Monthly Financials
Vizo Financial Corporate Credit Union
July 2017

## Corporate Update
### Jay Murray, CEO
### David Brehmer, President

Summer is winding down and we're on the lookout for the falling leaves. But while the warm weather wanes and the cool air moves in, Vizo Financial's schedule is just as hot as ever! Check out our upcoming events, latest news and more below!

### 2017 Financial Conference
In just a couple weeks, Vizo Financial will be hosting one of our biggest events of the year - the 2017 Financial Conference!

From September 13-15, 2017, we'll be in Charlotte, N.C., at the Ballantyne Hotel to provide credit unions with education on all things financial.

Jay Murray and David Brehmer will be at the event to give attendees an update on what's happening with Vizo Financial. In addition, the conference will feature speaking professionals from Filene, NAFCU, LoanStreet, CUNA, Doeren Mayhew & Advisors and others!

Want to know more about the 2017 Financial Conference? Click here for more details and to register today! Registration ends soon on September 6.

### Board Election Results
The following incumbents were re-elected to Vizo Financial's board of directors for three-year terms: James McDaniel, Heritage Trust Federal Credit Union, Summerville, S.C.; Joan M. Moran, Department of Labor Federal Credit Union, Washington, D.C.; and Scott Weaver, Carolina Foothills Federal Credit Union, Greensville, S.C.

Board election results were shared at Vizo Financial's Annual Meeting in Charlottesville, Va., on August 10, 2017.

### Securities Safekeeping Update
In July, Vizo Financial consolidated all safekept securities to a single platform with U.S. Bank. The transition went smoothly, and now allows us to provide credit unions with a cohesive member experience for securities safekeeping.

As part of the consolidation, all credit unions that safekeep with Vizo Financial will use our online member access system, Zephyr, to manage trades. The functionality in Zephyr also allows credit unions to process free delivery/free receipts, or send securities held with another institution to Vizo Financial.

For assistance with the securities safekeeping consolidation, please reference our Securities Safekeeping Guide, or watch the Securities Safekeeping Webinar recording.

### 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.

In July, Christopher Sundlof, vice president of member experience at Arlington Community FCU, sent a letter of appreciation to Vizo Financial and MY CU Services for the help they received in their efforts to comply with the Dodd-Frank Remittance Rule. The letter stated:

"This project would not have been accomplished on time without your diligence, resourcefulness and willingness to entertain our questions, concerns and recommendations…We look forward to continuing to work with MY CU Services as a division of Vizo Financial Corporate Credit Union to ensure that we can provide exceptional international wire services to our members while staying compliant with industry standards and best practices."

Glad we could help, Mr. Sundlof!

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, 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. We are showing a comparison to last year's data, although a year ago we were still two independent corporates so the data represents a combination of our two prior financials.

## Balance Sheet

Member overnight balances averaged $2.959 billion in July compared to $3.064 billion in June. Volatility of member balances in July was similar to June (30% compared to 29%) with the spread between the single day high and low balances being $1.068 billion compared to $1.101 billion the prior month.

Average off-balance sheet credit union balances -- those held in our Excess Balance Account (EBA) -- averaged $85.2 million in July with month-end balances of $83.8 million. Combined with our on-balance sheet member deposits, average short term balances were $3.044 billion.

Liquidity remains readily accessible through our primary borrowing sources. Historically, the December-January and July-August periods represent our lowest balance times of the year while March-April represent our highest balance times of the year.

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

- On-balance sheet (month-end) member shares were down, coming in at $3.2 billion compared to $3.8 billion in June. Of this total, $266.8 million were in term deposits while the remaining balances were distributed between the PSA and settlement deposit accounts.

- Month-end assets came in at $3.824 billion. Average assets were just above month-end assets coming in at $3.874 billion. Excluding non-perpetual capital accounts, our total net equity is at $291.8 million. The unrealized gain/loss/AOCL figure came in at positive (gain) of $2.173 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 $52.8 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 $75.4 million. Gross income for the month came in at $1,446,648. After distributing $224,467 to members in the form of PCC dividends and $25,933 to minority owners in MY CU Services, LLC, our net increase to retained earnings was $1,196,248.

