3,829,607,118	3,858,357,031
Average 12-Month Assets	$	3,929,735,120	3,895,434,534
Year-to-date Average Assets	$	4,043,670,775	3,916,671,276

Liquidity & Interest Rate Risk as of May 31, 2018

Available Liquidity		**Available Within 90 Days**
Net Cash and Receivables:	$	669,899,264
Net Available For Sale (AFS) securities: (securities with adequate market values to sell)	$	1,336,693,200
Overnight & Investments Maturing within 90 days:	$	207,971,667
Unsecured Fed Funds Lines Available:	$	250,000,000
Secured Fed Funds Lines Available:	$	150,000,000
Federal Home Loan Bank (FHLB) - borrowing capacity	$	1,052,658,535
-less fixed term existing loan advances	$	(53,710,700)
Primary Sources of Liquidity:	$	3,613,511,966
Federal Reserve Bank (FRB) Discount Window - borrowing capacity:	$	103,689,595
Excess Balance Account (EBA) - funds held for members @ FRB:	$	42,568,637
Secondary Sources of Liquidity:	$	146,258,232
Total Available Liquidity:	**$**	**3,759,770,198**

Interest Rate Risk

		Regulation 704 Operating Level Base Plus
Base/Current Rate Environment		
Net Economic Value (NEV):	$	303,595,540
NEV Ratio:		8.22%
Up 3% Rate Environment		
Net Economic Value (NEV):	$	283,471,911
NEV Ratio:		7.73%
Percentage Change:		(6.6%)
Down 1% Rate Environment		
Net Economic Value (NEV):	$	316,835,322
NEV Ratio:		8.55%
Percentage Change:		4.4%
Down 2% Rate Environment		
Net Economic Value (NEV):	$	328,922,038
NEV Ratio:		8.85%
Percentage Change:		8.3%

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) - $8,885,003.
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 (5/31) -- 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
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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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