CONSOLIDATED FINANCIAL STATEMENTS
As of and for the years ended
December 31, 2017 and 2016

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AUDITED FINANCIAL STATEMENTS
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<td>Independent Auditor’s Report</td>
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<td>Notes to Consolidated Financial Statements</td>
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors, Audit Committee and Members of VyStar Credit Union:

**Report on the Financial Statements**
We have audited the accompanying consolidated financial statements of VyStar Credit Union, which comprise the consolidated balance sheet 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 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 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 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 consolidated financial statements are free from 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 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 and appropriate to provide a basis for our modified audit opinion.

**Basis for Qualified Opinion**
The industry audit guide "Depository and Lending Institutions: Banks and Savings Institutions, Credit Unions, Finance Companies, and Mortgage Companies" issued by the American Institute of Certified Public Accountants indicates that members' deposits should be classified as liabilities in order to conform to generally accepted accounting principles. As further described in Note 1, VyStar Credit Union considers members' deposits to be equity as defined in the Federal Credit Union Act and so presented the information. The presentation followed by VyStar Credit Union has no effect on the total amount or classification of assets or on the determination of income, expenses or net income.

The accompanying notes are an integral part of these consolidated statements.
Qualified Opinion
In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of VyStar 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.

Nearman, Maynard, Vallez, CPAs

Nearman, Maynard, Vallez, CPAs
Miami, Florida

March 5, 2018
### ASSETS

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$890,226,667</td>
<td>$724,139,258</td>
</tr>
<tr>
<td>Investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trading</td>
<td>62,189</td>
<td>-</td>
</tr>
<tr>
<td>Available-for-sale</td>
<td>1,079,065,450</td>
<td>1,139,034,086</td>
</tr>
<tr>
<td>Other</td>
<td>60,062,946</td>
<td>47,652,411</td>
</tr>
<tr>
<td>Loans to members, net</td>
<td>5,033,484,126</td>
<td>4,424,086,051</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>14,892,042</td>
<td>12,854,273</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>151,095,618</td>
<td>136,411,011</td>
</tr>
<tr>
<td>National Credit Union Share Insurance Fund deposit</td>
<td>50,249,657</td>
<td>46,308,998</td>
</tr>
<tr>
<td>Other assets</td>
<td>20,318,832</td>
<td>21,501,082</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$7,299,457,527</strong></td>
<td><strong>$6,551,987,170</strong></td>
</tr>
</tbody>
</table>

### LIABILITIES AND MEMBERS’ EQUITY

**Liabilities**

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued expenses and other liabilities</td>
<td>$105,816,054</td>
<td>$102,472,127</td>
</tr>
<tr>
<td>Borrowed funds</td>
<td>1,152,864,720</td>
<td>887,904,912</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>1,258,680,774</strong></td>
<td><strong>990,377,039</strong></td>
</tr>
</tbody>
</table>

**Commitments and contingent liabilities**

**Members’ Equity**

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members’ deposits</td>
<td>5,404,639,703</td>
<td>4,986,011,351</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>640,580,056</td>
<td>579,778,944</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>(4,443,006)</td>
<td>(4,180,164)</td>
</tr>
<tr>
<td><strong>Total Members’ Equity</strong></td>
<td><strong>6,040,776,753</strong></td>
<td><strong>5,561,610,131</strong></td>
</tr>
</tbody>
</table>

