United Federal Credit Union

Consolidated Financial Report
with Additional Information
December 31, 2017

Contents

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Independent Auditor's Report

To the Board of Directors
United Federal Credit Union

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of United Federal Credit Union (the "Credit Union"), which comprise the consolidated statement of financial condition as of December 31, 2017 and 2016 and the related consolidated statements of income, comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

To the Board of Directors
United Federal Credit Union

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2018 on our consideration of United Federal Credit Union's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering United Federal Credit Union's internal control over financial reporting and compliance.

Plante & Moran, PLLC

February 5, 2018

Consolidated Statement of Financial Condition

December 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	$ 40,706,720	$ 36,791,014
Time deposits with other financial institutions	-	148,000
Investment securities - Available for sale (Note 3)	75,072,217	79,818,669
Loans to members - Net (Note 4)	2,343,466,063	2,002,811,614
NCUSIF deposit	15,123,086	13,178,689
FHLB stock	24,260,000	19,312,700
Corporate capital	600,000	600,000
Premises and equipment - Net (Note 5)	89,076,148	88,100,152
Accrued interest receivable	7,953,218	6,514,849
Other assets	6,412,466	5,021,769
Total assets	**$ 2,602,669,918**	**$ 2,252,297,456**
Liabilities and Members' Equity		
Liabilities		
Members' shares and savings accounts (Note 6)	$ 1,757,488,364	$ 1,559,330,666
Nonmember certificates (Note 6)	68,564,000	19,065,000
Borrowed funds (Note 8)	499,100,000	425,114,000
Accrued interest payable	1,737,336	1,089,965
Accrued and other liabilities	25,597,344	21,555,391
Total liabilities	2,352,487,044	2,026,155,022
Members' Equity	250,182,874	226,142,434
Total liabilities and members' equity	**$ 2,602,669,918**	**$ 2,252,297,456**

See notes to consolidated financial statements.

Consolidated Statement of Income

Years Ended December 31, 2017 and 2016

	2017	2016
Interest Income		
Loans	$ 114,895,105	$ 98,058,598
Investment securities	2,383,126	2,048,306
Total interest income	117,278,231	100,106,904
Interest Expense		
Member and nonmember deposits	11,900,460	9,297,667
Borrowed funds and lines of credit	8,158,639	6,198,016
Total interest expense	20,059,099	15,495,683
Net Interest Income	97,219,132	84,611,221
Provision for Loan Losses (Note 4)	20,854,576	13,876,820
Net Interest Income After Provision for Loan Losses	76,364,556	70,734,401
Noninterest Income		
Fees and charges	24,415,181	23,062,513
Insurance commissions	2,309,203	1,984,729
Other	4,190,156	1,721,637
Total noninterest income	30,914,540	26,768,879
Noninterest Expense		
Compensation and benefits	46,398,745	44,458,562
Occupancy	6,285,528	5,762,760
Operating expenses	28,952,576	27,267,540
Other	1,016,512	895,816
Total noninterest expense	82,653,361	78,384,678
Net Income	**$ 24,625,735**	**$ 19,118,602**

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Years Ended December 31, 2017 and 2016

	2017	2016
Net Income	$ 24,625,735	$ 19,118,602
Other Comprehensive Loss - Unrealized loss on securities - Arising during the year	(585,295)	(11,022)
Comprehensive Income	**$ 24,040,440**	**$ 19,107,580**

Consolidated Statement of Members' Equity

Years Ended December 31, 2017 and 2016

	Appropriated	Unappropriated	Accumulated Other Comprehensive Loss	Total
Balance - January 1, 2016	$ 22,892,415	$ 184,437,413	$ (294,974)	$ 207,034,854
Comprehensive income:				
Net income	-	19,118,602	-	19,118,602
Unrealized loss on securities	-	-	(11,022)	(11,022)
Balance - December 31, 2016	22,892,415	203,556,015	(305,996)	226,142,434
Comprehensive income:				
Net income	-	24,625,735	-	24,625,735
Unrealized loss on securities	-	-	(585,295)	(585,295)
Balance - December 31, 2017	**$ 22,892,415**	**$ 228,181,750**	**$ (891,291)**	**$ 250,182,874**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Net income	$ 24,625,735	$ 19,118,602
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	6,971,770	7,014,371
Provision for loan losses	20,854,576	13,876,820
Amortization of securities	498,750	784,319
Loss on sale of premises and equipment	50,923	183,003
Net change in:		
Other assets	(1,390,697)	1,767,110
Accrued and other liabilities	4,041,953	2,361,979
Accrued interest receivable	(1,438,369)	(539,609)
Accrued interest payable	647,371	190,000
Net cash provided by operating activities	54,862,012	44,756,595
Cash Flows from Investing Activities		
Maturities of time deposits with other financial institutions	148,000	-
Activity in available-for-sale securities:		
Maturities and principal paydowns	43,026,934	40,493,697
Purchases	(39,364,527)	(9,590,976)
Net increase in loans to members	(361,509,025)	(287,163,427)
Additions to premises and equipment	(8,006,231)	(12,986,752)
Increase in NCUSIF deposit	(1,944,397)	(1,246,501)
Purchases of FHLB stock	(4,947,300)	(1,622,700)
Proceeds from sale of premises and equipment	7,542	39,040
Net cash used in investing activities	(372,589,004)	(272,077,619)
Cash Flows from Financing Activities		
Net increase in members' shares and savings accounts	198,157,698	154,573,744
Net increase in nonmember certificates	49,499,000	13,799,000
Proceeds from FHLB advances	200,100,000	176,114,000
Repayments of FHLB advances	(126,114,000)	(127,000,000)
Net cash provided by financing activities	321,642,698	217,486,744
Net Increase (Decrease) in Cash and Cash Equivalents	3,915,706	(9,834,280)
Cash and Cash Equivalents - Beginning of year	36,791,014	46,625,294
Cash and Cash Equivalents - End of year	**$ 40,706,720**	**$ 36,791,014**
Supplemental Cash Flow Information - Cash paid for interest	$ 19,411,728	$ 15,305,683

See notes to consolidated financial statements.

