RESOURCE ONE CREDIT UNION

Financial Statements

December 31, 2017 and 2016

whitleypenn

Dallas Office
8343 Douglas Avenue
Suite 400
Dallas, Texas 75225
214.393.9300 Main

whitleypenn.com

Independent Auditor's Report

To The Board of Directors
Resource One Credit Union
Dallas, Texas

We have audited the accompanying financial statements of Resource One Credit Union, which comprise the statement of financial condition as of December 31, 2017 and 2016, and the related statements of income, comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the overall reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Resource One Credit Union at December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Whitley Penn LLP

Dallas, Texas
July 19, 2018

RESOURCE ONE CREDIT UNION

Statement of Financial Condition

December 31, 2017 and 2016

ASSETS	**2017**	2016
Cash and cash equivalents	**$ 3,956,947**	$ 6,931,539
Interest bearing deposits in other banks	**33,040,200**	38,678,394
Total cash and cash equivalents	**36,997,147**	45,609,933
Time deposits in other financial institutions	**8,964,000**	8,964,000
Securities available for sale	**1,170,085**	800,649
Other investments	**1,880,467**	1,617,893
Loans	**397,796,081**	366,525,794
Premises and equipment	**16,066,018**	16,226,911
Accrued interest receivable	**1,348,069**	1,200,488
Other real estate owned and repossessed assets	**288,123**	250,735
NCUSIF deposit	**4,055,848**	3,796,186
Split dollar life insurance	**6,112,477**	6,007,637
Other assets	**1,671,342**	1,497,781
Total assets	**$476,349,657**	$452,498,007

LIABILITIES AND MEMBERS' EQUITY		
Liabilities:		
Members' share and savings accounts	**$422,624,846**	$402,387,220
Accrued expenses and other liabilities	**5,915,495**	5,759,705
Total liabilities	**428,540,341**	408,146,925
Commitments and contingencies		
Members' equity:		
Regular reserves	**4,953,504**	4,953,504
Undivided earnings	**41,947,615**	38,858,817
Accumulated other comprehensive income	**908,197**	538,761
Total members' equity	**47,809,316**	44,351,082
Total liabilities and members' equity	**$476,349,657**	$452,498,007

See accompanying notes to financial statements.

RESOURCE ONE CREDIT UNION

Statement of Income

For the Years Ended December 31, 2017 and 2016

	2017	2016
Interest income:		
Interest and fees on loans	**$ 20,834,899**	$ 19,698,512
Interest and dividends on investment securities and interest bearing deposits	**293,897**	204,198
Total interest income	**21,128,796**	19,902,710
Interest expense:		
Interest and dividends on member share and savings accounts	**1,870,984**	1,855,988
Total interest expense	**1,870,984**	1,855,988
Net interest income	**19,257,812**	18,046,722
Provision for loan losses	**4,802,000**	3,915,000
Net interest income after provision	**14,455,812**	14,131,722
Noninterest income:		
Service charges and fees	**11,770,176**	10,308,667
Member program fees	**1,919,295**	1,578,775
Gain on sales of assets, net	**-**	50,202
Other	**782,789**	703,396
Total noninterest income	**14,472,260**	12,641,040
Noninterest expense:		
Salaries and employee benefits	**11,737,339**	11,467,723
Occupancy of premises	**2,263,301**	2,198,153
Furniture, fixtures and equipment	**1,993,575**	2,177,192
Office operations	**6,233,191**	5,617,353
Loan servicing	**425,238**	439,427
Professional and regulatory	**1,353,996**	1,285,628
Marketing and training	**1,352,124**	1,249,173
Loss on sales of assets	**40,535**	-
Other	**439,975**	559,521
Total noninterest expense	**25,839,274**	24,994,170
Net income	**$ 3,088,798**	$ 1,778,592

See accompanying notes to financial statements.

RESOURCE ONE CREDIT UNION

Statement of Comprehensive Income

For the Years Ended December 31, 2017 and 2016

	2017	2016
Net income	**$ 3,088,798**	$ 1,778,592
Other comprehensive income:		
Changes in unrealized gain on investment securities available for sale	**369,436**	4,823
Total comprehensive income	**$ 3,458,234**	$ 1,783,415

See accompanying notes to financial statements.

RESOURCE ONE CREDIT UNION

Statement of Changes in Members' Equity

For the Years Ended December 31, 2017 and 2016

	Regular Reserves	Undivided Earnings	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2016	$ 4,953,504	$ 37,080,225	$ 533,938	$ 42,567,667
Net income	-	1,778,592	-	1,778,592
Other comprehensive income	-	-	4,823	4,823
Balance, December 31, 2016	**4,953,504**	**38,858,817**	**538,761**	**44,351,082**
Net income	**-**	**3,088,798**	**-**	**3,088,798**
Other comprehensive income	**-**	**-**	**369,436**	**369,436**
Balance, December 31, 2017	**$ 4,953,504**	**$ 41,947,615**	**$ 908,197**	**$ 47,809,316**

See accompanying notes to financial statements.

RESOURCE ONE CREDIT UNION

Statement of Cash Flows

For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Net income	**$ 3,088,798**	$ 1,778,592
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, net	**1,408,104**	1,296,907
Provision for loan losses	**4,802,000**	3,915,000
Loss (gain) on sales of assets	**40,535**	(50,202)
Changes in operating assets and liabilitites:		
Accrued interest and other assets	**(425,982)**	223,747
Accrued expenses and other liabilities	**155,790**	1,202,566
Net cash provided by operating activities	**9,069,245**	8,366,610
Cash flows from investing activities:		
Net decrease in time deposits in other banks	**-**	(2,988,000)
Purchases of other investments	**(262,574)**	(60,937)
Net change in NCUSIF deposits	**(259,662)**	(280,751)
Net originations of loans	**(37,781,563)**	(37,279,756)
Additions to premises and equipment	**(1,247,211)**	(1,130,620)
Proceeds from sales of premises and equipment	**-**	1,133,192
Proceeds from sales of other real estate owned and repossessed assets	**1,631,353**	2,554,139
Net cash used in investing activities	**(37,919,657)**	(38,052,733)
Cash flows from financing activities:		
Net change in member shares and savings accounts	**20,237,626**	16,450,406
Net cash provided by financing activities	**20,237,626**	16,450,406
Net decrease in cash and cash equivalents	**(8,612,786)**	(13,235,717)
Cash and cash equivalents at beginning of year	**45,609,933**	58,845,650
Cash and cash equivalents at end of year	**$ 36,997,147**	$ 45,609,933
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	**$ 1,869,216**	$ 1,874,187
Supplemental Disclosures of Noncash Transactions:		
Transfers of loans to other real estate owned and repossessed assets	**$ 1,709,276**	$ 1,710,079

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies

A summary of significant accounting policies of Resource One Credit Union (the "Credit Union") applied in the preparation of the accompanying Credit Union financial statements follows. The accounting principles followed by the Credit Union and the methods of applying them are in conformity with both accounting principles generally accepted in the United States of America ("GAAP") and prevailing practices of the credit union industry.

