Monthly *Financials*

Vizo Financial Corporate Credit Union

June 2017

Corporate *Update*

Jay Murray, CEO
David Brehmer, President

We hope you are having a wonderful summer and have had time to take a vacation with family and friends. We have a few upcoming events yet this summer and we look forward to seeing you there.

Board Election Ballots & Annual Meeting

Vizo Financial's board election is coming up quickly! Five individuals are running for three seats on Vizo Financial's board of directors.

Election ballot packets were mailed to member credit unions on June 26, 2017. As a reminder, ballots need to be submitted and postmarked by August 3, 2017, to be counted in the voting.

The election results will be announced at our 2017 Annual Meeting on August 10, 2017. Credit unions are invited to attend the Annual Meeting at the University of Virginia Inn at Darden in Charlottesville, Va., or remotely via live stream. Click here for more information on Vizo Financial's 2017 board election and Annual Meeting.

2017 Financial Conference

Looking for ways to make your balance sheet resilient and your credit union stronger? Vizo Financial's 2017 Financial Conference has the answers!

Our three-day conference will help credit unions strengthen their knowledge of financial strategies and processes, including ALM, loan participations, CECL, investments and more. Plus, there are plenty of networking opportunities and 13 CPE education credits!

We hope to see you at the 2017 Financial Conference on September 13-15, 2017, in Charlotte, N.C. Click here for more details and to register now!

Vizo Financial Video Series

Vizo Financial recognizes that video is a great way to inform, educate and entertain our members. That's why we produce four video series that you can view on the Video page of our website: Ask Joe, Economic Update, FOMC Update and HReady.

Ask Joe is an educational adventure told by our culture crusaders, Joe Bertotto and Jeanne Heath. In each episode, they provide advice to remedy a workplace issue.

Tim Sustak, Vizo Financial's chief credit officer, hosts our monthly Economic Update, where he discusses what's happening in the economy and how the latest economic news might impact credit unions.

The FOMC Update is released following each FOMC meeting and provides an overview of discussions and decisions made during the most recent FOMC meeting.

Janice Appleby, Vizo Financial's chief human resource officer, hosts HReady, which tests your knowledge of HR topics and provides insights and information on each topic.

Market Commentary

Chief investment officer, Fred Eisel, likes to stay current on the latest market trends and news…and he wants you to be informed too! Check out Fred's Market Commentary at www.vfccu.org, or sign up to receive Market Commentary emails from our notification system.

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.

This month, we want to take the opportunity to thank our member credit unions and our staff for being a part of our successful core conversion. It was a huge undertaking, and the transition went smoother than we could have ever anticipated. We're happy to have our entire membership together on one core and online member access system.

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, 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 $3.064 billion in June compared to $3.221 billion in May. Volatility of member balances were up in June with a fluctuation rate of 29% (it was 25% in May) with the difference between the single day high and low balances being $1.101 billion compared to $0.759 billion the prior month.

Average off-balance sheet credit union balances -- those held in our Excess Balance Account (EBA) -- averaged $113.3 million in June with month-end balances of $83.6 million. Combined with our on-balance sheet member deposits, average short term balances were $3.177 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 up coming in at $3.8 billion compared to $3.2 billion in May. Of this total, $265.5 million were in term deposits while the remaining balances were distributed between the PSA and settlement deposit accounts.
- Month-end assets came in at $4.482 billion. Average assets were lower than month-end assets coming in at $3.862 billion. Excluding non-perpetual capital accounts, our total net equity is at $290 million. The unrealized gain/loss/AOCL figure came in at positive (gain) of $1.558 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 $51.6 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 $74.2 million. Gross income for the month came in at $778,983. After distributing $175,980 to members in the form of PCC dividends and $28,123 to minority owners in MY CU Services, LLC, our net increase to retained earnings was $574,880.
- Our leverage/tier 1 capital ratio is 5.22% 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 $84.6 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 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 ($84.6m vs. $62.1m) than it actually should have if we were able to count "*equity acquired in a merger*" as part of our total retained earnings. In June, this resulted in a leverage/tier 1 capital ratio difference of 55 basis points (our ratio would have been 5.77%).
- The NEV dollar value of assets came in at $289.8 million at the end of June with an NEV ratio of 6.46% compared to the prior month's 8.13%. 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 6.0% with a negative fluctuation of 7.7%. 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 $10,000, 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 $292.3 million excluding unrealized gains and losses on securities and accumulated other comprehensive losses. This consists of PCC, retained earnings, equity acquired in merger and non-perpetual capital accounts (NCAs) less total equity held in unconsolidated CUSOs and amortized NCA under notice. 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 $5.0 million as of month-end, so without this reduction our gross total capital amounts to $297.3 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	$ 860 million
Security Sales*	$ 684 million
EBA Balances	$ 113 million
Total Off-Balance Sheet	**$1.657 billion**