Note 1 - Nature of Business

United Federal Credit Union (the "Credit Union") is a nonprofit financial cooperative operating in Michigan, Ohio, Arkansas, North Carolina, Nevada, and Indiana. The Credit Union's primary source of revenue is interest income resulting from loans made to its members, many of whom live and work in southwestern Michigan, as well as fees and charges related to loan and deposit accounts of members.

Note 2 - Significant Accounting Policies

Principles of Consolidation

During 2010, the Credit Union formed United Holdings, LLC, a 100 percent-owned subsidiary, and United Diamond Insurance Agency, LLC (UDIA), a credit union service organization that provides insurance brokerage services to credit union members. UDIA is 100 percent owned by United Holdings, LLC. The consolidated financial statements include the amounts of United Federal Credit Union, United Holdings, LLC, and UDIA, which are collectively referred to as the "Credit Union" throughout the report. All material intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the fair value of investments. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash on hand, balances due from other financial institutions, and interest-bearing deposits with other financial institutions which mature with original maturities of 90 days or less.

Time Deposits with Other Financial Institutions

Time deposits with other financial institutions consist of certificates of deposit with contractual maturities of 72 months or less.

Investment Securities

Investment securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and are recorded at fair value with unrealized gains and losses reported in other comprehensive income (loss), as a separate component of members' equity, in the consolidated statement of comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Note 2 - Significant Accounting Policies (Continued)

Loans to Members

The Credit Union grants mortgage, commercial, and consumer loans to members. A substantial portion of the loan portfolio is represented by mortgage loans throughout the Midwest. The ability of the Credit Union's members to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that the Credit Union has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. Any interest payments received on nonaccrual loans are accounted for as a reduction to the unpaid principal balance of the nonaccrual loan for financial reporting purposes. If a loan is returned to accrual, the interest payments previously received continue to be reported as a reduction of the unpaid principal balance until the loan is paid off, at which time the interest payments are recognized in interest income.

Allowance for Loan Losses

The allowance for loan losses (the "allowance") is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower including length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, the Credit Union does not separately identify individual consumer and residential loans for impairment disclosures unless they are considered troubled debt restructurings.

Note 2 - Significant Accounting Policies (Continued)

A troubled debt restructuring of a loan is undertaken to improve the likelihood that the loan will be repaid in full under the modified terms in accordance with a reasonable repayment schedule and is classified as impaired. All modified loans are evaluated to determine whether the loan should be reported as a troubled debt restructuring (TDR). A loan is a TDR when the Credit Union, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower by modifying or renewing a loan under terms that the Credit Union would not otherwise consider. To make this determination, the Credit Union must determine whether (a) the borrower is experiencing financial difficulties and (b) the Credit Union granted the borrower a concession. This determination requires consideration of all of the facts and circumstances surrounding the modification. An overall general decline in the economy or some level of deterioration in a borrower's financial condition does not inherently mean the borrower is experiencing financial difficulties.

Some of the factors considered by management when determining whether a borrower is experiencing financial difficulties are: (1) is the borrower currently in default on any of its debts, (2) has the borrower declared or is the borrower in the process of declaring bankruptcy, and (3) absent the current modification, the borrower would likely default.

NCUSIF Deposit

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with the NCUA regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to 1 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.

NCUSIF Insurance Premium

A credit union is required to pay an annual insurance premium equal to one-twelfth of 1 percent of its total insured shares, unless the payment is waived or reduced by the NCUA board. The NCUA board waived the 2017 and 2016 insurance premiums.

Federal Home Loan Bank Stock

The Credit Union, as a member of the Federal Home Loan Bank (FHLB), is required to maintain an investment in the capital stock of the FHLB. No ready market exists for the stock and it has no quoted market value. The stock is redeemable at par by the FHLB and is, therefore, carried at cost and periodically evaluated for impairment. The stock is redeemable only upon five years' notice to the FHLB.

Corporate Capital

The Credit Union contributed funds to Alloya Corporate Federal Credit Union (Alloya) Perpetual Contributed Capital (PCC). PCC is a perpetual, noncumulative dividend investment in the capital of Alloya, available to cover losses that exceed retained earnings. PCC is not insured by the NCUSIF or by any other share or deposit insurer and is not subject to redemption upon request. As of December 31, 2017 and 2016, the ending balance in the PCC account was $600,000. The Credit Union reviews this asset for impairment. There was no impairment recognized as of December 31, 2017 and 2016.

Premises and Equipment

Land is carried at cost. Land improvements, buildings, building improvements, furniture, fixtures, and data processing equipment are carried at cost, less accumulated depreciation, computed on the straight-line method over the estimated useful lives of the assets. The useful lives range from 13 months to 50 years. Costs of maintenance and repairs are charged to expense when incurred.

Note 2 - Significant Accounting Policies (Continued)

Members' Shares and Savings Accounts

Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' shares and savings accounts is based on the available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on members' share accounts are set by the board of directors, based on evaluation of current and future market conditions.

Nonmember Certificates

The Credit Union offers certificates of deposit to qualifying nonmembers of the Credit Union. These certificates also remain subordinated to all other liabilities of the Credit Union upon liquidation. Interest is paid at the stated amounts. These certificates range in maturity from one to five years.

Members' Equity

The Credit Union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of members' equity, is not available for the payment of interest.

Income Taxes

The Credit Union is exempt, by statute, from federal and state income taxes.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including February 5, 2018, which is the date the consolidated financial statements were available to be issued.