Nature of Operations

The Credit Union is a state-chartered cooperative association headquartered in Dallas, Texas, organized in accordance with the provisions of the State of Texas for the purpose of promoting thrift among and creating a source of credit for its members. Participation in the Credit Union is limited to those who qualify for membership within the Credit Union's Charter and Bylaws.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The allowance for loan losses, the fair values of financial instruments, and the status of contingencies are particularly susceptible to significant change in the near term.

Cash and Cash Equivalents

Cash equivalents, for the purposes of reporting cash flows, include cash on hand, amounts due from other financial institutions and other short term investments. All highly liquid investments with an initial maturity of less than ninety days are considered to be cash equivalents.

The Credit Union maintains cash in deposit accounts at financial institutions approved by the Board of Directors. Accumulated deposits at these institutions, at times, may exceed federally insured limits.

Investment Securities

The Credit Union uses the specific identification method to determine the basis for computing realized gains or losses. The Credit Union accounts for investment securities as follows:

Held to Maturity ("HTM")

Debt investment securities that management has the positive intent and ability to hold until maturity are classified as held to maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts. Premiums are amortized and discounts are accreted using the interest method over the period remaining until maturity. There were no HTM securities held at December 31, 2017 or 2016.

Available for Sale ("AFS")

Investment securities that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, need for liquidity, and changes in the availability of and the yield of alternative investments, are classified as available for sale. These assets are carried at estimated fair value. Unrealized gains and losses are reported as other comprehensive income. Gains and losses on the sale of available for sale securities are recorded on the trade date and determined using the specific identification method.

1. Summary of Significant Accounting Policies – continued

Trading

No investment securities were designated as trading at December 31, 2017 and 2016.

Other Investments

Other investments are recorded at cost and evaluated for credit events resulting in other than temporary impairment.

Loans and Allowance for Loan Losses

Loans are stated at the amount of unpaid principal less an allowance for loan losses. Interest on loans is calculated by using the simple interest method on daily balances of the principal amounts outstanding. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes the collectability of the principal is unlikely.

The allowance is an amount management believes will be adequate to absorb estimated inherent losses on existing loans that are deemed uncollectible based upon management's review and evaluation of the loan portfolio. The allowance for loan losses is comprised of three elements: (i) specific reserves determined in accordance with current authoritative accounting guidance based on probable losses on specific classified loans, (ii) general reserve determined in accordance with current authoritative accounting guidance that consider historical loss rates, and (iii) qualitative reserves determined in accordance with current authoritative accounting guidance based upon general economic conditions and other qualitative risk factors both internal and external to the Credit Union. The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on general economic conditions, the financial condition of borrowers, the value and liquidity of collateral, delinquency, prior loan loss experience, and the results of periodic reviews of the portfolio. For purposes of determining the general reserve, the loan portfolio is multiplied by the Credit Union's historical loss rate. The Credit Union's methodology is constructed so that specific allocations are increased in accordance with deterioration in credit quality and a corresponding increase in risk of loss. In addition, the Credit Union adjusts the allowance for qualitative factors such as current local economic conditions and trends, including unemployment, changes in lending staff, policies and procedures, changes in credit concentrations, changes in the trends and severity of problem loans, and changes in trends in volume and terms of loans. This additional allocation based on qualitative factors serves to compensate for additional areas of uncertainty inherent in the portfolio that are not reflected in historic loss factors.

Accrual of interest is discontinued on a loan and payments applied to principal when management believes, after considering economic and business conditions and collection efforts, the borrower's financial condition is such that collection of interest is doubtful. Generally, all loans past due greater than 90 days, based on contractual terms, are placed on non-accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Consumer loans are generally charged-off when a loan becomes past due 90 days. For other loans in the portfolio, facts and circumstances are evaluated in making charge-off decisions.

1. Summary of Significant Accounting Policies – continued

Loans are considered impaired when, based on current information and events, it is probable the Credit Union will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. If a loan is impaired, a specific valuation allowance is allocated, if necessary. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible. The Credit Union's policy requires measurement of the allowance for an impaired collateral dependent loan based on the fair value of the collateral. Other loan impairments, if applicable, are measured based on the present value of expected future cash flows or the loan's observable market price.

From time to time, the Credit Union may modify its loan agreement with a borrower. A modified loan is considered a troubled debt restructuring when two conditions are met: (i) the borrower is experiencing financial difficulty and (ii) concessions are made by the Credit Union that would not otherwise be considered for a borrower with similar credit risk characteristics. Modifications to loan terms may include a lower interest rate, a reduction of principal, or a longer term to maturity. If these troubled debt restructurings have been such that, after considering economic and business conditions and collection efforts, the collection of interest is doubtful, the loan would be placed on non-accrual. These loans would be evaluated for impairment and a specific reserve would be recorded based on probable losses, taking into consideration the related collateral and modified loan terms and cash flow.

The Credit Union has certain lending policies and procedures in place that are designed to maximize loan income with an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis and makes changes as appropriate. Management receives frequent reports related to loan originations, quality, concentrations, delinquencies, non-performing, and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions, both by type of loan and geography.

The Credit Union maintains a separate general valuation allowance for homogeneous portfolio segments. These portfolio segments and their risk characteristics are described as follows:

Consumer loans

The Credit Union utilizes methodical credit standards and analysis to supplement its policies and procedures in underwriting consumer loans. The Credit Union's loan policy addresses types of consumer loans that may be originated and the collateral, if secured, which must be perfected. The consumer loan portfolio is generally comprised of a large number of small loans. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

Residential real estate

The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, interest rate, and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrower's capacity to repay their obligations may be deteriorating. Generally, real estate loans are owner occupied, which further reduces the Credit Union's risk.