- Our leverage/tier 1 capital ratio is 5.28% 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 July, this amounted to a reduction of $83.5 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 now be deducted from leverage/tier 1 capital ratio calculations. So although there is no stated minimum RUDE ratio within Regulation 704, retained earnings must be built to be able to meet the leverage capital ratio requirements. When our two corporates merged, First Carolina's retained earnings became *"equity acquired in a merger."* As currently written, Regulation 704's definition of retained earnings does not include *"equity acquired in a merger."* Therefore, Vizo Financial is being required to deduct a higher amount of PCC from its leverage capital calculation ($83.5m vs. $60.9m) than it actually should have if we were able to count *"equity acquired in a merger"* as part of our total retained earnings. In July, this resulted in a leverage/tier 1 capital ratio difference of 55 basis points (our ratio would have been 5.83%).

- The NEV dollar value of assets came in at $294.1 million at the end of July with an NEV ratio of 7.69% compared to the prior month's 6.46%. 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 7.05% with a negative fluctuation of 9.0%. 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 *(for the second half of 2017, we lowered this from $10,000 to better reflect what we would consider immediately liquid)*, we do not include it as liquid in our "Available Liquidity" report.

*continued on page 3*

# Financial Condition and Performance Report continued from page 2

- Total capital stands at $293.4 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 $5.058 million as of month-end so without this reduction our gross total capital amounts to $298.5 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 | $ 829 million |
| Security Sales* | $ 667 million |
| EBA Balances | $ 85 million |
| **Total Off-Balance Sheet** | **$1.581 billion** |

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

## Unrealized Gains/Losses

In July, market values remained stable and, overall, increased in value going from unrealized gains of $1,557,692 to unrealized gains of $2,173,244. The SBA portfolio as a single asset class continues to show the highest unrealized losses; however, this asset sector is 100% government-guaranteed so it does not present any credit risk and these securities can be used as collateral at the Federal Home Loan Bank so fluctuations in values do not have a major impact on our liquidity. 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.

- $0.269 million LOSS is related to our government agency CMO securities portfolio ($369.5 million total book value)
- $0.209 million LOSS is related to our GNMA government guaranteed and agency MBS securities ($130.3 million total book value)
- $0.036 million LOSS is related to our government agency notes/floaters/callable securities ($22.6 million total book value)
- $0.089 million GAIN is related to our corporate bond portfolio ($27.3 million total book value)
- $1.688 million GAIN is related to our AAA-rated credit card asset-backed securities ($623.7 million total book value)
- $0.935 million GAIN is related to our AAA-rated auto floor-plan asset-backed securities ($306.5 million total book value)
- $1.381 million GAIN is related to our government student loan (FFELP) portfolio ($114.2 million total book value)
- $1.405 million LOSS is related to our government guaranteed SBA portfolio ($965.4 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.

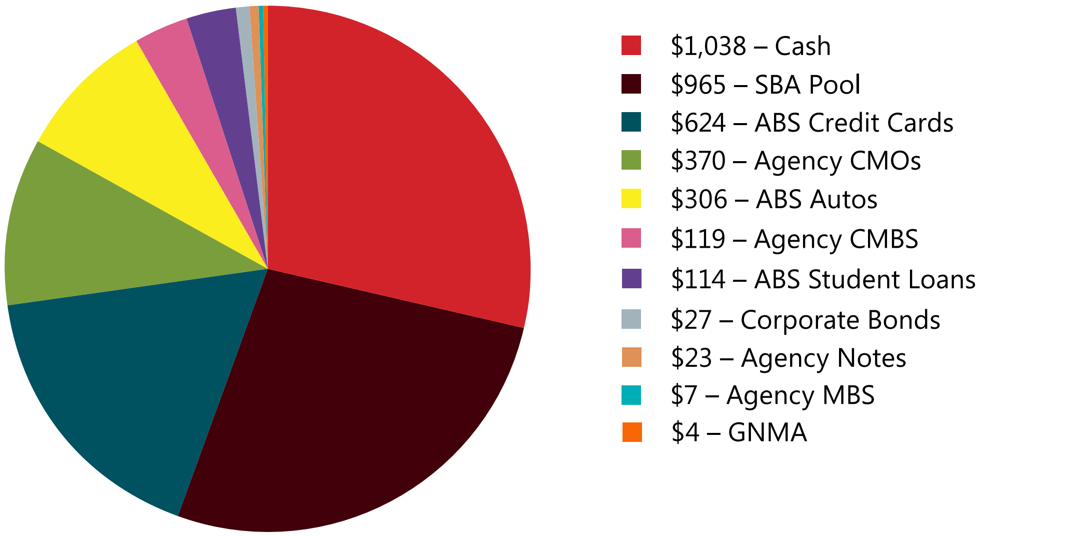
Our highest priority will remain the financial strength and safety of the organization and total transparency in the reporting of our financial condition.

