Monthly Financials
Vizo Financial Corporate Credit Union
September 2018

Corporate *Update*

Jay Murray, CEO
David Brehmer, President

Earlier this month, Vizo Financial held an employee development day for all staff. It was a fun and eye-opening experience, where we learned what it really means to be a part of the credit union movement. We have a renewed appreciation for all the work our members do to help others, and we will continue to do our best to serve you. Read below to see how we'll be assisting credit unions in the weeks and months ahead.

Hurricane Florence & Michael

It has been a rough hurricane season this year. Last month, Hurricane Florence ravaged the Carolinas, and this month Hurricane Michael made its way across many parts of the South, leaving behind destruction and devastation. Many communities and credit unions continue to experience the harsh impact of these storms and their aftermath.

First and foremost, please know that Vizo Financial is thinking of everyone who was affected in some way by this storm. We understand that no matter how prepared you are, sometimes these types of emergency situations are unavoidable and can cause great hardships for your members, staff and organization.

We also want you to know that your credit union can come to us in times of need. We're here to be your resource, to help your institution get back on its feet. Our CUSOs, MY CU Services and Sollievo, offer a variety of business continuity services, including business continuity planning and assessments, business impact analyses, mass notification services and backup/data recovery services.

If your credit union is in need of assistance following Hurricane Michael, please reach out to us. We'll be happy to help in any way we can!

Last Call: Security & Compliance Workshop!

Your last chance to register for our Security & Compliance Workshop is coming up at the end of this month!

This event will be held on November 7, 2018, at the Embassy Suites in Concord, N.C. Senior consultants from Vizo Financial's risk management CUSO, Sollievo, will be headlining the event to talk about:

- Identity Theft: Methods & Mitigations
- Make Security Awareness a Top Priority
- Are You Prepared – Tabletop Exercise
- BSA/AML Basics Compliance Training
- Exploring the CIS Critical Security Controls

It's one day packed with five education sessions, but the rewards you get are countless. Join us for our 2018 Security & Compliance Workshop! Want to know more? Click here to watch a video, or register now!

Exceptional Service

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:

- Vizo Financial recently donated $25,000 through the Carolinas Credit Union Foundation to aid credit unions and employees affected by Hurricane Florence.
- Two employees from our Middletown campus volunteered at the Central Pennsylvania Food Bank in Harrisburg, Pa.
- Staff from all locations collected $719 for Hurricane Florence relief. The money was used to buy items for "Stuff the Truck", an event which three of our Greensboro employees volunteered at, helping to collect and sort donations.
- On October 2, our administration and community relations director took part in a financial reality fair hosted by Lanco FCU in Lititz, Pa.

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 September 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 $2.630 billion in September compared to $2.697 billion in August and $2.858 billion in July. Volatility of member balances remained high in September although down slightly (30% compared to 34% in August) with the spread between the single day high and low balances being $941 million compared to $1.108 billion the prior month.

Average off-balance sheet credit union balances - those held in our Excess Balance Account (EBA) - averaged just $4.2 million in August and, due to liquidity tightness, we anticipate balances to remain minimal. Month-end balances were $3.6 million. Combined with our on-balance sheet member deposits, average short-term balances were $2.635 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 $248 million, coming in at $3.142 billion compared to $3.390 billion in August. Of this total, $178.8 million were in certificates while the remaining balances were distributed between the PSA and settlement deposit accounts.
- Month-end assets came in at $4.318 billion. Average assets were below month-end assets, coming in at $3.798 billion. Excluding non-perpetual capital accounts, our total net equity is at $304.0 million. The unrealized gain/loss/AOCL figure came in at a loss of $0.741 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 $90.5 million. Gross income for the month came in at $1,322,498. Our net increase to retained earnings was $947,621. Distributions to members via PCC dividends totaled $352,104.
- Our leverage/tier 1 capital ratio is 6.56% based on our 12-month rolling average assets. This is above the minimum regulatory guideline for leverage/tier 1 capital ratio of 4%. Since October 2016, NCUA Regulations require corporates to deduct a portion of their PCC from their tier 1 capital calculations. In September, this amounted to a reduction of $45.3 million of PCC from our tier 1 capital. Our total capital ratio is 7.87%.
- 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 2.31%.
- The net economic value (NEV) dollar value of assets came in at $306.0 million at the end of September with an NEV ratio of 7.09% compared to the prior month's 7.26%. 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 6.89% with a negative fluctuation of 3.1%. 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 under $5,000, we do not include it as liquid in our "Available Liquidity" report.
- Total capital stands at $308.3 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 $313.6 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	$ 822 million
Security Sales*	$ 266 million
EBA Balances	$ 4 million
Total Off-Balance Sheet	**$1.092 billion**