1. Summary of Significant Accounting Policies – continued

The portfolio segments that are risk rated and include risk characteristics are described as follows:

Member business – real estate

Member business real estate loans are underwritten primarily based on projected cash flows and, secondarily, as loans secured by real estate. The repayment of real estate loans is generally largely dependent on the successful operation of the property securing the loans or the business conducted on the property securing the loan. The properties securing the Credit Union's real estate portfolio are generally diverse in terms of type and geographic location, throughout Texas and surrounding states. This diversity helps reduce the exposure to adverse economic events that affect any single market or industry. Member business real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments. Adverse economic developments or an overbuild market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations.

Member business – secured loans

Member business secured loans, commonly referred to as commercial loans, are underwritten after evaluating and understanding the borrower's ability to operate profitably and effectively. Underwriting standards are designed to determine whether the borrower possesses sound business ethics and practices and to evaluate current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and include personal guarantees.

Premises and Equipment

Land is carried at cost. Premises, leasehold improvements and furniture, fixtures, and equipment are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives for the assets as follows:

Building and improvements	15 to 30 years
Leasehold improvements	term of lease
Furniture, fixtures, and equipment	2 to 12 years

Major replacements and betterments are capitalized while maintenance and repairs are charged to expense when incurred. Gains or losses on dispositions are reflected in operations as incurred.

Foreclosed and Repossessed Assets

Real estate properties and other assets acquired through, or in lieu of, loan foreclosure and repossession are held for sale and are initially recorded at the lower of cost basis or fair value at the date of foreclosure or repossession, establishing a new cost basis. Subsequent to foreclosure or repossession, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are recorded in other noninterest expense.

1. Summary of Significant Accounting Policies – continued

NCUSIF Deposit and Premium Assessment

The Credit Union maintains a deposit in the National Credit Union Share Insurance Fund ("NCUSIF") in accordance with National Credit Union Administration ("NCUA") regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board.

Legislation passed by Congress to permit NCUA to create a temporary Corporate Credit Union Stabilization Fund ("CCUSF") to absorb costs and borrowings incurred by the CCUSF related to the corporate credit union collapse. It is anticipated that the NCUA Board will assess annual premiums to repay these stabilization costs through the year 2021 at its discretion. For the years ended December 31, 2017 and 2016, the NCUA did not assess the Credit Union.

Split Dollar Life Insurance

The Credit Union has made loans for life insurance premium payments to a select group of senior management personnel. The loans are collateralized by the assignment of the cash surrender value of the respective insurance policies. The policies are owned by the executives and they have sole control over the listed beneficiaries. At the time of retirement, the loan becomes due and payable and can be paid with the cash from the cash value of the insurance policies or with other personal funds at the executives' discretion. The total value of the loans was approximately $6,112,000 and $6,008,000 at December 31, 2017 and 2016, respectively, and is included in other assets on the statement of financial condition.

Member Share and Savings Accounts

Members' accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends and interest on members' share and savings accounts, except for interest on certificates of deposits which is set in advance, is based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Interest rates on members' share and savings accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Members' Equity

The Credit Union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of retained earnings, is established for the purpose of absorbing losses that exceed undivided earnings and other appropriations of undivided earnings. The statutory reserve is not available for the payment of interest.

Comprehensive Income

Comprehensive income includes all changes in members' equity during a period. In addition to net income, comprehensive income includes the net effect of changes in the fair value of securities available for sale. Comprehensive income is reported in Credit Union's statement of comprehensive income.

1. Summary of Significant Accounting Policies – continued

Income Taxes

The Credit Union is exempt from federal and state income taxes under Internal Revenue Code 501(c) 14. Certain products and services provided by select state chartered credit unions have been deemed by the Internal Revenue Service ("IRS"), in technical advice memorandums ("TAMs") released in 2007, to be unrelated to the specific entity's exempt purpose. As presented in the TAM, the net taxable income from these products and services would be subject to income taxes. Credit unions have litigated against the IRS positions noted in the TAMs and have been successful in having courts declare in 2009 and 2010 that revenue from insurance products sold to members, helping them protect their financial well-being, qualifies as exempt purpose income, contrary to the IRS position in the TAMs.

The Credit Union has filed tax returns for the calendar year 2016. The Credit Union evaluated its tax positions and determined no uncertain tax positions exist as of December 31, 2017.

Financial Instruments

In the ordinary course of business, the Credit Union has entered into certain off-balance sheet financial instruments consisting of commitments to extend credit, commitments under credit card arrangements, and other commitments. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Fair Values of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. The fair value estimates of existing on and off-balance sheet financial instruments do not include the value of anticipated future business or the value of assets and liabilities not financial instruments.

Retirement Plans

The Credit Union provides a 401(k) plan, which covers substantially all of the Credit Union's employees who are eligible as to age and length of service. A participant may elect to make contributions of up to the applicable IRS limitations of the participant's annual compensation. The Credit Union makes discretionary matching contributions as approved by the Board of Directors. The Credit Union's contributions to the 401(k) plan approximated $359,000 and $278,000 for the years ended December 31, 2017 and 2016, respectively, and is included in salaries and employee benefits expense on the statement of income.

Self-Insured Group Medical Insurance Plan

The Credit Union sponsors a self-insured group medical insurance plan. The plan is designated to provide a specified level of coverage, with stop-loss coverage provided by a commercial insurer in order to limit the Credit Union's' exposure. The Credit Union's maximum claim exposure is limited to $60,000 per person per policy year. The Credit Union had 126 employees enrolled in the plan at December 31, 2017. Expenses associated with the plan totaled approximately $1,254,000 and $1,351,000 for the years ended December 31, 2017 and 2016, respectively, and is included in salaries and employee benefits expense on the statement of income.

1. Summary of Significant Accounting Policies – continued

Advertising

The Credit Union expenses advertising costs as incurred. Advertising expense was approximately $935,000 and $827,000 for the years ended December 31, 2017 and 2016, respectively, and is included in marketing and training expense on the statement of income.

Reclassification

Certain amounts previously reported may have been reclassified to conform to the current presentation and had no impact on net income or members' equity.

Subsequent Events

Subsequent events have been evaluated through July 19, 2018, which was the date the financial statements were available to be issued.

