vizo financial

Monthly Financials

Vizo Financial Corporate Credit Union

November 2017

Corporate Update

Jay Murray, CEO
David Brehmer, President

What a whirlwind of a year! As we reflect on our first full year as Vizo Financial, we are truly humbled by the continuous support of our member credit unions. We've undergone many changes – including a successful core conversion – and your dedication has never wavered. Thank you for a wonderful 2017…let's look ahead to what's happening in 2018!

GAC Reception

Every year during CUNA's Governmental Affairs Conference, Vizo Financial hosts our GAC Reception for credit unions to meet with our staff and fellow industry professionals. It's a fun, no-cost event with hors d'oeuvres, bar service and prizes!

This year's event will be held on February 26, 2018 from 4:15 – 6:15 p.m. at the Acadiana Restaurant, right across the street from the Washington Convention Center. Stop in for a few minutes or for the entire two hours and enjoy this great event.

Interested in attending? Click here to register now!

2018 Risk Management Conference

Looking for better, more effective ways to handle your credit union's risks? If so, then you'll want to attend our Risk Management Conference on April 18-20, 2018!

The conference, which was formerly our IT & Security Conference, has been revamped to address the many different areas of risk that credit unions must deal with every day. In just three days, attendees will receive education on topics including data security, compliance, fraud, cyberthreats, business continuity and more.

This is a great opportunity for credit unions to learn more ways to improve their risk posture. Look for more details about the conference in the coming weeks!

Wire System

Vizo Financial's CUSO, MY CU Services, continues to work towards implementing a new wire system. As we've previously communicated, the wire system will be the first application of a new payments platform.

Here are some things you can expect from the new wire system in 2018:

- Ability to view incoming wire details.
- Single sign on through Zephyr.
- Real-time email notifications regarding OFAC hits, rejected wires and wires processed via the Fed.
- Reporting capabilities for importing to your core system and BSA monitoring.
- Ability to return wires and send service messages directly through the application.
- Import/upload of Fed-formatted wire files.

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

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. Here's a look at some of our community involvement work throughout the end of 2017.

- Vizo Financial held a company-wide food drive, collecting 2,639 pounds of food for our local food banks.
- Vizo Financial donated money to and participated in two radiothons for Duke Children's Hospital and Penn State Children's Hospital.
- Our Greensboro office participated in the Adopt a Family program through the Salvation Army.
- The Middletown campus collected new, unwrapped toys for the Marine Corps' Toys for Tots program.

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 November 30, 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 $2.634 billion in November compared to $2.623 billion in October and $2.695 billion in September. Volatility of member balances in November was up slightly from October (31% compared to 29%), with the spread between the single day high and low balances being $957.4 million compared to $910.8 million the prior month. These trends continue to point to increased liquidity tightening among our member credit unions.

Average off-balance sheet credit union balances -- those held in our Excess Balance Account (EBA) -- averaged just $31.7 million in November with month-end balances of $32.9 million. Combined with our on-balance sheet member deposits, average short-term balances were $2.666 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 $50 million, coming in at $2.811 billion compared to $2.765 billion in October. Of this total, $325.6 million were in term deposits while the remaining balances were distributed between the PSA and settlement deposit accounts.
- Month-end assets came in at $3.875 billion. Average assets were below month-end assets, coming in at $3.808 billion. Excluding non-perpetual capital accounts, our total net equity is at $296.5 million. The unrealized gain/loss/AOCL figure came in at positive (gain) of $2.712 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 $57.0 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 $79.6 million. Gross income for the month came in at $1,310,091. After distributing $264,078 to members in the form of PCC dividends and $9,448 to minority owners in MY CU Services, LLC, our net increase to retained earnings was $1,036,565.
- Our leverage/tier 1 capital ratio is 5.51% 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 November, this amounted to a reduction of $79.6 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 becoming effective December 22, 2017, corporates will 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*" will once again be considered part of a corporate's total retained earnings. This will positively impact Vizo Financial's year-end leverage/tier 1 capital ratio by approximately 55 basis points. If these changes had been in effect as of November 30th, our leverage/tier 1 ratio would have been 6.06% compared to the reported ratio of 5.51%).
- The NEV dollar value of assets came in at $298.4 million at the end of November, with an NEV ratio of 7.70% compared to the prior month's 8.19%. 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 7.18% with a negative fluctuation of 7.3%. 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.