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

Unrealized Gains/Losses

Overall, market values decreased with unrealized losses of $0.068 million in August moving to unrealized losses of $0.742 million in September. The SBA securities represent the largest unrealized loss portion of our portfolio ($2.4 million). We expect these values to jump around based on the anticipation of prepayments speeding up due to higher rates. We have increased the speed at which we are writing down SBA premiums and are 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 24.3%.

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.

- $0.500 million LOSS is related to our government agency CMO securities portfolio ($286.4 million total book value)
- $0.361 million LOSS is related to our agency MBS/CMBS securities ($51.9 million total book value)
- $0.025 million LOSS is related to our government agency notes/floaters/callable securities ($20.5 million total book value)
- $0.004 million GAIN is related to our A-1+/P-1 rated commercial paper portfolio ($100.0 million total book value)
- $0.258 million GAIN is related to our AA+ rated corporate bond portfolio ($27.3 million total book value)
- $0.693 million GAIN is related to our AAA rated credit card asset-backed securities ($561.4 million total book value)
- $0.646 million GAIN is related to our AAA rated auto floor-plan asset-backed securities ($294.7 million total book value)
- $0.952 million GAIN is related to our government student loan (FFELP) portfolio ($74.2 million total book value)
- $2.408 million LOSS is related to our government guaranteed SBA portfolio ($909.3 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!

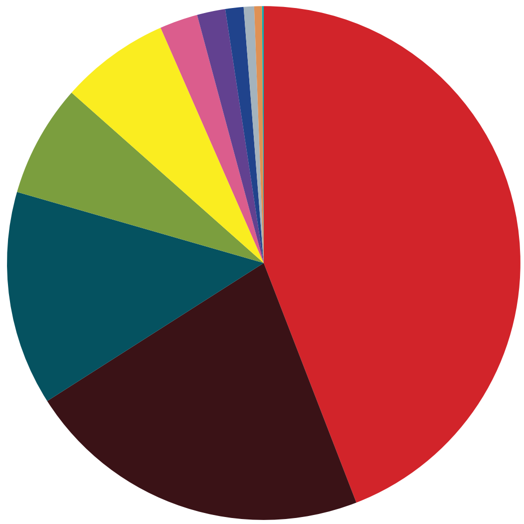
Jay R. Murray

Jay R. Murray
CEO

David W. Brehmer
President

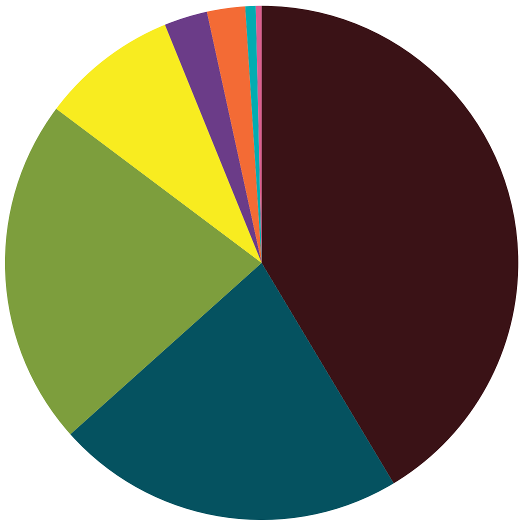
Investment *Portfolio*

Total Book Values



- $1,837 – Cash
- $909 – SBA Pool
- $561 – ABS Credit Cards
- $295 – ABS Autos
- $286 – Agency CMO
- $100 – Commercial Paper
- $74 – ABS Student Loans
- $48 – Agency CMBS
- $27 – Corporate Bonds
- $21 – Agency Notes
- $4 – Agency MBS