2. Recently-Issued Authoritative Accounting Guidance

In June 2016, the FASB issued ASU 2016-13 – "Financial Instruments-Credit Losses (Topic 326), *Measurement of Credit Losses on Financial Instruments*." ASU 2016-13 is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit. ASU 2016-13 is effective for fiscal years beginning after December 15, 2020. The Credit Union has not yet evaluated the potential effects of adopting ASU 2016-13 on the Credit Union's results of operations, financial position, or cash flows.

In May 2016, the FASB issued ASU 2016-12 – "Revenue from Contracts with Customers (Topic 606); *Narrow-Scope Improvements and Practical Expedients*." ASU 2016-12 is intended to address certain specific issues identified by the FASB-IASB Joint Transition Resource Group for Revenue Recognition with respect to ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2016-12 is effective on a retrospective basis for the annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early adoption is not permitted. The Credit Union expects the adoption of ASU 2016-12 will have no material effect on the Credit Union's results of operations, financial position, or cash flows.

In February 2016, the FASB issued ASU 2016-02 – "*Leases*" (Topic 842). ASU 2016-02 is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for the annual periods beginning after December 15, 2019. Early adoption is permitted. The Credit Union has not yet evaluated the impact of the adoption of ASU 2016-02 on the Credit Union's results of operations, financial position, or cash flows.

2. Recently-Issued Authoritative Accounting Guidance – continued

In January 2016, the FASB issued ASU 2016-01 – "*Recognition and Measurement of Financial Assets and Financial Liabilities*" (Subtopic 825-10). ASU 2016-01 is intended to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments, which the most significant impact to the Credit Union is intended to improve the recognition and measurement of financial instruments by requiring equity investments (other than equity method or consolidation) to be measured at fair value with changes in fair value recognized in net income. ASU 2016-01 is effective for the annual periods beginning after December 15, 2018. Early adoption is not permitted, except for certain provisions of ASU 2016-01, which can be adopted early for any financial statements that have not been issued for institutions that do not meet the definition of a public business entity. Management has elected to early adopt these provisions to remove the disclosure of the fair value of all financial instruments, including those that are measured at amortized cost, such as loans held for investment. The Credit Union expects the adoption of remainder of ASU 2016-01 to have no material effect on the Credit Union's results of operations, financial position, or cash flows.

3. Investment Securities

Investment securities have been classified in the statement of financial condition according to management's intent. The carrying amount of securities and their approximate fair values are as follows:

	December 31, 2017			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available for sale:				
VISA, class B stock	**$ 261,888**	**$ 908,197**	**$ -**	**$ 1,170,085**

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
VISA, class B stock	$ 261,888	$ 538,761	$ -	$ 800,649

There are no investment securities that have been in continuous unrealized loss position for less than 12 months or that have been in a continuous loss position for 12 or more months.

There were no sales of securities during the years ended December 31, 2017 and 2016. There were no securities pledged at December 31, 2017 and 2016.

4. Other Investments

Other investments in the accompanying Credit Union's statement of financial condition consisted of the following:

	December 31,			
	2017		2016	
Central Liquidity Facility	**$**	**1,083,958**	$	1,012,584
Perpetual Contributed capital accounts		**605,309**		605,309
Federal Home Loan Bank stock		**191,200**		-
	$	**1,880,467**	$	1,617,893

The Credit Union maintains a direct membership investment in the NCUA's Central Liquidity Facility ("CLF"), created by the National Credit Union Central Liquidity Facility Act. The CLF provides credit unions with a source of loans to meet their liquidity needs thereby encouraging savings, support consumer and mortgage lending, and provide basic financial resources to all segments of the economy.

The Credit Union maintains perpetual contributed capital accounts with Catalyst Corporate Federal Credit Union that are uninsured and usually require a multi-year notice before withdrawal. These uninsured deposits are part of the corporate credit union's regulatory capital and are subject to impairment or loss in the event the corporate credit union is required to merge, placed into conservatorship, incurs significant losses or is liquidated.

The Credit Union also has an advance agreement with the Federal Home Loan Bank ("FHLB"). Under the agreement the borrowing limit varies and is dependent upon the amount of FHLB stock held and the volume of first mortgage and other loans of the Credit Union.

5. Loans and Allowance for Loan Losses

Loans in the accompanying Credit Union's statement of financial condition consisted of the following:

	December 31,	
	2017	2016
Consumer:		
Vehicle	**$ 190,443,402**	$ 171,244,185
Unsecured and credit card	**28,351,119**	25,576,797
Other secured	**31,010,602**	31,452,879
Consumer subtotal	**249,805,123**	228,273,861
Residential real estate:		
First mortgage	**98,371,516**	90,738,862
Second mortgage	**35,968,401**	35,954,119
Residential real estate subtotal	**134,339,917**	126,692,981
Member business:		
Real estate	**14,729,343**	12,146,777
Secured	**1,655,561**	1,452,671
Unsecured	**746,484**	1,061,426
Member business subtotal	**17,131,388**	14,660,874
	401,276,428	369,627,716
Allowance for loan losses	**(3,480,347)**	(3,101,922)
Loans, net	**$ 397,796,081**	$ 366,525,794

Non-Accrual and Past Due Loans

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on non-accrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

5. Loans and Allowance for Loan Losses – continued

Non-accrual loans, segregated by class of loans as of December 31, 2017 and 2016, are classified as follows:

	December 31, 2017	December 31, 2016
Consumer:		
Vehicle	**$ 1,754,522**	$ 1,273,254
Unsecured and credit card	**449,373**	340,058
Other secured	**115,082**	243,456
Consumer subtotal	**2,318,977**	1,856,768
Residential real estate:		
First mortgage	**140,538**	482,880
Second mortgage	**85,308**	80,476
Residential real estate subtotal	**225,846**	563,356
Member business:		
Real estate	**-**	-
Secured	**-**	9,100
Unsecured	**-**	4,494
Member business subtotal	**-**	13,594
	$ 2,544,823	$ 2,433,718

Had non-accrual loans performed in accordance with their original contract terms, the Credit Union would have recognized additional interest income of approximately $128,000 and $119,000 in 2017 and 2016, respectively.