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

Unrealized Gains/Losses

In June, market values remained stable although dropped from unrealized gains of $1,848,955 to unrealized gains of $1,557,692. 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 24.7%.

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.

- $0.332 million LOSS is related to our government agency CMO securities portfolio ($337.6 million total book value)
- $0.237 million LOSS is related to our GNMA government guaranteed and agency MBS securities ($130.6 million total book value)
- $0.047 million LOSS is related to our government agency notes/floaters/callable securities ($22.6 million total book value)
- $0.005 million LOSS is related to our corporate bond portfolio ($27.3 million total book value)
- $1.627 million GAIN is related to our AAA-rated credit card asset-backed securities ($623.7 million total book value)
- $0.894 million GAIN is related to our AAA-rated auto floor-plan asset-backed securities ($314.5 million total book value)
- $1.494 million GAIN is related to our government student loan (FFELP) portfolio ($120.7 million total book value)
- $1.836 million LOSS is related to our government guaranteed SBA portfolio ($970.7 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 or 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!

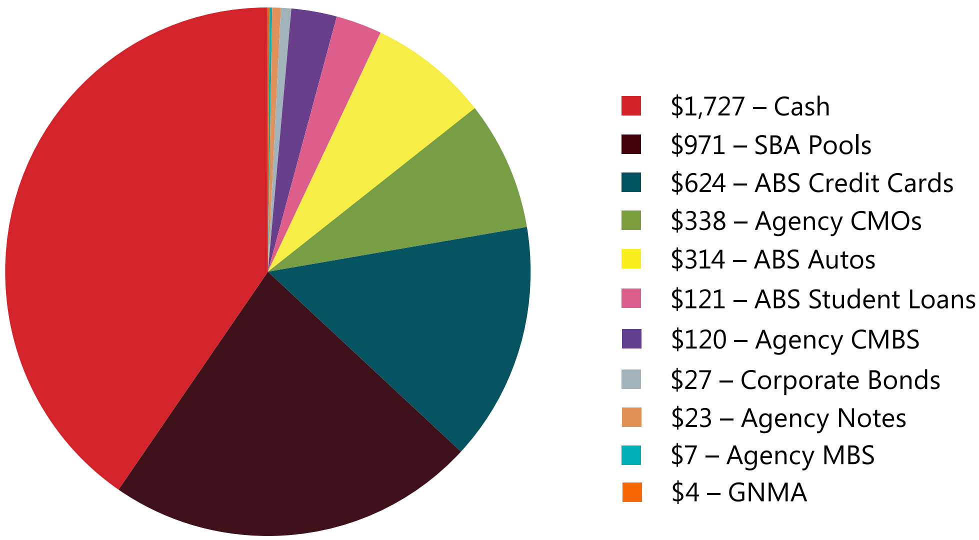
Jay R. Murray

Jay R. Murray
CEO

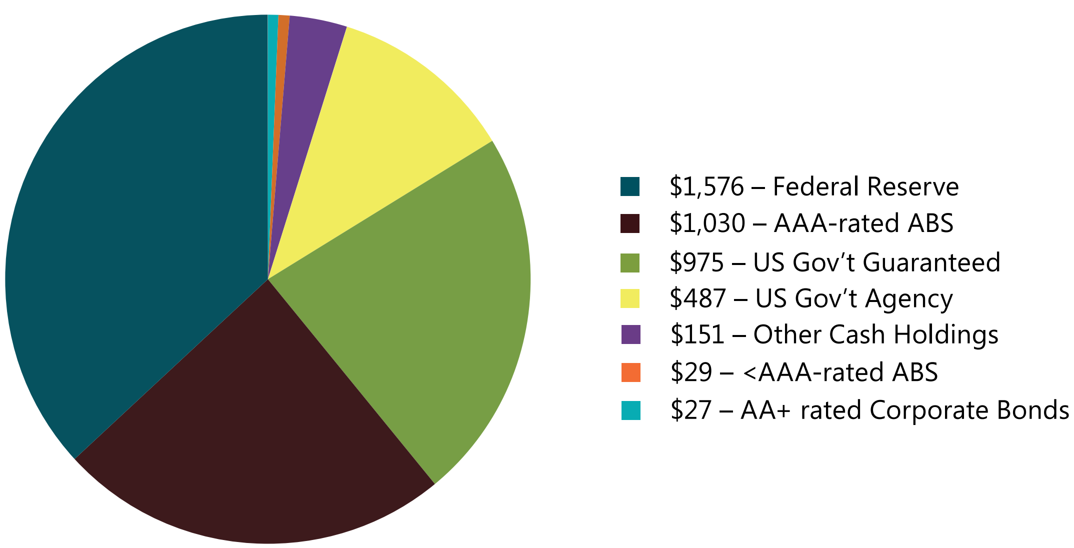
David W. Brehmer
President

Investment Portfolio

Total Book Values



Credit Quality



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

Balance Sheet		June 30, 2017		June 30, 2016
Assets				
Loans	$	6,379,565	$	11,458,174
Investments:				
Asset-Backed Securities (Non-Mortgage)	$	1,062,941,821	$	1,171,976,558
Asset-Backed Securities (Mortgage)	$	0	$	9,578,643
U.S. Gov't (Notes/Floaters/Callables)	$	22,513,415	$	127,619,031
U.S. Gov't Agency (CMOs)	$	341,138,493	$	197,162,284
U.S. Gov't Agency (MBS)	$	138,056,361	$	281,760,822
U.S. Gov't (SBA)	$	968,878,813	$	790,020,531
Corporate Bonds	$	27,323,575	$	0