Credit Quality



- $1,723 – Federal Reserve
- $915 – AAA rated ABS
- $909 – U.S. Gov't Guaranteed
- $359 – U.S. Gov't Agency
- $113 – Other Cash Holdings
- $100 – A-1/P-1 Commercial Paper
- $27 – AA+ rated Corporate Bonds
- $15 – <AAA rated ABS

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

Balance Sheet		September 30, 2018		September 30, 2017
Assets				
Loans	$	21,422,878	$	11,967,865
Investments:				
Asset-Backed Securities (Non-Mortgage)	$	932,526,440	$	1,056,932,207
U.S. Gov't (Notes/Floaters/Callables)	$	20,517,821	$	22,524,797
U.S. Gov't Agency (CMOs)	$	285,885,767	$	357,319,917
U.S. Gov't Agency (MBS)	$	60,418,694	$	136,640,365
U.S. Gov't (SBA)	$	906,930,739	$	958,644,189
Corporate Bonds	$	27,566,100	$	27,418,950
Commercial Paper	$	99,980,000	$	0
Federal Home Loan Bank-Atlanta	$	38,179,100	$	25,178,400
Credit Union & Bank Deposits	$	113,619,021	$	155,320,691
CUSOs	$	5,324,589	$	4,893,857
Federal Reserve Bank	$	1,723,321,331	$	1,478,823,359
Receivables	$	26,853,448	$	20,035,334
Fixed Assets	$	8,745,687	$	10,139,229
Goodwill/Core Deposit Intangible	$	2,282,127	$	2,388,010
Other Assets	$	44,466,438	$	42,342,927
Total Assets:	**$**	**4,318,040,180**	**$**	**4,310,570,097**

Liabilities				
Other Liabilities:	$	2,787,130	$	2,771,264
Accounts Payable:	$	48,101,310	$	60,722,773
Uncollected Deposits:	$	0	$	1,963
Notes Payable:	$	809,722,260	$	510,967,760
Shares	$	2,963,030,562	$	3,231,388,724
Certificates/Term Deposits	$	178,764,553	$	198,768,533
Total Shares:	$	3,141,795,115	$	3,430,157,257
Non-Perpetual Capital Accounts (NCA)	$	8,913,835	$	8,913,835
Perpetual Contributed Capital (PCC)	$	214,196,834	$	214,196,834
Reserves & Undivided Earnings	$	67,975,357	$	55,206,729
Equity Acquired in Merger	$	22,562,000	$	22,562,000
Accumulated Other Comprehensive Loss	$	(741,639)	$	2,450,448
Total Equity:	$	312,906,387	$	303,329,846
Other Equity/Non-Controlling Interest:	$	2,727,978	$	2,619,234
Total Liabilities & Equity:	**$**	**4,318,040,180**	**$**	**4,310,570,097**

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Financial Condition & Performance

Income Statement YTD	September 2018	September 2017
Interest Income	$ 60,943,638	$ 40,477,149
Interest Expense	$ (40,752,748)	$ (22,672,392)
Net Interest Income	**$ 20,190,890**	**$ 17,804,757**
Net Correspondent Service Income	$ 12,622,187	$ 13,498,735
Gross Operating Income	**$ 32,813,077**	**$ 31,303,492**
Operating Expense	$ (19,732,662)	$ (20,126,252)
Net Income:	**$ 13,080,415**	**$ 11,177,240**
Non-Operating Gains/(Losses)	$ 183,832	$ 102,867
Amortization of Core Deposit Intangible	$ 0	$ (709,261)
CUSO Income	$ 101,663	$ 190,520
Net Income before PCC Distributions	**$ 13,365,910**	**$ 10,761,366**
Less: Non-Controlling Interest in Net Income	$ (123,430)	$ (249,557)
Less: Equity Transfer for PCC Distribution	$ (2,937,139)	$ (1,734,045)
Net Increase to Retained Earnings	**$ 10,305,341**	**$ 8,777,764**