5. Loans and Allowance for Loan Losses – continued

An analysis of past due loans, aggregated by class of loans, as of December 31, 2017 and 2016, is as follows:

	2017				
	30 to 59 Days	**60 to 89 Days**	**90 Days or Greater**	**Total Current**	**Total Loans**
Consumer:					
Vehicle	**$ 5,901,239**	**$ 1,037,308**	**$ 1,754,522**	**$ 181,750,333**	**$ 190,443,402**
Unsecured and credit card	**413,703**	**369,603**	**449,373**	**27,118,440**	**28,351,119**
Other secured	**425,005**	**121,315**	**115,082**	**30,349,200**	**31,010,602**
Residential real estate:					
First mortgage	**2,868,352**	**526,331**	**140,538**	**94,836,295**	**98,371,516**
Second mortgage	**898,642**	**243,300**	**85,308**	**34,741,151**	**35,968,401**
Member business:					
Real estate	**25,975**	**-**	**-**	**14,703,368**	**14,729,343**
Secured	**56,527**	**180,604**	**-**	**1,418,430**	**1,655,561**
Unsecured	**6,982**	**44,552**	**-**	**694,950**	**746,484**
	$ 10,596,425	**$ 2,523,013**	**$ 2,544,823**	**$ 385,612,167**	**$ 401,276,428**

	2016				
	30 to 59 Days	60 to 89 Days	90 Days or Greater	Total Current	Total Loans
Consumer:					
Vehicle	$ 4,491,875	$ 518,180	$ 1,273,254	$ 164,960,876	$ 171,244,185
Unsecured and credit card	386,877	300,549	340,058	24,549,313	25,576,797
Other secured	2,072,670	177,494	243,456	28,959,259	31,452,879
Residential real estate:					
First mortgage	2,258,374	231,698	482,880	87,765,910	90,738,862
Second mortgage	314,325	216,317	80,476	35,343,001	35,954,119
Construction	-	-	-	-	-
Member business:					
Real estate	12,939	-	-	12,133,838	12,146,777
Secured	-	-	9,100	1,443,571	1,452,671
Unsecured	10,449	4,874	4,494	1,041,609	1,061,426
	$ 9,547,509	$ 1,449,112	$ 2,433,718	$ 356,197,377	$ 369,627,716

All loans which are in excess of 90 days past due are on nonaccrual status at December 31, 2017 and 2016.

5. Loans and Allowance for Loan Losses – continued

Impaired Loans

Loans are considered impaired when, based on current information and events, it is probable the Credit Union will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated in total for smaller-balance loans of a similar nature and on an individual loan basis for other loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans or portions thereof, are charged-off when deemed uncollectible.

Impaired loans at December 31, 2017 and 2016, are summarized in the following tables:

	2017					
	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment During Year
Consumer:						
Vehicle	$ 1,985,434	$ 1,985,434	$ -	$ 1,985,434	$ -	$ 1,629,344
Unsecured and credit card	449,373	449,373	-	449,373	-	394,715
Other secured	140,312	140,312	-	140,312	-	191,884
Residential real estate:						
First mortgage	140,538	140,538	-	140,538	-	311,709
Second mortgage	85,308	85,308	-	85,308	-	82,892
Member business:						
Real estate	204,436	-	204,436	204,436	83,819	213,351
Secured	-	-	-	-	-	-
Unsecured	-	-	-	-	-	25,774
	$ 3,005,401	$ 2,800,965	$ 204,436	$ 3,005,401	$ 83,819	$ 2,849,669

5. Loans and Allowance for Loan Losses – continued

	2016					
	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment During Year
Consumer:						
Vehicle	$ 1,273,254	$ 1,273,254	$ -	$ 1,273,254	$ -	$ 1,173,873
Unsecured and credit card	340,058	340,058	-	340,058	-	213,386
Other secured	243,456	243,456	-	243,456	-	345,238
Residential real estate:						
First mortgage	482,880	482,880	-	482,880	-	1,099,887
Second mortgage	80,476	80,476	-	80,476	-	99,629
Member business:						
Real estate	222,265	-	222,265	222,265	91,128	234,937
Secured	-	-	-	-	-	-
Unsecured	51,547	-	51,547	51,547	41,238	49,352
	$ 2,693,936	$ 2,420,124	$ 273,812	$ 2,693,936	$ 132,366	$ 3,216,302

Interest payments received on impaired loans are recorded as interest income unless collections of the remaining recorded investment are doubtful, at which time payments received are recorded as reductions of principal. The amount of interest income recognized on impaired loans by the Credit Union during the years ended December 31, 2017 and 2016, was immaterial.

Credit Quality Indicators

From a credit risk standpoint, the Credit Union classifies its loans in one of four categories: (i) pass, (ii) special mention, (iii) substandard, or (iv) doubtful. Loans classified as loss are charged-off.

5. Loans and Allowance for Loan Losses – continued

The classifications of loans reflect a judgment about the risks of default and loss associated with the loan. The Credit Union reviews the ratings on credits quarterly. Ratings are adjusted to reflect the degree of risk and loss that is felt to be inherent in each credit as of each quarterly reporting period. The methodology is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss). The risk ratings are grouped into the following major categories:

Pass: Credits classified as pass have no existing or known potential weaknesses deserving of management's close attention.

Special Mention: Credits rated special mention show clear signs of financial weaknesses or deterioration in credit worthiness, however, such concerns are not so pronounced that the Credit Union generally expects to experience significant loss within the short-term. Such credits typically maintain the ability to perform within standard credit terms and credit exposure is not as prominent as credits rated more harshly. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the loan or in the institution's credit position at some future date.

Substandard: Credits rated substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses which exist in collateral. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to strengthen the Credit Union's position, and/or to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed.

Doubtful: Credits rated doubtful are those in which full collection of principal appears highly questionable, and which some degree of loss is anticipated, even though the ultimate amount of loss may not yet be certain and/or other factors exist which could affect collection of debt. Based upon available information, positive action by the Credit Union is required to avert or minimize loss. Credits rated doubtful are generally also placed on non-accrual.