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Financial Condition and Performance Report continued from page 2

- Total capital stands at $297.7 million excluding unrealized gains and losses on securities and accumulated other comprehensive losses. This consists of PCC, retained earnings, equity acquired in merger and 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 $4.9 million as of month-end, so without this reduction our gross total capital amounts to $302.7 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	$ 814 million
Security Sales*	$ 412 million
EBA Balances	$ 33 million
Total Off-Balance Sheet	**$1.259 billion**

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

Unrealized Gains/Losses

Market values were up slightly, increasing from unrealized gains of $2.688 million in October to $2.712 million in November. The SBA portfolio as a single asset class shows the highest unrealized losses at $0.927 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.

- $0.420 million LOSS is related to our government agency CMO securities portfolio ($340.7 million total book value)
- $0.099 million LOSS is related to our GNMA government guaranteed and agency MBS securities ($125.4 million total book value)
- $0.039 million LOSS is related to our government agency notes/floaters/callable securities ($22.5 million total book value)
- $0.120 million GAIN is related to our corporate bond portfolio ($27.3 million total book value)
- $1.693 million GAIN is related to our AAA-rated credit card asset-backed securities ($650.6 million total book value)
- $1.057 million GAIN is related to our AAA-rated auto floor-plan asset-backed securities ($319.3 million total book value)
- $1.326 million GAIN is related to our government student loan (FFELP) portfolio ($94.5 million total book value)
- $1.927 million LOSS is related to our government guaranteed SBA portfolio ($937.8 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.

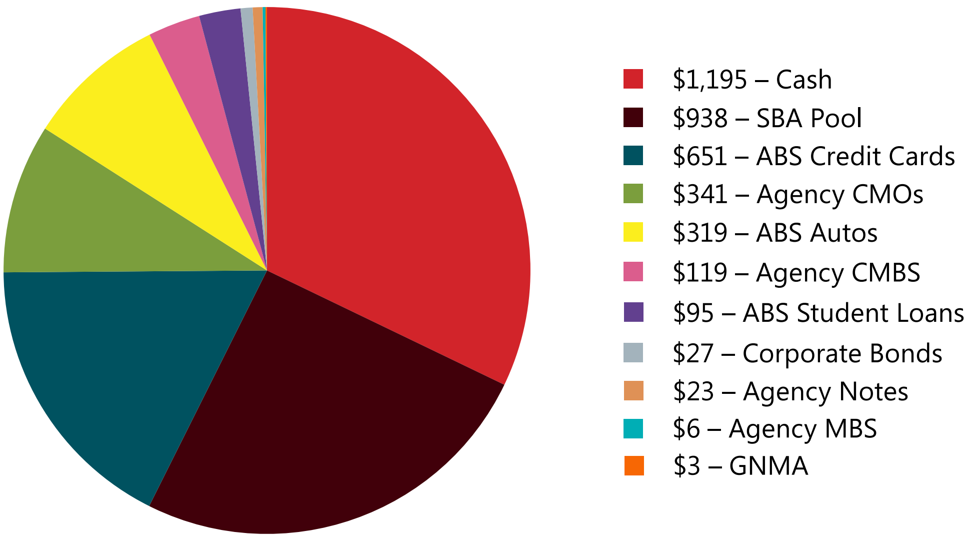
We are very grateful to our members for their continued support and for the trust you place in us each and every day. We are excited about our future and look forward to serving you as Vizo Financial Corporate Credit Union!