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Credit Union's year ending December 31, 2019. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Credit Union has not yet determined which application method it will use. The Credit Union is in the process of evaluating the impact of the new standard on the consolidated financial statements.

Note 2 - Significant Accounting Policies (Continued)

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU covers various changes to the accounting, measurement, and disclosures related to certain financial instruments, including requiring equity investments to be accounted for at fair value with changes recorded through earnings, the use of the exit price when measuring fair value, and disaggregation of financial assets and liabilities by category for disclosure purposes. The new guidance will be effective for the Credit Union's year ending December 31, 2019. Early adoption is permitted as early as periods ending after December 31, 2017 with some additional options for early application such as the elimination of the requirement for nonpublic business entities to disclose the methods and significant assumptions used to estimate the disclosed fair value of financial instruments. The Credit Union adopted the provision by which it eliminated the disclosure of fair value of its financial instruments in the year ended December 31, 2015 consolidated financial statements and continued in these consolidated financial statements. The Credit Union does not believe adopting the remaining provisions of ASU No. 2016-01 in the future will have a material impact on the consolidated financial statements. The Credit Union has not yet quantified the impact of the change.

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Credit Union's year ending December 31, 2020 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have an effect on the Credit Union’s consolidated financial statements as a result of the leases for branch and office locations classified as operating leases. The effect of applying the new lease guidance on the consolidated financial statements has not yet been determined. The effects on the results of operations are not expected to be significant as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes increased disclosures and various changes to the accounting and measurement of financial assets, including the Credit Union’s loans and available-for-sale and held-to-maturity debt securities. Each financial asset presented on the balance sheet would have a unique allowance for credit losses valuation account that is deducted from the amortized cost basis to present the net carrying value at the amount expected to be collected on the financial asset. The amendments in this ASU also eliminate the probable initial recognition threshold in current GAAP and, instead, reflect an entity’s current estimate of all expected credit losses using reasonable and supportable forecasts. The new credit loss guidance will be effective for the Credit Union's year ending December 31, 2021. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the first reporting period in which the guidance is effective. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. Early adoption for all institutions is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Credit Union is still quantifying the impact of the new standard.

Note 3 - Investment Securities

The details of the Credit Union's investments in debt and equity securities at December 31 are as follows:

	2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Available for sale:				
Mortgage-backed securities	$ 37,466,779	$ 78,104	$ (420,172)	$ 37,124,711
Municipal bonds	9,668,457	-	(40,520)	9,627,937
Collateralized mortgage obligations	24,541,401	610	(475,182)	24,066,829
Mutual funds	542,468	-	(29,368)	513,100
Corporate bonds	504,403	-	(3,922)	500,481
Negotiable certificates of deposit	3,240,000	-	(841)	3,239,159
Total	$ 75,963,508	$ 78,714	$ (970,005)	$ 75,072,217

	2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
U.S. government and federal agency securities	$ 13,526,395	$ 5,450	$ (2,038)	$ 13,529,807
Mortgage-backed securities	25,461,177	153,381	(124,311)	25,490,247
Municipal bonds	21,966,720	25,097	(25,192)	21,966,625
Collateralized mortgage obligations	17,387,905	9,261	(324,926)	17,072,240
Mutual funds	542,468	-	(18,325)	524,143
Negotiable certificates of deposit	1,240,000	-	(4,393)	1,235,607
Total	$ 80,124,665	$ 193,189	$ (499,185)	$ 79,818,669

At December 31, 2017, municipal bonds and select mortgage-backed securities with an estimated market value of $19,309,000 were pledged to secure an available line of credit, as described in Note 7. Also, federal agency securities, corporate bonds, and mortgage-backed securities with an estimated market value of $7,512,000 were pledged to secure specific municipal deposits.

Note 3 - Investment Securities (Continued)

The amortized cost and fair value of investment securities by contractual maturity at December 31, 2017 are as follows:

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 6,608,457	$ 6,605,752
Due in one through five years	6,804,403	6,761,825
Total	13,412,860	13,367,577
Mortgage-backed securities	37,466,779	37,124,711
Collateralized mortgage obligations	24,541,401	24,066,829
Mutual funds	542,468	513,100
Total	$ 75,963,508	$ 75,072,217

Expected maturities will differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

Information pertaining to investment securities with gross unrealized losses at December 31, 2017 and 2016, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

	2017					
	Less than 12 Months		12 Months or Greater		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available for sale:						
Mortgage-backed securities	$ 271,778	$ 22,182,168	$ 148,394	$ 7,172,746	$ 420,172	$ 29,354,914
Municipal bonds	22,149	5,646,307	18,371	1,481,630	40,520	7,127,937
Collateralized mortgage obligations	150,171	14,484,858	325,011	9,054,242	475,182	23,539,100
Mutual funds	29,368	513,100	-	-	29,368	513,100
Corporate bonds	3,922	500,481	-	-	3,922	500,481
Negotiable certificates of deposit	70	247,930	771	991,229	841	1,239,159
Total	$ 477,458	$ 43,574,844	$ 492,547	$ 18,699,847	$ 970,005	$ 62,274,691

Note 3 - Investment Securities (Continued)

	2016					
	Less than 12 Months		12 Months or Greater		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available for sale:						
U.S. government and federal agency securities	$ 2,038	$ 4,503,473	$ -	$ -	$ 2,038	$ 4,503,473
Mortgage-backed securities	124,165	12,940,589	146	14,365	124,311	12,954,954
Municipal bonds	25,192	9,636,466	-	-	25,192	9,636,466
Collateralized mortgage obligations	46,478	6,784,940	278,448	9,240,690	324,926	16,025,630
Mutual funds	18,325	524,143	-	-	18,325	524,143
Negotiable certificates of deposit	2,138	741,862	2,255	493,745	4,393	1,235,607
Total	$ 218,336	$ 35,131,473	$ 280,849	$ 9,748,800	$ 499,185	$ 44,880,273

Unrealized losses on investment securities have not been recognized into income because the issuers' bonds are of high-credit quality, the Credit Union has the intent and ability to hold the securities for the foreseeable future, and the declines in fair value are primarily due to increased market interest rates and market volatility. The fair values are expected to recover as the bonds approach their maturity dates. There are 57 and 42 investment securities in an unrealized loss position at December 31, 2017 and 2016, respectively.

