Monthly Financials

Vizo Financial Corporate Credit Union

October 2017

Corporate Update

Jay Murray, CEO

David Brehmer, President

There's no denying that the holiday season is upon us, and that means life is busier than ever. The good news is, Vizo Financial has new solutions to make life a little less hectic for our members. Read more below!

New Email System Update

Vizo Financial has now converted three of our four locations to our new email system. With the conversion, credit unions will see changes in email addresses from Vizo Financial.

Staff email addresses and communications from Vizo Financial will now have the vfccu.org domain. If you haven't already, please add the vfccu.org domain to your safe senders list to avoid missing any emails.

As a reminder, secure emails from Vizo Financial and our CUSOs are being sent solely from the Zix system. Please make sure that you are utilizing Zix to retrieve secure emails sent by the Corporate.

More information on Vizo Financial communications, the IP addresses used by our communications system, how to sign up to receive the communications and utilizing the Zix portal is available in our November/December Corporate Connection E-Magazine.

CECL

CECL has been a discussion for many credit unions over the past several months. To assist our members, Vizo Financial will be introducing a new CECL service in the first quarter of 2018! For additional information on our new CECL service, check out our November/December E-Magazine.

In addition, Vizo Financial will be conducting four webinar sessions in December titled "Understanding and Preparing for CECL Webinar." Click here to register.

New Enhancements!

Vizo Financial continues to implement new enhancements based on your feedback. Our most recent enhancements include:

- *ACH Settlement Descriptions* – ACH FRB Advice settlement descriptions now specify whether a transaction was for originated or received items
- *Average Daily Balances* – Your credit union's average daily balance will be listed as part of the interest rate summary section on the monthly member statements. This change will be available on the November statements.
- *Timeout in Zephyr Extended* – The Zephyr system session timeout has been extended to 15 minutes.
- *Balance Reporting Search* – Within the Balance Reporting function in Zephyr, users can now search by description.

Exceptional Service Story

Vizo Financial strives each and every day to provide excellence in our service and we will continually work to improve your member experience.

Recently, we received an email from John Schmidt, financial manager, Upper Darby Bell Telco FCU. John said this:

"Just wanted to let you know how much we appreciate Billy Ford. Today we were conducting our disaster recovery testing. When we tried downloading the ACH files, we got an incompatibility setting…Billy went into the issue in-depth and helped us get it reconfigured to enable the file transfer. His efforts helped us complete the testing on a successful note, and kept us from having to reschedule for a follow-up. We are all lucky to have him working for us."

Thank you for sharing, John! 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 October 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.

Balance Sheet

Member overnight balances averaged $2.623 billion in October compared to $2.695 billion in September. Volatility of member balances in October was slightly down from September (29% compared to 31%) with the spread between the single day high and low balances being $910.8 million compared to $1.034 billion 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 $31.3 million in October with month-end balances of just $31.1 million. Combined with our on-balance sheet member deposits, average short term balances were $2.654 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 down coming in at $2.8 billion compared to $3.4 billion in September. Of this total, $261.5 million were in term deposits while the remaining balances were distributed between the PSA and settlement deposit accounts.
- Month-end assets came in at $3.634 billion. Average assets were above month-end assets, coming in at $3.758 billion. Excluding non-perpetual capital accounts, our total net equity is at $295.4 million. The unrealized gain/loss/AOCL figure came in at positive (gain) of $2.688 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 $56.0 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 $78.6 million. Gross income for the month came in at $1,065,946. After distributing $269,947 to members in the form of PCC dividends and $10,165 to minority owners in MY CU Services, LLC, our net increase to retained earnings was $785,834.
- Our leverage/tier 1 capital ratio is 5.44% 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 October, this amounted to a reduction of $80.2 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 deducting a higher amount of PCC from its leverage capital calculation ($80.2m vs. $57.6m) than it actually should have if we were able to count "*equity acquired in a merger*" as part of our total retained earnings. In October, this resulted in a leverage/tier 1 capital ratio difference of 55 basis points (5.44% vs. 5.99%).
- The NEV dollar value of assets came in at $297.5 million at the end of October with an NEV ratio of 8.19% compared to the prior month's 6.88%. 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 7.54% with a negative fluctuation of 8.5%. 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 $296.7 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 $301.6 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	$ 822 million
Security Sales*	$ 483 million
EBA Balances	$ 31 million
Total Off-Balance Sheet	**$1.336 billion**

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

Unrealized Gains/Losses

In October, market values were up slightly, moving from month-end unrealized gains of $2.688 million compared to $2.450 million the prior month-end. The SBA portfolio as a single asset class shows the highest unrealized losses at $1.335 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.