5. Loans and Allowance for Loan Losses – continued

At December 31, 2017 and 2016, the following summarizes the Credit Union's internal ratings of its member business loan portfolio segments:

	December 31, 2017				
	Pass	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Member business:					
Real estate	**$ 14,192,514**	**$ 124,606**	**$ 412,223**	**$ -**	**$ 14,729,343**
Secured	**1,525,039**	**-**	**130,522**	**-**	**1,655,561**
Unsecured	**676,553**	**25,201**	**44,730**	**-**	**746,484**
	$ 16,394,106	**$ 149,807**	**$ 587,475**	**$ -**	**$ 17,131,388**

	December 31, 2016				
	Pass	Special Mention	Substandard	Doubtful	Total
Member business:					
Real estate	$ 11,527,458	$ 177,260	$ 442,059	$ -	$ 12,146,777
Secured	1,266,913	34,398	151,360	-	1,452,671
Unsecured	873,475	56,393	131,558	-	1,061,426
	$ 13,667,846	$ 268,051	$ 724,977	$ -	$ 14,660,874

5. Loans and Allowance for Loan Losses – continued

At December 31, 2017 and 2016, the following summarizes the classes within the homogeneous loan portfolio segments allocated by payment activity. Loans are deemed performing if they are less than 90 days delinquent and still accruing interest.

	December 31, 2017		
	Payment Activity		
	Performing	Non-Performing	Total
Consumer:			
Vehicle	$ 188,688,880	$ 1,754,522	$ 190,443,402
Unsecured and credit card	27,901,746	449,373	28,351,119
Other secured	30,895,520	115,082	31,010,602
Consumer subtotal	247,486,146	2,318,977	249,805,123
Residential real estate			
First mortgage	98,230,978	140,538	98,371,516
Second mortgage	35,883,093	85,308	35,968,401
Residential real estate	134,114,071	225,846	134,339,917
Total	$ 381,600,217	$ 2,544,823	$ 384,145,040

	December 31, 2016		
	Payment Activity		
	Performing	Non-Performing	Total
Consumer:			
Vehicle	$ 169,970,931	$ 1,273,254	$ 171,244,185
Unsecured and credit card	25,236,739	340,058	25,576,797
Other secured	31,209,423	243,456	31,452,879
Consumer subtotal	226,417,093	1,856,768	228,273,861
Residential real estate			
First mortgage	90,255,982	482,880	90,738,862
Second mortgage	35,873,643	80,476	35,954,119
Residential real estate	126,129,625	563,356	126,692,981
Total	$ 352,546,718	$ 2,420,124	$ 354,966,842

5. Loans and Allowance for Loan Losses – continued

Allowance for Loan Losses

An analysis of the allowance for loan losses is as follows:

	Year Ended December 31, 2017	2016
Balance at beginning of year	**$ 3,101,922**	$ 3,076,315
Provision charged to earnings	**4,802,000**	3,915,000
Losses charged to the allowance account	**(4,941,452)**	(4,393,858)
Recoveries on loans previously charged-off	**517,877**	504,465
Net charge-offs	**(4,423,575)**	(3,889,393)
Balance at end of year	**$ 3,480,347**	$ 3,101,922

The following tables summarize the activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2017 and 2016.

December 31, 2017	Consumer	Residential Real Estate	Member Business	Total
Beginning balance	$ 2,399,939	$ 363,750	$ 338,233	$ 3,101,922
Provision for loan losses	4,749,097	13,111	39,792	4,802,000
Charge-offs	(4,872,043)	-	(69,409)	(4,941,452)
Recoveries	510,603	-	7,274	517,877
Net charge-offs	(4,361,440)	-	(62,135)	(4,423,575)
Total	$ 2,787,596	$ 376,861	$ 315,890	$ 3,480,347
Period-end amount allocated to:				
Loans individually evaluated for impairment	$ -	$ -	$ 83,819	$ 83,819
Loans collectively evaluated for impairment using general and qualitative measurements	2,787,596	376,861	232,071	3,396,528
Ending balance	$ 2,787,596	$ 376,861	$ 315,890	$ 3,480,347

5. Loans and Allowance for Loan Losses – continued

	December 31, 2016			
	Consumer	Residential Real Estate	Member Business	Total
Beginning balance	$ 2,376,474	$ 361,901	$ 337,940	$ 3,076,315
Provision for loan losses	3,587,335	282,742	44,923	3,915,000
Charge-offs	(4,047,523)	(298,852)	(47,483)	(4,393,858)
Recoveries	483,653	17,959	2,853	504,465
Net charge-offs	(3,563,870)	(280,893)	(44,630)	(3,889,393)
Total	$ 2,399,939	$ 363,750	$ 338,233	$ 3,101,922
Period-end amount allocated to:				
Loans individually evaluated for impairment	$ -	$ -	$ 132,366	$ 132,366
Loans collectively evaluated for impairment using general and qualitative measurements	2,399,939	363,750	205,867	2,969,556
Ending balance	$ 2,399,939	$ 363,750	$ 338,233	$ 3,101,922

5. Loans and Allowance for Loan Losses – continued

The Credit Union's recorded investment in loans as of December 31, 2017 and 2016, related to the balance in the allowance for loan losses on the basis of the Credit Union's impairment methodology is as follows:

	December 31, 2017			
	Consumer	Residential Real Estate	Member Business	Total
Loans individually evaluated for impairment	$ 2,575,119	$ 225,846	$ 204,436	$ 3,005,401
Loans collectively evaluated for impairment using general and qualitative measurements	247,230,004	134,114,071	16,926,952	398,271,027
Total	$ 249,805,123	$ 134,339,917	$ 17,131,388	$ 401,276,428

	December 31, 2016			
	Consumer	Residential Real Estate	Member Business	Total
Loans individually evaluated for impairment	$ 1,856,768	$ 563,356	$ 273,812	$ 2,693,936
Loans collectively evaluated for impairment using general and qualitative measurements	226,417,093	126,129,625	14,387,062	366,933,780
Total	$ 228,273,861	$ 126,692,981	$ 14,660,874	$ 369,627,716

5. Loans and Allowance for Loan Losses – continued

Troubled Debt Restructurings

During the year ended December 31, 2017 and 2016, the terms of certain loans were modified as troubled debt restructurings. The following table presents the modifications of loans as troubled debt restructured loans:

December 31, 2017	**Number of Loans**	**Adjusted Interest Rate**	**Total Payment Deferral**	**Combined Rate and Payment Deferral**
Consumer	**27**	**$ 1,161**	**$ 121,460**	**$ 150,818**
Member business	**1**	**-**	**-**	**44,730**
Total	**28**	**$ 1,161**	**$ 121,460**	**$ 195,548**

December 31, 2016	Number of Loans	Adjusted Interest Rate	Total Payment Deferral	Combined Rate and Payment Deferral
Consumer	33	$ 1,582	$ 358,095	$ -
Member business	1	-	-	51,547
Total	34	$ 1,582	$ 358,095	$ 51,547

Loans restructured during 2017, totaling approximately $29,000 were on full accrual status as of December 31, 2017. No troubled debt restructuring loans had specific reserves as of December 31, 2017. There were two loans, totaling approximately $7,000 modified as troubled debt restructured loan and for which there was a payment default during the year ended December 31, 2017. There were three loans totaling approximately $16,000 modified as troubled debt restructured loans within the previous 12 months and for which there was a payment default during the year ended December 31, 2017. A default, for purposed of this disclosure, is a troubled debt restructured loan in which the borrower is 90 days past due or results in the foreclosure and repossession of the applicable collateral.