Note 4 - Loans and Allowance for Loan Losses

A summary of the balances of loans follows:

	2017	2016
Residential real estate loans	$ 928,785,348	$ 863,275,718
Commercial loans	351,590,705	249,274,729
Consumer loans	1,070,739,154	897,339,455
Total loans	2,351,115,207	2,009,889,902
Less allowance for loan losses	23,933,569	19,002,624
Plus direct loan origination costs capitalized	16,284,425	11,924,336
Net loans	$ 2,343,466,063	$ 2,002,811,614

In the ordinary course of business, the Credit Union has granted loans to principal officers and directors and their affiliates amounting to $5,087,000 and $4,693,000 as of December 31, 2017 and 2016, respectively.

The allowance for loan losses is maintained by the Credit Union at a level considered to be adequate to cover probable credit losses inherent in the loan portfolio. The amount of the provision for loan losses charged to operating expenses is the amount necessary, in the estimation of the Credit Union, to maintain the allowance for loan losses at an adequate level. While the Credit Union's periodic analysis of the allowance for loan losses may dictate that portions of the allowance be allocated to specific impaired loans, the entire amount is available for any loan charge-offs that may occur. Loan losses are charged off against the allowance when the Credit Union believes that the full collectibility of the loan is unlikely. Recoveries of amounts previously charged off are credited to the allowance.

Note 4 - Loans and Allowance for Loan Losses (Continued)

The allowance is comprised of a general allowance and a specific allowance for impaired loans. The general allowance is determined by applying estimated loss factors to the credit exposures for outstanding loans. For commercial, residential real estate, and consumer loans, loss factors are applied on a portfolio basis. Loss factors are based on the Credit Union's historical loss experience and are reviewed for appropriateness on a monthly basis, along with other factors affecting the collectibility of the loan portfolio. These other factors include but are not limited to significant change in the level of the impaired loans or past-due loans, change in the level or trends of charge-offs and recoveries, significant change in lending policies and practices, change in lending personnel, change in national or local economic conditions, and change in credit concentrations within the loan portfolio. Specific allowances are established for all impaired loans based on the estimated fair value of the collateral, less any selling costs, if the loan is collateral dependent.

The Credit Union's activity in the allowance for loan losses for the December 31, 2017 and 2016, by loan segment, is summarized below:

	Year Ended December 31, 2017			
	Residential Real Estate Loans	Commercial Loans	Consumer Loans	Total
Beginning balance	$ 1,508,538	$ 2,622,870	$ 14,871,216	$ 19,002,624
Charge-offs	(368,228)	(37,851)	(18,159,202)	(18,565,281)
Recoveries	230,397	1,617	2,409,636	2,641,650
Provision	246,420	706,541	19,901,615	20,854,576
Ending balance	$ 1,617,127	$ 3,293,177	$ 19,023,265	$ 23,933,569
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$ 527,822	$ 1,523,024	$ 93,901	$ 2,144,747
Collectively evaluated for impairment	1,089,305	1,770,153	18,929,364	21,788,822
Ending allowance balance	$ 1,617,127	$ 3,293,177	$ 19,023,265	$ 23,933,569
Loans:				
Individually evaluated for impairment	$ 4,041,453	$ 8,483,922	$ 155,409	$ 12,680,784
Collectively evaluated for impairment	924,743,895	343,106,783	1,070,583,745	2,338,434,423
Total loans	$ 928,785,348	$ 351,590,705	$ 1,070,739,154	$ 2,351,115,207

Note 4 - Loans and Allowance for Loan Losses (Continued)

	Year Ended December 31, 2016			
	Residential Real Estate Loans	Commercial Loans	Consumer Loans	Total
Beginning balance	$ 2,213,640	$ 2,298,675	$ 13,114,238	$ 17,626,553
Charge-offs	(258,436)	(18,907)	(14,635,717)	(14,913,060)
Recoveries	110,289	4,556	2,297,466	2,412,311
Provision	(556,955)	338,546	14,095,229	13,876,820
Ending balance	$ 1,508,538	$ 2,622,870	$ 14,871,216	$ 19,002,624
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$ 498,803	$ 1,332,242	$ 94,069	$ 1,925,114
Collectively evaluated for impairment	1,009,735	1,290,628	14,777,147	17,077,510
Ending allowance balance	$ 1,508,538	$ 2,622,870	$ 14,871,216	$ 19,002,624
Loans:				
Individually evaluated for impairment	$ 3,624,678	$ 5,847,368	$ 177,537	$ 9,649,583
Collectively evaluated for impairment	859,651,040	243,427,361	897,161,918	2,000,240,319
Total loans	$ 863,275,718	$ 249,274,729	$ 897,339,455	$ 2,009,889,902

Credit Risk Grading

The Credit Union categorized the commercial loan portfolio into credit risk categories based on current financial information, overall debt service coverage, comparison against industry averages, collateral coverage, historical payment experience, and current economic trends. The Credit Union uses the following definitions for credit risk ratings:

Pass

Credits not covered by the following definitions are pass credits, which are not considered to be adversely rated.

Special Mention

Loans classified as special mention, or watch credits, have a potential weakness or weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard

Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution may sustain some loss if the deficiencies are not corrected.