- $0.282 million LOSS is related to our government agency CMO securities portfolio ($347.6 million total book value)
- $0.060 million LOSS is related to our GNMA government guaranteed and agency MBS securities ($129.2 million total book value)
- $0.034 million LOSS is related to our government agency notes/floaters/callable securities ($22.6 million total book value)
- $0.124 million GAIN is related to our corporate bond portfolio ($27.3 million total book value)
- $1.908 million GAIN is related to our AAA-rated credit card asset-backed securities ($638.8 million total book value)
- $0.988 million GAIN is related to our AAA-rated auto floor-plan asset-backed securities ($310.3 million total book value)
- $1.379 million GAIN is related to our government student loan (FFELP) portfolio ($104.7 million total book value)
- $1.336 million LOSS is related to our government guaranteed SBA portfolio ($942.7 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/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!

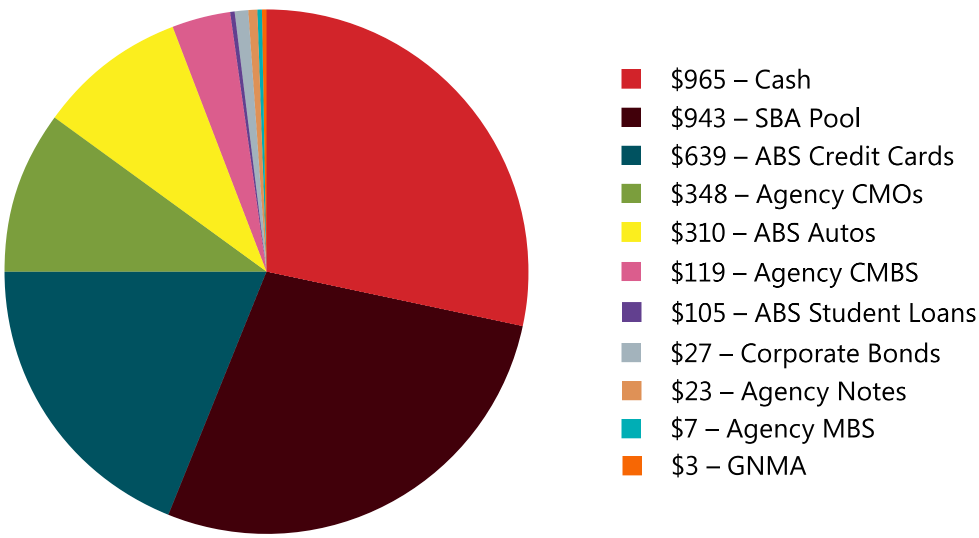
Jay R. Murray

Jay R. Murray
CEO

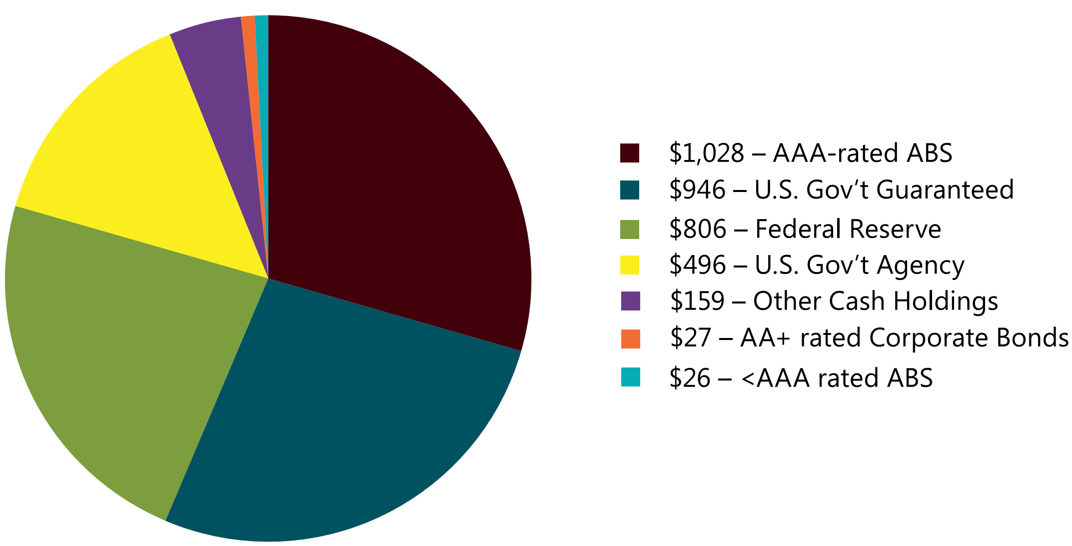
David W. Brehmer
President

Investment Portfolio

Total Book Values



Credit Quality



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

Financial Condition & Performance

Balance Sheet		October 31, 2017		October 31, 2016
Assets				
Loans	$	37,493,408	$	5,399,071
Investments:				
Asset-Backed Securities (Non-Mortgage)	$	1,058,215,737	$	1,086,906,375
Asset-Backed Securities (Mortgage)	$	0	$	6,732,270