Earnings Spread/Net Operating Margin	September 2018	September 2017
Return on Average Assets	2.070%	1.393%
Interest/Dividend Expense	-1.384%	-0.780%
Net Interest Margin	**0.686%**	**0.613%**
Correspondent Service Income	0.429%	0.465%
Operating Expenses	-0.670%	-0.693%
Non-Operating Gains/(Losses)	0.006%	0.004%
Amortization of Core Deposit Intangible	0.000%	-0.024%
CUSO Income	0.003%	0.007%
Non-Controlling Interest in Net Income	-0.004%	-0.009%
PCC Distributions	-0.100%	-0.060%
Net Margin	**0.350%**	**0.302%**

Asset Quality	September 2018
Non-Earning Assets/Average Assets	2.31%
Delinquent Loans/Total Loans	0.00%
Investment Portfolio	
U.S. Gov't/Agency Securities	30.03%
Asset-Backed Securities (Non-Mortgage)	21.99%
Federal Home Loan Bank	0.90%
Corporate Bonds	0.65%
Commercial Paper	2.36%
Bank & Credit Union Deposits	2.68%
Federal Reserve Bank	40.63%
CUSO Equity	0.13%
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	September 2018	September 2017
RUDE + Acquired Equity Capital/Monthly Average Net Assets	2.38%	2.03%
RUDE + Acquired Equity Capital/12-Month Average Net Assets	2.31%	1.99%
Tier 1 (Leverage) Capital/12-Month Average Net Assets	6.56%	5.39%
Total Capital/12-Month Average Net Assets	7.87%	7.58%
Tier 1 Capital/12-Month Average Risk-Weighted Assets	20.07%	17.91%
Total Capital/12-Month Average Risk-Weighted Assets	24.35%	25.71%
Total Capital	$ 308,285,949	$ 295,961,757
Tier 1 (Leverage) Capital	$ 254,072,030	$ 206,180,873
Tier 2 Capital	$ 54,213,919	$ 89,780,884
PCC deducted from Tier 1 Capital	$ 45,337,572	$ 80,890,833
Unrealized Gain/Loss on Securities	$ (741,639)	$ 2,450,448
Monthly Average Assets	$ 3,798,388,285	$ 3,827,916,984
Average 12-Month Assets	$ 3,916,095,260	$ 3,904,963,592
Year-to-Date Average Assets	$ 3,936,508,089	$ 3,884,139,293

Liquidity & Interest Rate Risk as of September 30, 2018

Available Liquidity	**Available Within 90 Days**
Net Cash and Receivables:	$ 1,750,174,779
Net Available For Sale (AFS) Securities: (securities with adequate market values to sell)	$ 1,091,956,111
Overnight & Investments Maturing within 90 days:	$ 112,875,021
Unsecured Fed Funds Lines Available:	$ 250,000,000
Secured Fed Funds Lines Available:	$ 150,000,000
Federal Home Loan Bank (FHLB) - borrowing capacity	$ 1,022,448,700
-less fixed term existing loan advances	$ (809,722,260)
Primary Sources of Liquidity:	$ 3,567,732,351
Federal Reserve Bank (FRB) Discount Window - borrowing capacity:	$ 0
Excess Balance Account (EBA) - funds held for members @ FRB:	$ 3,500,000
Secondary Sources of Liquidity:	$ 3,500,000
Total Available Liquidity:	**$ 3,571,232,351**

Interest Rate Risk

	Regulation 704 Operating Level Base Plus
Base/Current Rate Environment	
Net Economic Value (NEV):	$ 306,000,920
NEV Ratio:	7.09%
Up 3% Rate Environment	
Net Economic Value (NEV):	$ 296,460,276
NEV Ratio:	6.89%
Percentage Change:	(3.1%)
Down 1% Rate Environment	
Net Economic Value (NEV):	$ 310,354,638
NEV Ratio:	7.18%
Percentage Change:	1.4%
Down 2% Rate Environment	
Net Economic Value (NEV):	$ 319,515,311
NEV Ratio:	7.37%
Percentage Change:	4.4%

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) - $8,876,347.
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 $1,346,166,000 (9/30) -- 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 $150,450.

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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