Note 4 - Loans and Allowance for Loan Losses (Continued)

Doubtful

Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss

Loans classified as loss are deemed incapable of repayment of unsecured debt. Loans so classified are considered uncollectible and of such little value that continuance as active assets of the Credit Union is not warranted.

The Credit Union's credit quality indicators, by loan segment and class, at December 31, 2017 and 2016 are summarized below:

	December 31, 2017					
	Pass	Special Mention	Substandard	Doubtful	Loss	Ending Balance
Commercial loans:						
Real estate	$ 259,568,580	$ 20,945,890	$ 6,228,898	$ 320,567	$ -	$ 287,063,935
Credit cards	1,461,583	14,138	-	-	-	1,475,721
Other	59,255,660	1,860,932	1,648,836	285,621	-	63,051,049
Total	$ 320,285,823	$ 22,820,960	$ 7,877,734	$ 606,188	$ -	$ 351,590,705

	December 31, 2016					
	Pass	Special Mention	Substandard	Doubtful	Loss	Ending Balance
Commercial loans:						
Real estate	$ 188,909,901	$ 21,942,982	$ 3,706,661	$ 765,216	$ -	$ 215,324,760
Credit cards	956,757	15,645	-	-	-	972,402
Other	29,642,564	1,959,512	1,358,737	16,754	-	32,977,567
Total	$ 219,509,222	$ 23,918,139	$ 5,065,398	$ 781,970	$ -	$ 249,274,729

Note 4 - Loans and Allowance for Loan Losses (Continued)

Age Analysis of Past-due Loans

The Credit Union's age analysis of past-due loans at December 31, 2017 and 2016, by loan segment and class, is summarized below:

	December 31, 2017						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Residential real estate loans:							
First mortgages	$ 289,518	$ -	$ 2,610,773	$ 2,900,291	$ 773,055,568	$ 775,955,859	$ -
Equity lines of credit	951,475	67,750	832,654	1,851,879	150,977,610	152,829,489	-
Total residential real estate loans	1,240,993	67,750	3,443,427	4,752,170	924,033,178	928,785,348	-
Commercial loans:							
Real estate	817,623	369,270	3,235,436	4,422,329	282,641,606	287,063,935	-
Credit cards	-	-	-	-	1,475,721	1,475,721	-
Other	1,354,639	200,000	650,956	2,205,595	60,845,454	63,051,049	-
Total commercial loans	2,172,262	569,270	3,886,392	6,627,924	344,962,781	351,590,705	-
Consumer loans:							
Installments	4,519,399	815,399	1,812,787	7,147,585	330,228,376	337,375,961	-
Indirect	15,277,034	3,833,682	4,871,165	23,981,881	630,670,311	654,652,192	-
Courtesy pay	58,991	-	-	58,991	562,223	621,214	-
Credit cards	473,228	422,046	80,791	976,065	77,113,722	78,089,787	80,791
Total consumer loans	20,328,652	5,071,127	6,764,743	32,164,522	1,038,574,632	1,070,739,154	80,791
Total	$23,741,907	$ 5,708,147	$14,094,562	$43,544,616	$ 2,307,570,591	$ 2,351,115,207	$ 80,791

Note 4 - Loans and Allowance for Loan Losses (Continued)

	December 31, 2016						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Residential real estate loans:							
First mortgages	$ 707,908	$ -	$ 1,614,100	$ 2,322,008	$ 723,052,961	$ 725,374,969	$ -
Equity lines of credit	887,214	147,620	187,578	1,222,412	136,678,337	137,900,749	-
Total residential real estate loans	1,595,122	147,620	1,801,678	3,544,420	859,731,298	863,275,718	-
Commercial loans:							
Real estate	1,302,588	122,547	579,581	2,004,716	213,320,043	215,324,759	-
Credit cards	-	-	-	-	972,403	972,403	-
Other	8,777	74,985	64,040	147,802	32,829,765	32,977,567	-
Total commercial loans	1,311,365	197,532	643,621	2,152,518	247,122,211	249,274,729	-
Consumer loans:							
Installments	2,983,893	689,891	1,539,731	5,213,515	311,605,090	316,818,605	-
Indirect	10,547,233	2,600,598	4,673,146	17,820,977	486,571,959	504,392,936	-
Courtesy pay	130,106	46,102	-	176,208	399,251	575,459	-
Credit cards	456,770	333,869	244,714	1,035,353	74,517,102	75,552,455	244,714
Total consumer loans	14,118,002	3,670,460	6,457,591	24,246,053	873,093,402	897,339,455	244,714
Total	$17,024,489	$ 4,015,612	$ 8,902,890	$29,942,991	$ 1,979,946,911	$ 2,009,889,902	$ 244,714

Note 4 - Loans and Allowance for Loan Losses (Continued)

Impaired Loans

Impaired loans, by loan segment and class, were as follows at December 31, 2017 and 2016:

	As of and for the Year Ended December 31, 2017				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment for the Year	Interest Income Recognized for the Year
With an allowance recorded:					
Residential real estate loans:					
First mortgages	$ 3,504,008	$ 3,504,008	$ 444,653	$ 3,021,201	$ 167,910
Equity lines of credit	537,445	537,445	83,169	532,352	36,277
Commercial loans:					
Real estate	6,549,465	6,549,465	1,166,319	4,963,548	4,045
Other	1,934,457	1,934,457	356,705	1,934,663	69,784
Consumer loans - Installments	155,409	155,409	93,901	159,687	8,635
Total	$ 12,680,784	$ 12,680,784	$ 2,144,747	$ 10,611,451	$ 286,651

	As of and for the Year Ended December 31, 2016				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment for the Year	Interest Income Recognized for the Year
With an allowance recorded:					
Residential real estate loans:					
First mortgages	$ 3,147,460	$ 3,147,460	$ 381,015	$ 3,344,350	$ 154,011
Equity lines of credit	477,218	477,218	117,788	502,117	36,373
Commercial loans:					
Real estate	4,471,877	4,471,877	1,146,971	4,485,938	4,051
Commercial and industrial	1,375,491	1,375,491	185,271	1,181,164	76,492
Consumer loans - Installments	177,537	177,537	94,069	257,409	9,760
Total	$ 9,649,583	$ 9,649,583	$ 1,925,114	$ 9,770,978	$ 280,687

For the purpose of the disclosure above, recorded investment represents the borrower's unpaid principal balance less partial charge-offs to date.