U.S. Gov't (Notes/Floaters/Callables)	$	22,517,449	$	176,702,057
U.S. Gov't Agency (CMOs)	$	350,785,044	$	212,102,137
U.S. Gov't Agency (MBS)	$	136,518,883	$	192,409,006
U.S. Gov't (SBA)	$	941,399,333	$	832,718,339
Corporate Bonds	$	27,446,200	$	0
Federal Home Loan Bank-Atlanta	$	25,178,400	$	1,856,300
Credit Union & Bank Deposits	$	148,731,665	$	198,544,459
CUSOs	$	4,919,354	$	4,871,826
Federal Reserve Bank	$	806,046,341	$	816,518,572
Cash & Receivables	$	16,658,799	$	24,929,803
Fixed Assets	$	10,079,811	$	8,237,859
Goodwill/Core Deposit Intangible	$	2,439,741	$	3,385,422
Other Assets	$	45,754,729	$	41,264,791
Total Assets:	**$**	**3,634,184,894**	**$**	**3,612,578,287**

Liabilities				
Other Liabilities:	$	2,460,110	$	3,140,037
Accounts Payable:	$	49,271,172	$	46,462,356
Uncollected Deposits:	$	0	$	119,725
Notes Payable:	$	510,875,440	$	12,786,180
Shares	$	2,503,104,560	$	2,898,443,098
Certificates/Term Deposits	$	261,490,559	$	360,188,303
Total Shares:	$	2,764,595,119	$	3,258,631,401
Non-Perpetual Capital Accounts (NCA)	$	8,913,835	$	8,896,992
Perpetual Contributed Capital (PCC)	$	214,196,834	$	214,198,192
Reserves & Undivided Earnings	$	55,992,563	$	44,616,939
Equity Acquired in Merger	$	22,562,000	$	22,562,000
Accumulated Other Comprehensive Loss	$	2,688,422	$	(1,177,320)
Total Equity:	$	304,353,654	$	289,096,803
Other Equity/Non-Controlling Interest:	$	2,629,399	$	2,341,785
Total Liabilities & Equity:	**$**	**3,634,184,894**	**$**	**3,612,578,287**

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Financial Condition & Performance