Federal Home Loan Bank-Atlanta	$	16,687,900	$	3,673,000
Credit Union & Bank Deposits	$	149,679,749	$	102,923,053
CUSOs	$	5,036,960	$	4,884,124
Federal Reserve Bank	$	1,575,734,064	$	878,251,585
Cash & Receivables	$	110,223,720	$	114,177,837
Fixed Assets	$	10,499,183	$	8,638,672
Goodwill/Core Deposit Intangible	$	2,754,968	$	2,478,793
Other Assets	$	43,942,963	$	40,682,819
Total Assets:	**$**	**4,481,791,550**	**$**	**3,745,285,926**

Liabilities				
Other Liabilities:	$	49,836,452	$	52,259,371
Uncollected Deposits:	$	112,599	$	33,296
Notes Payable:	$	311,543,390	$	34,020,030
Shares	$	3,553,403,045	$	3,072,701,835
Certificates/Term Deposits	$	265,478,613	$	301,685,819
Total Shares:	$	3,818,881,658	$	3,374,387,654
Non-Perpetual Capital Accounts (NCA)	$	8,913,835	$	9,287,384
Perpetual Contributed Capital (PCC)	$	214,196,834	$	214,234,257
Reserves & Undivided Earnings	$	51,654,462	$	66,558,727
Equity Acquired in Merger	$	22,562,000	$	0
Accumulated Other Comprehensive Loss	$	1,557,692	$	(7,696,298)
Total Equity:	$	298,884,823	$	282,384,070
Other Equity/Non-Controlling Interest:	$	2,532,628	$	2,201,505
Total Liabilities & Equity:	**$**	**4,481,791,550**	**$**	**3,745,285,926**

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Financial Condition & Performance

Income Statement YTD	June 2017	June 2016
Interest Income	$ 24,908,491	$ 16,070,787
Interest Expense	$ (13,232,010)	$ (6,368,610)
Net Interest Income	**$ 11,676,481**	**$ 9,702,177**
Net Correspondent Service Income	$ 8,749,543	$ 9,442,632
Gross Operating Income	**$ 20,426,024**	**$ 19,144,809**
Operating Expense	$ (13,804,174)	$ (12,980,074)
Net Income:	**$ 6,621,850**	**$ 6,164,735**
Non-Operating Gains/(Losses)	$ 143,346	$ 379,105
Amortization of Core Deposit Intangible	$ (472,841)	$ (92,335)
CUSO Income	$ 126,859	$ 84,504
Net Income before PCC Distributions	**$ 6,419,214**	**$ 6,536,009**
Less: Non-controlling Interest in Net Income	$ (162,951)	$ (199,237)
Less: Equity Transfer for PCC Distribution	$ (1,062,112)	$ (931,658)
Net Increase to Retained Earnings	**$ 5,194,151**	**$ 5,405,114**