No additional funds are committed to be advanced in connection with impaired loans at December 31, 2017 and 2016.

Note 4 - Loans and Allowance for Loan Losses (Continued)

Nonaccrual Loans

The accrual of interest on loans is discontinued at the time of the loan is 90 days delinquent unless the credit is well-secured and in the process of collection, not to exceed 180 days. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

The Credit Union's loans on nonaccrual status at December 31, 2017 and 2016, by loan segment and class, are summarized below:

	2017	2016
Residential real estate loans:		
First mortgages	$ 2,610,773	$ 1,614,100
Equity lines of credit	832,654	187,578
Commercial loans:		
Real estate	3,235,436	579,581
Other	650,956	64,040
Consumer loans:		
Indirect	4,871,165	4,673,146
Installments	1,812,787	1,539,731
Total	$ 14,013,771	$ 8,658,176

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cost recovery method or cash basis method, until qualifying for return to 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.

If interest on nonaccrual loans had been accrued at their original rates, such accrued income would have approximated $595,000 and $351,000 for the years ended December 31, 2017 and 2016, respectively.

Troubled Debt Restructurings

A modification of a loan constitutes a troubled debt restructuring (TDR) when a borrower is experiencing financial difficulty and the modification constitutes a concession. The Credit Union offers various types of concessions when modifying a loan; however, forgiveness of principal is rarely granted. Loans modified in a TDR often involve temporary interest-only payments and term extensions.

Loans modified in a TDR may be in accrual status, nonaccrual status, partial charge-offs, not delinquent, delinquent, or any combination of these criteria. As a result, loans modified in a TDR for the Credit Union may have the financial effect of increasing the specific allowance associated with individual loans. An allowance for impaired consumer and commercial loans that have been modified in a TDR is measured based either on the present value of expected cash flows discounted at the loan's original effective interest rate, or the estimated fair value of the collateral, less any selling costs, if the loan is collateral dependent. Management exercises significant judgment in developing these estimates.

Note 4 - Loans and Allowance for Loan Losses (Continued)

The following table presents information related to loans modified in a TDR during the years ended December 31, 2017 and 2016:

	2017			2016		
	Number of Contracts	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment	Number of Contracts	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Residential real estate loans	54	$ 4,429,926	$ 4,041,453	46	$ 3,948,027	$ 3,624,678
Consumer loans	5	215,874	155,409	5	233,186	177,537
Total	59	$ 4,645,800	$ 4,196,862	51	$ 4,181,213	$ 3,802,215

There were no loans modified as troubled debt restructurings within the previous 12 months that became 30 days or more past due during the years ended December 31, 2017 and 2016.

Note 5 - Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment follows:

	2017	2016
Land	$ 18,833,618	$ 16,904,849
Buildings and building improvements	67,385,553	65,125,443
Furniture, fixtures, and equipment	10,284,416	10,151,199
Data processing	27,386,553	26,613,357
Construction in progress	4,329,265	2,737,368
Total cost	128,219,405	121,532,216
Accumulated depreciation	(39,143,257)	(33,432,064)
Net premises and equipment	$ 89,076,148	$ 88,100,152

The Credit Union also leases some branch and office space with contracts requiring approximately $3,150,000 in future lease commitments. These leases have been determined to be operating leases and are, therefore, not included in the premises and equipment figures noted above.

At December 31, 2017, the Credit Union had commitments for construction contracts totaling approximately $6,180,000.

Note 6 - Member and Nonmember Deposits

The Credit Union has approximately $159,000,000 and $128,000,000 in noninterest-bearing deposits at December 31, 2017 and 2016, respectively.

The uninsured amount of deposits at December 31, 2017 and 2016 was $205,224,117 and $214,070,769, respectively.

Note 6 - Member and Nonmember Deposits (Continued)

At December 31, 2017, scheduled maturities of share certificates and nonmember certificates are as follows:

Years Ending	Amount
2018	$ 277,828,190
2019	134,777,355
2020	117,599,441
2021	78,146,954
2022	73,715,121
Total	$ 682,067,061

Note 7 - Lines of Credit

The Credit Union has an available line of credit with Alloya Corporate Federal Credit Union totaling $75,000,000. The effective rate of interest on the line of credit was 2.31 and 1.75 percent at December 31, 2017 and 2016, respectively. The line of credit is collateralized by substantially all assets, not including real estate loans, and is due on demand. There was no amount outstanding on the line of credit at December 31, 2017 and 2016.

The Credit Union has an available line of credit with Federal Home Loan Bank (FHLB) totaling $15,000,000. The line of credit is collateralized by a blanket collateral agreement in the amount of $15,000,000, has a variable interest rate, and is due on demand. The effective rate of interest on the line of credit was 1.67 and 0.90 percent at December 31, 2017 and 2016, respectively. There was no amount outstanding on the line of credit at December 31, 2017 and 2016.