Income Statement YTD	October 2017		October 2016	
Interest Income	$	45,339,685	$	27,155,030
Interest Expense	$	(25,166,653)	$	(10,632,149)
Net Interest Income	**$**	**20,173,032**	**$**	**16,522,881**
Net Correspondent Service Income	$	14,548,391	$	15,625,060
Gross Operating Income	**$**	**34,721,423**	**$**	**32,147,941**
Operating Expense	$	(22,477,837)	$	(21,452,756)
Net Income:	**$**	**12,243,586**	**$**	**10,695,185**
Non-Operating Gains/(Losses)	$	124,430	$	(131,252)
Amortization of Core Deposit Intangible	$	(788,068)	$	(152,227)
CUSO Income	$	216,017	$	72,207
Net Income before PCC Distributions	**$**	**11,795,965**	**$**	**10,483,913**
Less: Non-Controlling Interest in Net Income	$	(259,722)	$	(339,518)
Less: Equity Transfer for PCC Distribution	$	(2,003,992)	$	(1,584,495)
Net Increase to Retained Earnings	**$**	**9,532,251**	**$**	**8,559,900**

Earnings Spread/Net Operating Margin	October 2017	October 2016
Return on Average Assets	1.41%	0.87%
Interest/Dividend Expense	-0.78%	-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)	0.00%	0.00%
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	**0.30%**	**0.28%**

Asset Quality	October 2017
Non-Earning Assets/Average Assets	2.12%
Delinquent Loans/Total Loans	0.00%
Investment Portfolio	
U.S. Gov't/Agency Securities	27.24%
Asset-Backed Securities (Non-Mortgage)	29.91%
Asset-Backed Securities (Mortgage)	0.00%
Federal Home Loan Bank	0.71%
Bank & Credit Union Deposits	4.20%
Federal Reserve Bank	22.78%
CUSO Equity	0.14%
Cash & Receivables	0.47%
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	October 2017	October 2016
RUDE + Acquired Equity Capital/Monthly Average Net Assets	2.09%	1.76%
RUDE + Acquired Equity Capital/12-Month Average Net Assets	2.01%	1.72%
Tier 1 (Leverage) Capital/12-Month Average Net Assets	5.44%	4.84%
Total Capital/12-Month Average Net Assets	7.61%	7.29%
Tier 1 Capital/12-Month Average Risk-Weighted Assets	18.06%	14.55%
Total Capital/12-Month Average Risk-Weighted Assets	25.81%	22.33%
Total Capital	$ 296,721,463	$ 285,402,297
Tier 1 (Leverage) Capital	$ 207,635,184	$ 185,206,276
Tier 2 Capital	$ 89,086,279	$ 100,196,021
PCC deducted from Tier 1 Capital	$ 80,196,859	$ 91,299,029
Unrealized Gain/Loss on Securities	$ 2,688,422	$ (1,177,320)
Monthly Average Assets	$ 3,758,343,170	$ 3,813,459,155
Average 12-Month Assets	$ 3,900,370,594	$ 3,914,111,160
Year-to-date Average Assets	$ 3,871,559,681	$ 3,722,069,861

Liquidity & Interest Rate Risk as of October 31, 2017

Available Liquidity	**Available Within 90 Days**
Net Cash and Receivables:	$ 822,705,140
Net Available For Sale (AFS) securities: (securities with adequate market values to sell)	$ 1,301,668,828
Overnight & Investments Maturing within 90 days:	$ 147,366,190
Unsecured Fed Funds Lines Available:	$ 230,000,000
Secured Fed Funds Lines Available:	$ 150,000,000
Federal Home Loan Bank (FHLB) - borrowing capacity	$ 984,605,250
-less fixed term existing loan advances	$ (510,875,440)
Primary Sources of Liquidity:	$ 3,125,469,968
Federal Reserve Bank (FRB) Discount Window - borrowing capacity:	$ 27,299,268
Excess Balance Account (EBA) - funds held for members @ FRB:	$ 31,100,000
Secondary Sources of Liquidity:	$ 58,399,268
Total Available Liquidity:	**$ 3,183,869,236**

Interest Rate Risk

Base/Current Rate Environment	**Regulation 704 Operating Level Base Plus**
Net Economic Value (NEV):	$ 297,542,084
NEV Ratio:	8.19%
Up 3% Rate Environment	
Net Economic Value (NEV):	$ 272,117,256
NEV Ratio:	7.54%
Percentage Change:	(8.5%)
Down 1% Rate Environment	
Net Economic Value (NEV):	$ 308,134,151
NEV Ratio:	8.45%
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) - $8,889,420.
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 $1,344,537,600 (10/31) -- 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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