Jay R. Murray

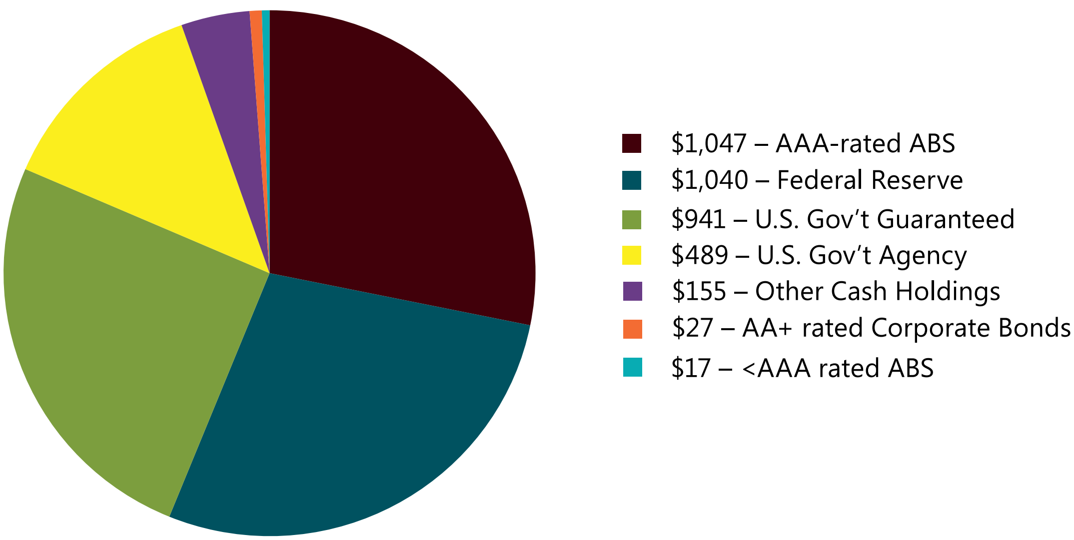
Jay R. Murray
CEO

David W. Brehmer
President

Total Book Values



Credit Quality



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

Financial Condition & Performance

Balance Sheet		November 30, 2017		November 30, 2016
Assets				
Loans	$	33,316,047	$	11,442,536
Investments:				
Asset-Backed Securities (Non-Mortgage)	$	1,068,559,841	$	1,084,224,766
Asset-Backed Securities (Mortgage)	$	0	$	6,610,935
U.S. Gov't (Notes/Floaters/Callables)	$	22,510,631	$	91,566,837
U.S. Gov't Agency (CMOs)	$	343,650,623	$	250,352,363
U.S. Gov't Agency (MBS)	$	136,047,746	$	174,471,495
U.S. Gov't (SBA)	$	936,872,901	$	849,082,625
Corporate Bonds	$	27,440,750	$	0
Federal Home Loan Bank-Atlanta	$	33,655,400	$	1,850,200
Credit Union & Bank Deposits	$	148,876,527	$	142,401,428
CUSOs	$	4,944,736	$	4,890,546
Federal Reserve Bank	$	1,039,550,178	$	588,064,713
Cash & Receivables	$	21,832,227	$	27,348,997
Fixed Assets	$	10,052,589	$	8,160,546
Goodwill/Core Deposit Intangible	$	2,360,934	$	3,306,615
Other Assets	$	45,353,888	$	41,253,891
Total Assets:	**$**	**3,875,025,018**	**$**	**3,285,028,493**

Liabilities				
Other Liabilities:	$	2,417,447	$	2,307,609
Accounts Payable:	$	42,585,842	$	40,270,076
Uncollected Deposits:	$	0	$	(233,657)
Notes Payable:	$	710,691,700	$	12,644,450
Shares	$	2,485,667,495	$	2,635,438,621
Certificates/Term Deposits	$	325,610,059	$	302,742,133
Total Shares:	$	2,811,277,554	$	2,938,180,754
Non-Perpetual Capital Accounts (NCA)	$	8,913,835	$	8,896,361
Perpetual Contributed Capital (PCC)	$	214,196,834	$	214,198,192
Reserves & Undivided Earnings	$	57,029,128	$	45,257,955
Equity Acquired in Merger	$	22,562,000	$	22,562,000
Accumulated Other Comprehensive Loss	$	2,711,831	$	(1,414,592)
Total Equity:	$	305,413,628	$	289,499,916
Other Equity/Non-Controlling Interest:	$	2,638,847	$	2,359,345
Total Liabilities & Equity:	**$**	**3,875,025,018**	**$**	**3,285,028,493**

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Income Statement YTD	November 2017	November 2016
Interest Income	$ 50,381,876	$ 29,833,353
Interest Expense	$ (28,128,060)	$ (11,724,048)
Net Interest Income	**$ 22,253,816**	**$ 18,109,305**
Net Correspondent Service Income	$ 16,025,244	$ 17,080,629
Gross Operating Income	**$ 38,279,060**	**$ 35,189,934**
Operating Expense	$ (24,770,110)	$ (23,638,884)
Net Income:	**$ 13,508,950**	**$ 11,551,050**
Non-Operating Gains/(Losses)	$ 222,583	$ (92,402)
Amortization of Core Deposit Intangible	$ (866,875)	$ (231,034)
CUSO Income	$ 241,398	$ 90,927
Net Income before PCC Distributions	**$ 13,106,056**	**$ 11,318,541**
Less: Non-Controlling Interest in Net Income	$ (269,170)	$ (357,078)
Less: Equity Transfer for PCC Distribution	$ (2,268,070)	$ (1,760,548)
Net Increase to Retained Earnings	**$ 10,568,816**	**$ 9,200,915**