The Credit Union entered into an available line of credit with the Federal Reserve Bank of Chicago during 2014, as part of regulatory requirements, referred to as the Discount Window. The line of credit is collateralized by municipal bonds and select mortgage backed securities held as available for sale and allows for borrowing up to 98 percent of their fair market value. As of December 31, 2017, the fair value of these securities was $15,746,204 and the available credit was $15,431,683. As of December 31, 2016, the fair value of these securities was $21,966,626 and the available credit was $21,526,241. The effective rate of interest on the line of credit was 2.00 and 1.25 percent at December 31, 2017 and 2016, respectively. There was no amount outstanding on the line of credit at December 31, 2017 and 2016.

Note 8 - Borrowings

The Credit Union may apply for advances from the Federal Home Loan Bank (FHLB) in accordance with the terms of an advance, pledge, and security agreement date November 19, 2013. Pursuant to the terms of the agreement, advances are collateralized by a blanket collateral agreement. Advances shall be made for the purpose of providing funds for commercial or residential home financing. The Credit Union may borrow up to $585,000,000 under this agreement as approved by the board of directors.

The Credit Union had 79 and 76 advances outstanding from the Federal Home Loan Bank (FHLB) totaling approximately $499,100,000 and $425,114,000 at December 31, 2017 and 2016, respectively. The advances require monthly interest payments based on the rate at the time each advance was taken. The interest rates range from 0.90 to 2.97, with a combined effective interest rate of 1.80 percent and 1.38 percent at December 31, 2017 and 2016, respectively. The advances are collateralized by approximately $587,000,000 of qualifying commercial and residential real estate mortgages as of December 31, 2017, under a blanket collateral agreement. The advances are subject to prepayment penalties and the provisions and conditions of the credit policy of the FHLB.

Note 8 - Borrowings (Continued)

Future obligations of the advances are as follows at December 31, 2017:

Years Ending	Amount
2018	$ 217,000,000
2019	79,500,000
2020	70,500,000
2021	40,000,000
2022	62,100,000
Thereafter	30,000,000
Total	$ 499,100,000

Note 9 - Off-balance-sheet Activities

Credit-related Financial Instruments

The Credit Union is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members. These financial instruments include commitments to make loans and open-end revolving lines of credit to borrowers. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statement of financial condition.

The Credit Union's exposure to credit loss is represented by the contractual amount of these commitments. The Credit Union follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

Contract Amounts

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

	2017	2016
Revolving open-end lines secured by real estate	$ 238,814,648	$ 100,472,541
Credit card lines	207,681,529	193,982,472
Business loans	29,105,367	12,517,198
Share draft lines	23,907,053	17,530,215
Overdraft protection programs	78,430,857	74,480,344
Construction loans	18,561,966	14,279,914
Other	-	201,063

Commitments to extend credit are agreements to lend to a member 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. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Credit Union, is based on management's credit evaluation of the member.

Unfunded commitments under revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing members. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Credit Union is committed.

Note 10 - Contingencies

The Credit Union is a party to various legal actions normally associated with financial institutions, the aggregate effect of which, in management's and legal counsel's opinion, would not be material to the consolidated financial condition or results of operations of the Credit Union.

Note 11 - Minimum Regulatory Capital Requirements

The Credit Union is subject to various regulatory capital requirements administered by the National Credit Union Administration. 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 consolidated 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 its assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the following table) of net worth (as defined) 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 as of December 31, 2017 and 2016 was 5.42 percent and 5.49 percent, respectively. The minimum ratio to be considered complex under the regulatory framework is 6.00 percent, and management believes, as of December 31, 2017 and 2016, that the Credit Union met all capital adequacy requirements to which it is subject.

As of December 31, 2017, the most recent call reporting period, the Credit Union was categorized 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 7.00 percent of assets. There are no conditions or events since the notification that management believes have changed the Credit Union's category. The Credit Union's actual capital amounts and ratios as of December 31, 2017 and 2016 are also presented in the table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2017						
Net worth	$ 251,074,165	9.64 %	$ 156,160,000	6.00 %	$ 182,187,000	7.00 %
As of December 31, 2016						
Net worth	226,448,430	10.05	135,138,000	6.00	157,661,000	7.00

Because the RBNWR is less than the net worth ratio, the Credit Union retains its original category. Furthermore, in performing its calculation of total assets, the Credit Union used the quarter-end balance option, as permitted by regulation.

Note 12 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the consolidated financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Credit Union’s assets measured at fair value on a recurring basis at December 31, 2017 and 2016 and the valuation techniques used by the Credit Union to determine those fair values.

Note 12 - Fair Value Measurements (Continued)

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Credit Union has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management’s own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Credit Union’s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The Credit Union's policy is to recognize transfers into and transfers out of Level 1, 2, and 3 fair value classifications as of the actual date of the event change in circumstances that caused the transfer. During 2017 and 2016, there were no transfers between Levels 1, 2, or 3 in asset classes.

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2017
Assets				
Available-for-sale investment securities:				
Mortgage-backed securities	$ -	$ 37,124,711	$ -	$ 37,124,711
Municipal bonds	-	9,627,937	-	9,627,937
Collateralized mortgage obligations	-	24,066,829	-	24,066,829
Mutual funds	-	513,100	-	513,100
Negotiable certificates of deposit	-	3,239,159	-	3,239,159
Corporate bonds	-	500,481	-	500,481
Total assets	$ -	$ 75,072,217	$ -	$ 75,072,217

Note 12 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2016			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2016
Assets				
Available-for-sale investment securities:				
U.S. government and federal agency securities	$ -	$ 13,529,807	$ -	$ 13,529,807
Mortgage-backed securities	-	25,490,247	-	25,490,247
Municipal bonds	-	21,966,625	-	21,966,625
Collateralized mortgage obligations	-	17,072,240	-	17,072,240
Mutual funds	-	524,143	-	524,143
Negotiable certificates of deposit	-	1,235,607	-	1,235,607
Total assets	$ -	$ 79,818,669	$ -	$ 79,818,669

The following tables present information about the Credit Union's assets measured at fair value on a nonrecurring basis at December 31, 2017 and 2016 and the valuation techniques used by the Credit Union to determine those fair values.

	Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2017
Impaired loans with valuation reserves	$ -	$ -	$ 12,680,784	$ 12,680,784
Other real estate owned and other foreclosed assets	-	-	150,869	150,869

	Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2016			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2016
Impaired loans with valuation reserves	$ -	$ -	$ 9,649,583	$ 9,649,583
Other real estate owned and other foreclosed assets	-	-	113,516	113,516

Note 12 - Fair Value Measurements (Continued)

The fair value of impaired loans accounted for under ASC 310-10 is estimated using either discounted cash flows or collateral value. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2017 and 2016, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. In accordance with ASC 820-10, impaired loans occur when an allowance is established based on the fair value of collateral required classification in the fair value hierarchy. Impaired loans are categorized as Level 3 assets because the values are based on available collateral (typically based on outside appraisals) and customized discounting criteria, if deemed necessary. The change in fair value of impaired loans is accounted for in the allowance of loan losses (see Note 4).

Other real estate owned (OREO) acquired through or instead of loan foreclosure is initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Management considers third-party appraisals as well as independent fair market value assessments from realtors or persons involved in selling OREO when determining the fair value of particular properties. Accordingly, the valuations of OREO and repossessed assets are subject to significant judgment. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs incurred after acquisition are expensed.

Note 13 - Retirement Plans

The Credit Union has defined contribution 401(k) pension plans covering substantially all employees. The pension contributions are based on a percentage of the regular annual earnings of participating employees and discretionary contributions are determined by the board of directors. Total contributions were approximately $3,086,000 and $3,243,000 for 2017 and 2016, respectively.

Additional Information

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Independent Auditor's Report on Additional Information

To the Board of Directors
United Federal Credit Union

We have audited the consolidated financial statements of United Federal Credit Union as of and for the years ended December 31, 2017 and 2016 and have issued our report thereon dated February 5, 2018, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the 2017 and 2016 consolidated financial statements as a whole. The consolidating statement of financial condition and the consolidating statement of income are presented for the purpose of additional analysis rather than to present the financial condition and statement of income of the individual companies and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the 2017 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2017 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2017 consolidated financial statements as a whole.

Plante & Moran, PLLC

February 5, 2018

Consolidating Statement of Financial Condition

December 31, 2017

	United Federal Credit Union	UFCU Holdings, LLC	United Diamond Insurance Agency, LLC	Eliminating Entries	2017
Assets					
Cash and cash equivalents	$ 40,706,720	$ 113	$ 28,091	$ (28,204)	$ 40,706,720
Investment securities - Available for sale	75,072,217	-	-	-	75,072,217
Loans to members - Net	2,343,466,063	-	-	-	2,343,466,063
NCUSIF deposit	15,123,086	-	-	-	15,123,086
FHLB stock	24,260,000	-	-	-	24,260,000
Corporate capital	600,000	-	-	-	600,000
Premises and equipment - Net	89,076,148	-	-	-	89,076,148
Accrued interest receivable	7,953,218	-	-	-	7,953,218
Investment in subsidiaries	16,679	16,566	-	(33,245)	-
Other assets	6,412,466	-	-	-	6,412,466
Total assets	**$ 2,602,686,597**	**$ 16,679**	**$ 28,091**	**$ (61,449)**	**$ 2,602,669,918**
Liabilities and Members' Equity					
Liabilities					
Members' shares and savings accounts	$ 1,757,516,568	$ -	$ -	$ (28,204)	$ 1,757,488,364
Nonmember certificates	68,564,000	-	-	-	68,564,000
Borrowed funds	499,100,000	-	-	-	499,100,000
Accrued interest payable	1,737,336	-	-	-	1,737,336
Accrued and other liabilities	25,585,819	-	11,525	-	25,597,344
Total liabilities	2,352,503,723	-	11,525	(28,204)	2,352,487,044
Members' Equity	250,182,874	16,679	16,566	(33,245)	250,182,874
Total liabilities and members' equity	**$ 2,602,686,597**	**$ 16,679**	**$ 28,091**	**$ (61,449)**	**$ 2,602,669,918**

Consolidating Statement of Income

Year Ended December 31, 2017

	United Federal Credit Union	UFCU Holdings, LLC	United Diamond Insurance Agency, LLC	Eliminating Entries	Total
Interest Income					
Loans	$ 114,895,105	$ -	$ -	$ -	$ 114,895,105
Investment securities - Taxable	2,383,126	-	-	-	2,383,126
Total interest income	117,278,231	-	-	-	117,278,231
Interest Expense	20,059,099	-	-	-	20,059,099
Net Interest Income	97,219,132	-	-	-	97,219,132
Provision for Loan Losses	20,854,576	-	-	-	20,854,576
Net Interest Income After Provision for Loan Losses	76,364,556	-	-	-	76,364,556
Noninterest Income					
Fees and charges	24,415,181	-	-	-	24,415,181
Insurance commissions	2,255,877	-	53,326	-	2,309,203
Earnings from subsidiary	(13,944)	51,374	-	(37,430)	-
Other	4,255,474	(65,318)	-	-	4,190,156
Total noninterest income	30,912,588	(13,944)	53,326	(37,430)	30,914,540
Noninterest Expense					
Compensation and benefits	46,398,745	-	-	-	46,398,745
Occupancy	6,285,528	-	-	-	6,285,528
Operating expenses	28,950,624	-	1,952	-	28,952,576
Other	1,016,512	-	-	-	1,016,512
Total noninterest expense	82,651,409	-	1,952	-	82,653,361
Net Income (Loss)	**$ 24,625,735**	**$ (13,944)**	**$ 51,374**	**$ (37,430)**	**$ 24,625,735**