6. Premises and Equipment

Premises and equipment in the accompanying Credit Union's statement of financial condition consisted of the following:

	December 31,	
	2017	2016
Land	**$ 4,660,078**	$ 4,660,078
Building and improvements	**14,925,990**	14,651,672
Furniture and equipment	**10,667,549**	9,627,865
Leasehold improvements	**397,985**	381,099
Construction in progress	**91,078**	174,755
	30,742,680	29,495,469
Less accumulated depreciation	**14,676,662**	13,268,558
Premises and equipment, net	**$ 16,066,018**	$ 16,226,911

Depreciation expense was approximately $1,408,000 and $1,297,000 during the years ending December 31, 2017 and 2016, respectively, and is included in furniture, fixtures, and equipment expense on the statement of income.

7. Members' Share and Savings Accounts

Members' shares and savings accounts in the accompanying Credit Union statement of financial condition consisted of the following:

	December 31,	
	2017	2016
Share savings	**$ 150,406,249**	$ 137,330,260
Share drafts	**84,873,405**	79,933,384
Limited access money market accounts	**44,619,473**	41,384,621
IRA deposits	**13,291,221**	13,389,847
Other deposits	**18,366,797**	14,430,957
Share and IRA certificates	**111,067,701**	115,918,151
Total members' share and savings deposits	**$ 422,624,846**	$ 402,387,220

The aggregate amounts of certificates in denominations of $250,000 or greater were approximately $6,679,000 and $6,810,000 at December 31, 2017 and 2016, respectively.

7. Members' Share and Savings Accounts – continued

The scheduled maturities of share and IRA certificates at December 31, 2017, are as follows:

Year	Amount
2018	46,899,976
2019	14,170,089
2020	21,318,979
2021	12,586,732
2022	16,078,991
Thereafter	12,934
	$ 111,067,701

The aggregate amount of overdraft share accounts that have been reclassified as loans was approximately $839,000 and $645,000 at December 31, 2017 and 2016, respectively.

Member accounts are insured up to at least $250,000 by the NCUSIF. The NCUSIF is a federal insurance fund backed by the full faith and credit of the U.S. government.

8. Other Borrowings

At December 31, 2017 and 2016, the Credit Union had an available line of credit of $41,500,000 with Catalyst Corporate Federal Credit Union. The interest rates applied on any borrowings are determined on that date. Substantially all of the assets and earnings of the Credit Union are pledged as collateral on the line of credit once drawn upon. The line has no expiration date, but is subject to review and change by the issuing institution. There are no outstanding balances at December 31, 2017 and 2016.

The Credit Union has an advance agreement with the FHLB. Under the agreement the borrowing limit varies and is dependent upon the amount of FHLB stock held and the volume of first mortgage and other loans of the Credit Union. At December 31, 2017 the Credit Union had an available line of credit of approximately $90,931,000 with FHLB. There are no outstanding balances at December 31, 2017 and 2016.

9. Financial Instruments with Off-Balance Sheet Risk

The Credit Union is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit which involve varying degrees of credit risk in excess of the amount recognized in the statement of financial condition. The Credit Union's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. The Credit Union uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

9. Financial Instruments with Off-Balance Sheet Risk - continued

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the borrower

The contractual amounts of credit related financial instruments such as commitments to extend credit represents the amounts of potential accounting loss should the contract be fully drawn upon, the customer default, and the value of any existing collateral become worthless. Although the maximum exposure to loss is the amount of such commitments, management currently anticipates no material losses from such activities.

At December 31, 2017 and 2016, the following financial instruments were outstanding whose contract amounts represent credit risk:

	December 31,	
	2017	2016
Business loan commitments	**$ 97,000**	$ 494,000
Open ended lines of credit secured by 1-4 family residential properties	**795,000**	1,102,000
Credit card lines	**12,520,000**	10,462,000
Unsecured share draft lines of credit	**123,000**	148,000
Overdraft protection program commitments	**13,531,000**	10,420,000
Other unfunded commitments	**5,024,000**	5,093,000
	$ 32,090,000	$ 27,719,000

10. Commitments and Contingencies

Operating Leases

The Credit Union is obligated under non-cancelable operating lease agreements for certain branch facilities. Minimum future rental payments under the non-cancelable operating lease with remaining terms in excess of one year for each year through 2022 and thereafter are approximately as follows:

Year	Amount
2018	426,000
2019	384,000
2020	341,000
2021	246,000
2022	248,000
Thereafter	1,103,000
	$ 2,748,000

Rent expense, including expenses for common area maintenance, for the years ended December 31, 2017 and 2016, was approximately $515,000 and $452,000, respectively, and is included occupancy of premises expense on the statement of income.

Litigation

The Credit Union is subject to various claims and legal actions that have arisen in the course of conducting business. Management does not expect the ultimate disposition of these matters to have a material adverse impact on the Credit Union's financial statements.

11. Fair Value Disclosures

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact.

11. Fair Value Disclosures – continued

GAAP requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the authoritative guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs. Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs. Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks, and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs. Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Credit Union's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the statement of financial condition date may differ significantly from the amounts presented herein. A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. Transfers, if any, between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally coincides with the Credit Union's quarterly valuation process.