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!

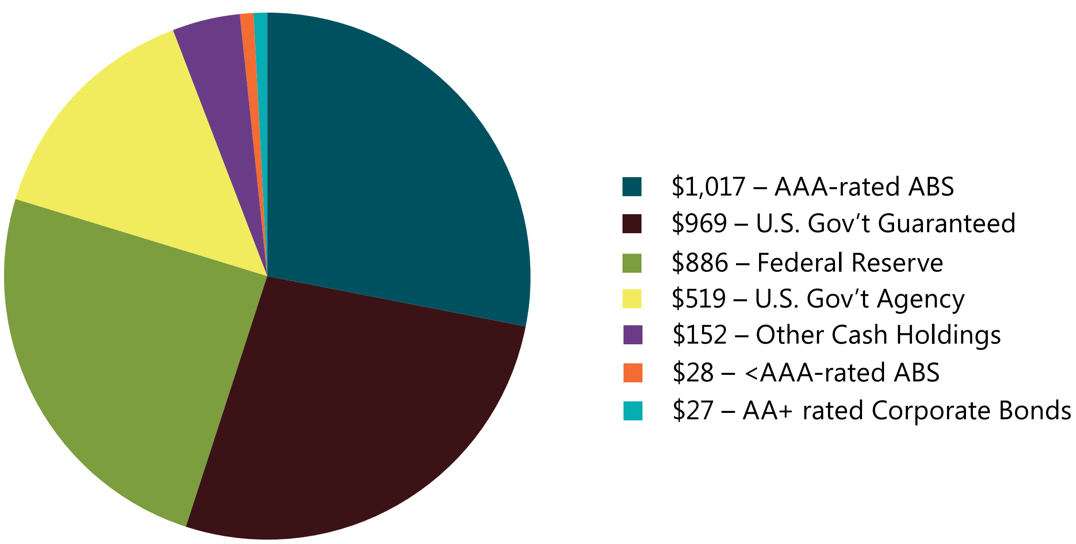
**Jay R. Murray**
**CEO**

**David W. Brehmer**
**President**

## Total Book Values




## Credit Quality




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

| Balance Sheet | July 31, 2017 | July 31, 2016 |
|---|---|---|
| **Assets** | | |
| Loans | $ 13,951,414 | $ 11,892,819 |
| | | |
| Investments: | | |
| Asset-Backed Securities (Non-Mortgage) | $ 1,048,330,671 | $ 1,167,422,089 |
| Asset-Backed Securities (Mortgage) | $ 0 | $ 9,364,214 |
| U.S. Gov't (Notes/Floaters/Callables) | $ 22,522,075 | $ 136,590,917 |
| U.S. Gov't Agency (CMOs) | $ 373,048,039 | $ 191,014,923 |
| U.S. Gov't Agency (MBS) | $ 137,667,128 | $ 281,557,256 |
| U.S. Gov't (SBA) | $ 963,967,970 | $ 795,979,649 |
| Corporate Bonds | $ 27,416,225 | $ 0 |
| Federal Home Loan Bank-Atlanta | $ 16,687,900 | $ 3,673,000 |
| Credit Union & Bank Deposits | $ 149,747,139 | $ 103,150,168 |
| CUSOs | $ 5,057,964 | $ 4,826,449 |
| Federal Reserve Bank | $ 886,172,506 | $ 1,169,076,652 |
| | | |
| Cash & Receivables | $ 122,192,743 | $ 212,282,769 |
| Fixed Assets | $ 10,349,816 | $ 8,486,875 |
| Goodwill/Core Deposit Intangible | $ 2,676,161 | $ 2,463,820 |
| Other Assets | $ 44,693,407 | $ 40,842,807 |
| | | |
| **Total Assets:** | **$ 3,824,481,158** | **$ 4,138,624,407** |