Earnings Spread/Net Operating Margin	November 2017	November 2016
Return on Average Assets	1.42%	0.87%
Interest/Dividend Expense	-0.80%	-0.34%
Net Interest Margin	**0.63%**	**0.53%**
Correspondent Service Income	0.45%	0.50%
Operating Expenses	-0.70%	-0.69%
Non-Operating Gains/(Losses)	0.01%	0.00%
Amortization of Core Deposit Intangible	-0.02%	-0.01%
CUSO Income	0.01%	0.00%
Non-Controlling Interest in Net Income	-0.01%	-0.01%
PCC Distributions	-0.06%	-0.05%
Net Margin	**0.30%**	**0.27%**

Asset Quality	November 2017
Non-Earning Assets/Average Assets	2.22%
Delinquent Loans/Total Loans	0.00%
Investment Portfolio	
U.S. Gov't/Agency Securities	25.35%
Asset-Backed Securities (Non-Mortgage)	28.24%
Asset-Backed Securities (Mortgage)	0.00%
Federal Home Loan Bank	0.89%
Bank & Credit Union Deposits	3.93%
Federal Reserve Bank	27.47%
CUSO Equity	0.13%
Cash & Receivables	0.58%
Credit Ratings	
Asset-Backed Securities (Mortgage)	n/a
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	November 2017	November 2016
RUDE + Acquired Equity Capital/Monthly Average Net Assets	2.09%	1.67%
RUDE + Acquired Equity Capital/12-Month Average Net Assets	2.05%	1.72%
Tier 1 (Leverage) Capital/12-Month Average Net Assets	5.51%	5.41%
Total Capital/12-Month Average Net Assets	7.67%	7.26%
Tier 1 Capital/12-Month Average Risk-Weighted Assets	18.17%	14.85%
Total Capital/12-Month Average Risk-Weighted Assets	25.85%	22.63%
Total Capital	$ 297,732,015	$ 286,023,962
Tier 1 (Leverage) Capital	$ 209,264,777	$ 209,541,401
Tier 2 Capital	$ 88,467,238	$ 76,482,561
PCC deducted from Tier 1 Capital	$ 79,578,449	$ 67,586,200
Unrealized Gain/Loss on Securities	$ 2,711,831	$ (1,414,592)
Monthly Average Assets	$ 3,808,145,940	$ 4,059,038,809
Average 12-Month Assets	$ 3,879,462,855	$ 3,939,601,884
Year-to-date Average Assets	$ 3,865,794,795	$ 3,752,703,401

Liquidity & Interest Rate Risk as of November 30, 2017

Available Liquidity	**Available Within 90 Days**
Net Cash and Receivables:	$ 1,061,382,405
Net Available For Sale (AFS) securities:	$ 1,152,046,690
(securities with adequate market values to sell)	
Overnight & Investments Maturing within 90 days:	$ 147,511,052
Unsecured Fed Funds Lines Available:	$ 230,000,000
Secured Fed Funds Lines Available:	$ 150,000,000
Federal Home Loan Bank (FHLB) - borrowing capacity	$ 1,106,750,186
-less fixed term existing loan advances	$ (710,691,700)
Primary Sources of Liquidity:	$ 3,136,998,633
Federal Reserve Bank (FRB) Discount Window - borrowing capacity:	$ 53,502,037
Excess Balance Account (EBA) - funds held for members @ FRB:	$ 32,900,000
Secondary Sources of Liquidity:	$ 86,402,037
Total Available Liquidity:	**$ 3,223,400,670**

Interest Rate Risk

Base/Current Rate Environment	**Regulation 704 Operating Level Base Plus**
Net Economic Value (NEV):	$ 298,438,472
NEV Ratio:	7.70%
Up 3% Rate Environment	
Net Economic Value (NEV):	$ 276,615,872
NEV Ratio:	7.18%
Percentage Change:	(7.3%)
Down 1% Rate Environment	
Net Economic Value (NEV):	$ 307,688,246
NEV Ratio:	7.92%
Percentage Change:	3.1%

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) - $8,888,789
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 (11/30) -- 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 $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.

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