11. Fair Value Disclosures – continued

Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Fair values from these models are verified, where possible, against quoted market prices for recent trading activity of assets with similar characteristics tot the security being valued. Such methods are generally classified as Level 2. However, when prices from independent sources vary, cannot be corroborated, a security is generally classified as Level 3.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2017 and 2016, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Fair Value Measurements Using			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
At December 31, 2017:				
Securities available for sale	**$ 1,170,085**	**$ -**	**$ -**	**$ 1,170,085**
At December 31, 2016:				
Securities available for sale	$ 800,649	$ -	$ -	$ 800,649

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2017 and 2016. There are no liabilities measured at fair value on a recurring basis at December 31, 2017 and 2016.

Certain financial assets and financial liabilities are measured at fair value on a non-recurring basis, that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets or financial liabilities measured at fair value on a non-recurring basis at December 31, 2017 and 2016, include the following:

Impaired Loans. Impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data, typically in the case of real estate collateral, or Level 3 inputs based on customized discounting criteria, typically in the case of non-real estate collateral such as inventory, accounts receivable, equipment or other business assets.

	Fair Value Measurements Using			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
At December 31, 2017:				
Impaired loans	**$ -**	**$ -**	**$ 2,921,582**	**$ 2,921,582**
At December 31, 2016:				
Impaired loans	$ -	$ -	$ 2,561,570	$ 2,561,570

The Credit Union has no non-financial assets or non-financial liabilities measured at fair value on a recurring basis.

11. Fair Value Disclosures – continued

Non-financial assets and liabilities measured at fair value on a non-recurring basis during the years ended December 31, 2017 and 2016, include the following:

Other Real Estate Owned and Repossessed Assets. Other real estate owned and repossessed assets, upon initial recognition, were remeasured and reported at fair value through a charge-off to the allowance for loan losses. Subsequent to their initial recognition, these assets were remeasured at fair value through a writedown included in noninterest expense. The fair value of foreclosed assets is estimated using Level 2 inputs based on observable market data (including recent, independent third party appraisals) or Level 3 inputs based on customized discounting criteria. The following table presents foreclosed assets that were measured using Level 3 inputs and reported at fair value during the year ended December 31, 2017 and 2016:

	2017	2016
Other real estate owned and repossessed assets remeasured at initial recognition:		
Carrying value of foreclosed assets prior to remeasurement	**$ 707,808**	$ 614,338
Charge-offs recognized in the allowance for loan losses	**(424,685)**	(368,603)
Fair value of other real estate owned remeasured at initial recognition	**$ 283,123**	$ 245,735
Other real estate owned and repossessed assets remeasured subsequent to initial recognition:		
Carrying value of other real estate owned prior to remeasurement	**$ -**	$ -
Writedowns included in current earnings	**-**	-
Fair value of other real estate owned remeasured subsequent to initial recognition	**$ -**	$ -

Fair value of other real estate owned and repossessed assets is measured generally annually or more often as warranted by market and economic conditions. Fair values were based on third party appraisals less costs to sell, however, based on current economic conditions, comparative sales data typically used in the appraisals may be unavailable or more subjective due to the lack of real estate market activity.

For the Credit Union, as for most financial institutions, substantially all of its assets and liabilities are considered financial instruments, as defined. Many of the Credit Union's financial instruments, however, lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction.

12. Significant Group Concentrations of Credit Risk

The Credit Union grants consumer, commercial, and residential and commercial real estate loans to its customers and is exposed to credit risk from a regional standpoint because significant concentrations of its borrowers work or reside within a geographical field of membership. Although the Credit Union has a diversified loan portfolio, a significant portion of the loans are collateralized by real estate and automobiles. The Credit Union's loan portfolio, as well as existing commitments, reflect the diversity of its primary market area, however, a substantial portion of its debtors' ability to honor their contracts is dependent upon the economic stability of the area.

The Credit Union has a concentration of funds on deposit at Catalyst Corporate Federal Credit Union of approximately $18,418,000 and $15,621,000 at December 31, 2017 and 2016, respectively. In addition, the Credit Union has a concentration of funds on deposit at Fifth Third Bank of approximately $9,687,000 and $8,536,000 at December 31, 2017 and 2016, respectively. Management regularly evaluates the credit risk associated with the counterparties to these transactions and believes that the Credit Union is not exposed to any significant credit risks on cash and cash equivalents.

13. Related Party Transactions

During the normal course of business, the Credit Union may enter into transactions with certain directors and principal officers and their affiliates. It is the Credit Union's policy that all such transactions are on substantially the same terms as those prevailing at the time for comparable transactions with third parties. At December 31, 2017 and 2016, there were loans of approximately $1,554,000 and $1,655,000, respectively, outstanding with related parties. During 2017, new loans of approximately $328,000 were funded and repayments of loans were approximately $429,000. There were no related party unfunded commitments as of December 31, 2017.

Deposits received from related parties as of December 31, 2017 and 2016, totaled approximately $415,000 and $560,000, respectively.

14. Members' Equity and Regulatory Matters

Regulatory Matters

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance sheet items as calculated under GAAP, regulatory reporting requirements and regulatory capital standards.

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the following table) of net worth to total assets (as defined). Credit unions are also required to calculate a "Risk-Based Net Worth Requirement" ("RBNWR") which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR ratio as of December 31, 2017, was 5.06%. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes, as of December 31, 2017 and 2016, that the Credit Union meets all capital adequacy requirements to which it is subject.

14. Members' Equity and Regulatory Matters – continued

As of December 31, 2017, the most recent Call Reporting period, the NCUA categorized the Credit Union as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized" the Credit Union must maintain a minimum net worth ratio of 7% of assets. There are no conditions or events since December 31, 2017, that management believes have changed the institution's category.

The Credit Union's actual capital amounts and ratios are presented in the following table (in thousands):

	Actual			To Be Adequately Capitalized Under Prompt Corrective Action Provisions			To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio		Amount		Ratio		Amount		Ratio
As of December 31, 2017:										
Net worth	**$ 46,901,119**	**9.85%**	≥	**$ 28,576,468**	≥	**6.0%**	≥	**$ 33,339,212**	≥	**7.0%**
Risk-Based Net Worth requirement	**$ 24,099,488**	**5.06%**	≥	NA		NA		NA		NA
As of December 31, 2016:										
Net worth	$ 43,812,321	9.68%	≥	$ 27,149,880	≥	6.0%	≥	$ 31,674,860	≥	7.0%
Risk-Based Net Worth requirement	$ 22,715,400	5.02%	≥	NA		NA		NA		NA