| | | |
|---|---|---|
| **Liabilities** | | |
| Other Liabilities: | $ 2,178,766 | $ 2,261,322 |
| Accounts Payable: | $ 47,474,778 | $ 44,453,536 |
| Uncollected Deposits: | $ 0 | $ 28,732 |
| Notes Payable: | $ 311,417,295 | $ 34,171,290 |
| Shares | $ 2,893,382,386 | $ 3,419,744,094 |
| Certificates/Term Deposits | $ 266,772,749 | $ 352,160,609 |
| Total Shares: | $ 3,160,155,135 | $ 3,771,904,703 |
| | | |
| Non-Perpetual Capital Accounts (NCA) | $ 8,913,835 | $ 8,933,336 |
| Perpetual Contributed Capital (PCC) | $ 214,196,834 | $ 214,234,257 |
| Reserves & Undivided Earnings | $ 52,850,710 | $ 67,485,436 |
| Equity Acquired in Merger | $ 22,562,000 | $ 0 |
| Accumulated Other Comprehensive Loss | $ 2,173,244 | $ (7,095,620) |
| Total Equity: | $ 300,696,623 | $ 283,557,409 |
| | | |
| Other Equity/Non-Controlling Interest: | $ 2,558,561 | $ 2,247,415 |
| | | |
| **Total Liabilities & Equity:** | **$ 3,824,481,158** | **$ 4,138,624,407** |

*unaudited financials*

# Financial Condition & Performance

| Income Statement YTD | July 2017 | July 2016 |
|---|---|---|
| Interest Income | $ 30,151,023 | $ 18,722,952 |
| Interest Expense | $ (16,243,996) | $ (7,406,938) |
| Net Interest Income | **$ 13,907,027** | **$ 11,316,014** |
| Net Correspondent Service Income | $ 10,174,211 | $ 11,081,922 |
| Gross Operating Income | **$ 24,081,238** | **$ 22,397,936** |
| Operating Expense | $ (15,954,938) | $ (15,029,630) |
| Net Income: | **$ 8,126,300** | **$ 7,368,306** |
| | | |
| Non-Operating Gains/(Losses) | $ 143,346 | $ 379,499 |
| Amortization of Core Deposit Intangible | $ (551,648) | $ (107,308) |
| CUSO Income | $ 147,863 | $ 26,830 |
| Net Income before PCC Distributions | **$ 7,865,861** | **$ 7,667,327** |
| Less: Non-controlling Interest in Net Income | $ (188,884) | $ (245,148) |
| Less: Equity Transfer for PCC Distribution | $ (1,286,579) | $ (1,090,357) |
| Net Increase to Retained Earnings | **$ 6,390,398** | **$ 6,331,822** |

| Earnings Spread/Net Operating Margin | July 2017 | July 2016 |
|---|---|---|
| Return on Average Assets | 1.33% | 0.80% |
| Interest/Dividend Expense | -0.72% | -0.32% |
| Net Interest Margin | **0.61%** | **0.48%** |
| | | |
| Correspondent Service Income | 0.45% | 0.47% |
| Operating Expenses | -0.70% | -0.64% |
| Non-Operating Gains/(Losses) | 0.01% | 0.02% |
| Amortization of Core Deposit Intangible | -0.02% | 0.00% |
| CUSO Income | 0.01% | 0.00% |
| Non-controlling Interest in Net Income | -0.01% | -0.01% |
| PCC Distributions | -0.06% | -0.05% |
| Net Margin | **0.28%** | **0.27%** |

| Asset Quality | July 2017 |
|---|---|
| Non-Earning Assets/Average Assets | 4.77% |
| Delinquent Loans/Total Loans | 0.00% |
| | |
| **Investment Portfolio** | |
| U.S. Gov't/Agency Securities | 26.29% |
| Asset-Backed Securities (Non-Mortgage) | 27.93% |
| Asset-Backed Securities (Mortgage) | 0.00% |
| Federal Home Loan Bank | 0.44% |
| Bank & Credit Union Deposits | 3.99% |
| Federal Reserve Bank | 23.61% |
| CUSO Equity | 0.13% |
| Cash & Receivables | 3.26% |
| | |
| **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 |