Earnings Spread/Net Operating Margin	June 2017	June 2016
Return on Average Assets	1.29%	0.80%
Interest/Dividend Expense	-0.68%	-0.32%
Net Interest Margin	**0.60%**	**0.48%**
Correspondent Service Income	0.45%	0.47%
Operating Expenses	-0.71%	-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	-0.05%	-0.05%
Net Margin	**0.27%**	**0.27%**

Asset Quality	June 2017
Non-Earning Assets/Average Assets	4.47%
Delinquent Loans/Total Loans	0.00%
Investment Portfolio	
U.S. Gov't/Agency Securities	22.44%
Asset-Backed Securities (Non-Mortgage)	24.06%
Asset-Backed Securities (Mortgage)	0.00%
Federal Home Loan Bank	0.38%
Bank & Credit Union Deposits	3.39%
Federal Reserve Bank	35.66%
CUSO Equity	0.11%
Cash & Receivables	2.49%
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	June 2017	June 2016
RUDE + Acquired Equity Capital/Monthly Average Net Assets	1.92%	1.72%
RUDE + Acquired Equity Capital/12-Month Average Net Assets	1.91%	1.72%
Tier 1 (Leverage) Capital/12-Month Average Net Assets	5.22%	7.14%
Total Capital/12-Month Average Net Assets	7.50%	7.43%
Tier 1 Capital/12-Month Average Risk-Weighted Assets	16.81%	21.05%
Total Capital/12-Month Average Risk-Weighted Assets	24.72%	21.92%
Total Capital	$ 292,268,280	$ 287,397,749
Tier 1 (Leverage) Capital	$ 198,727,023	$ 275,908,860
Tier 2 Capital	$ 93,541,257	$ 11,488,889
PCC deducted from Tier 1 Capital	$ 84,649,313	$ 0
Unrealized Gain/Loss on Securities	$ 1,557,692	$ (7,696,298)
Monthly Average Assets	$ 3,861,524,915	$ 3,870,903,789
Average 12-Month Assets	$ 3,894,652,961	$ 3,866,542,302
Year-to-date Average Assets	$ 3,907,480,216	$ 4,046,967,402

Liquidity & Interest Rate Risk as of June 30, 2017

Available Liquidity	**Available Within 90 Days**
Net Cash and Receivables:	$ 1,685,957,784
Net Available For Sale (AFS) securities: (securities with adequate market values to sell)	$ 1,466,948,860
Overnight & Investments Maturing within 90 days:	$ 148,314,274
Unsecured Fed Funds Lines Available:	$ 155,000,000
Secured Fed Funds Lines Available:	$ 150,000,000
Federal Home Loan Bank (FHLB) - borrowing capacity	$ 892,502,127
-less fixed term existing loan advances	$ (311,543,390)
Primary Sources of Liquidity:	$ 4,187,179,655
Federal Reserve Bank (FRB) Discount Window - borrowing capacity:	$ 38,662,357
Excess Balance Account (EBA) - funds held for members @ FRB:	$ 78,600,000
Secondary Sources of Liquidity:	$ 117,262,357
	$ **4,304,442,012**

Interest Rate Risk

Base/Current Rate Environment	**Regulation 704 Operating Level Base Plus**
Net Economic Value (NEV):	$ 289,813,613
NEV Ratio:	6.46%
Up 3% Rate Environment	
Net Economic Value (NEV):	$ 267,468,703
NEV Ratio:	6.00%
Percentage Change:	(7.7%)
Down 1% Rate Environment	
Net Economic Value (NEV):	$ 289,968,673
NEV Ratio:	6.65%
Percentage Change:	3.2%

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) - $8,891,944.
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 $10,000.
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 (6/30) -- this will vary based on assets.
19. Unsecured fed funds lines comprised of $75 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 $5,000,450.

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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