*unaudited financials*

# Key Financial *Ratios*

| Capital Adequacy | July 2017 | July 2016 |
|---|---|---|
| RUDE + Acquired Equity Capital/Monthly Average Net Assets | 1.95% | 1.74% |
| RUDE + Acquired Equity Capital/12-Month Average Net Assets | 1.94% | 1.74% |
| Tier 1 (Leverage) Capital/12-Month Average Net Assets | 5.28% | 7.14% |
| Total Capital/12-Month Average Net Assets | 7.54% | 7.43% |
| Tier 1 Capital/12-Month Average Risk-Weighted Assets | 17.16% | 21.17% |
| Total Capital/12-Month Average Risk-Weighted Assets | 25.04% | 22.03% |
| Total Capital | $ 293,442,893 | $ 288,073,995 |
| Tier 1 (Leverage) Capital | $ 201,090,899 | $ 276,893,244 |
| Tier 2 Capital | $ 92,351,994 | $ 11,180,751 |
| PCC deducted from Tier 1 Capital | $ 83,460,681 | $ 0 |
| Unrealized Gain/Loss on Securities | $ 2,173,244 | $ (7,095,620) |
| Monthly Average Assets | $ 3,874,372,293 | $ 3,878,942,135 |
| Average 12-Month Assets | $ 3,894,272,141 | $ 3,878,255,112 |
| Year-to-date Average Assets | $ 3,902,750,512 | $ 4,022,963,792 |

## Liquidity & Interest Rate Risk as of July 31, 2017

| **Available Liquidity** | **Available Within 90 Days** |
|---|---|
| Net Cash and Receivables: | $ 1,008,365,249 |
| Net Available For Sale (AFS) securities: (securities with adequate market values to sell) | $ 1,560,808,232 |
| Overnight & Investments Maturing within 90 days: | $ 148,381,664 |
| Unsecured Fed Funds Lines Available: | $ 180,000,000 |
| Secured Fed Funds Lines Available: | $ 150,000,000 |
| Federal Home Loan Bank (FHLB) - borrowing capacity | $ 948,700,682 |
| -less fixed term existing loan advances | $ (311,417,295) |
| Primary Sources of Liquidity: | $ 3,684,838,532 |
| Federal Reserve Bank (FRB) Discount Window - borrowing capacity: | $ 50,985,380 |
| Excess Balance Account (EBA) - funds held for members @ FRB: | $ 77,350,000 |
| Secondary Sources of Liquidity: | $ 128,335,380 |
| Total Available Liquidity: | **$ 3,813,173,912** |

## Interest Rate Risk

| **Base/Current Rate Environment** | **Regulation 704 Operating Level Base Plus** |
|---|---|
| Net Economic Value (NEV): | $ 294,104,516 |
| NEV Ratio: | 7.69% |
| **Up 3% Rate Environment** | |
| Net Economic Value (NEV): | $ 267,642,086 |
| NEV Ratio: | 7.05% |
| Percentage Change: | (9.0%) |
| **Down 1% Rate Environment** | |
| Net Economic Value (NEV): | $ 304,838,104 |
| NEV Ratio: | 7.95% |
| Percentage Change: | 3.6% |

# 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) - $8,891,313.
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 VFCCU'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 $1,435,672,200 (7/31) -- this will vary based on assets.
19. Unsecured fed funds lines comprised of $100 million from PNC Bank, $30 million from JPM Chase and $50 million from Wells Fargo.
20. Secured fed funds lines comprised of $150 million from US 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 $6,450,450.

## 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.

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