**Total Liabilities and Members’ Equity**

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Liabilities and Members’ Equity</strong></td>
<td><strong>$7,299,457,527</strong></td>
<td><strong>$6,551,987,170</strong></td>
</tr>
<tr>
<td></td>
<td>2017</td>
<td>2016</td>
</tr>
<tr>
<td>--------------------------------------</td>
<td>------------------</td>
<td>------------------</td>
</tr>
<tr>
<td>INTEREST INCOME</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on loans to members</td>
<td>$190,533,700</td>
<td>$163,573,907</td>
</tr>
<tr>
<td>Interest on investments and cash equivalents</td>
<td>27,553,184</td>
<td>21,839,001</td>
</tr>
<tr>
<td>TOTAL INTEREST INCOME</td>
<td>218,086,884</td>
<td>185,412,908</td>
</tr>
<tr>
<td>INTEREST EXPENSE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends on members’ deposits</td>
<td>26,976,441</td>
<td>25,062,243</td>
</tr>
<tr>
<td>Interest on borrowed funds</td>
<td>17,215,218</td>
<td>14,752,947</td>
</tr>
<tr>
<td>TOTAL INTEREST EXPENSE</td>
<td>44,191,659</td>
<td>39,815,190</td>
</tr>
<tr>
<td>NET INTEREST INCOME</td>
<td>173,895,225</td>
<td>145,597,718</td>
</tr>
<tr>
<td>PROVISION FOR LOAN LOSSES</td>
<td>19,770,032</td>
<td>5,975,101</td>
</tr>
<tr>
<td>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</td>
<td>154,125,193</td>
<td>139,622,617</td>
</tr>
<tr>
<td>NON-INTEREST INCOME</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commissions</td>
<td>74,899,875</td>
<td>67,089,694</td>
</tr>
<tr>
<td>Service charges and other fees</td>
<td>26,215,219</td>
<td>25,132,001</td>
</tr>
<tr>
<td>Loan servicing fees</td>
<td>387,203</td>
<td>411,294</td>
</tr>
<tr>
<td>Net gains on sales of loans</td>
<td>7,687</td>
<td>246,868</td>
</tr>
<tr>
<td>TOTAL NON-INTEREST INCOME</td>
<td>101,509,984</td>
<td>92,879,857</td>
</tr>
<tr>
<td>NON-INTEREST EXPENSES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and benefits</td>
<td>90,115,509</td>
<td>83,831,857</td>
</tr>
<tr>
<td>Operations</td>
<td>87,103,030</td>
<td>81,987,462</td>
</tr>
<tr>
<td>Occupancy</td>
<td>16,957,046</td>
<td>15,771,749</td>
</tr>
<tr>
<td>Other non-interest losses</td>
<td>650,803</td>
<td>705,537</td>
</tr>
<tr>
<td>TOTAL NON-INTEREST EXPENSES</td>
<td>194,826,388</td>
<td>182,296,605</td>
</tr>
<tr>
<td>NET INCOME</td>
<td>$60,808,789</td>
<td>$50,205,869</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated statements.
<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NET INCOME</strong></td>
<td>$ 60,808,789</td>
<td>$ 50,205,869</td>
</tr>
<tr>
<td><strong>OTHER COMPREHENSIVE LOSS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net unrealized holding losses on securities arising during the year</td>
<td>(283,915)</td>
<td>(8,893,988)</td>
</tr>
<tr>
<td>Add reclassification adjustment for net losses included in net income</td>
<td>21,073</td>
<td>41,349</td>
</tr>
<tr>
<td><strong>Total other comprehensive loss</strong></td>
<td>(262,842)</td>
<td>(8,852,639)</td>
</tr>
<tr>
<td><strong>TOTAL COMPREHENSIVE INCOME</strong></td>
<td>$ 60,545,947</td>
<td>$ 41,353,230</td>
</tr>
<tr>
<td></td>
<td>Members’ Deposits</td>
<td>Retained Earnings</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>-------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Regular Reserves</td>
</tr>
<tr>
<td>Balance December 31, 2015</td>
<td>$ 4,563,455,660</td>
<td>$ 96,605,882</td>
</tr>
<tr>
<td>Net income</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mergers and acquisitions</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net change in unrealized losses on available-for-sale investments</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net increase in members’ deposits</td>
<td>422,555,691</td>
<td>-</td>
</tr>
<tr>
<td>Balance December 31, 2016</td>
<td>$ 4,986,011,351</td>
<td>$ 96,605,882</td>
</tr>
<tr>
<td>Net income</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mergers and acquisitions</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net change in unrealized losses on available-for-sale investments</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net increase in members’ deposits</td>
<td>418,628,352</td>
<td>-</td>
</tr>
<tr>
<td>Balance December 31, 2017</td>
<td>$ 5,404,639,703</td>
<td>$ 96,605,882</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated statements.
VYSTAR CREDIT UNION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

<table>
<thead>
<tr>
<th>OPERATING ACTIVITIES</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$ 60,808,789</td>
<td>$ 50,205,869</td>
</tr>
<tr>
<td>Adjustments to reconcile net income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to net cash provided by / (used in) operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for loan losses</td>
<td>19,770,032</td>
<td>5,975,101</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>11,191,763</td>
<td>9,857,410</td>
</tr>
<tr>
<td>Premium amortization, net of accretion</td>
<td>6,139,973</td>
<td>7,626,884</td>
</tr>
<tr>
<td>Gain on sale of property and equipment</td>
<td>(49,066)</td>
<td>(6,952)</td>
</tr>
<tr>
<td>Net realized loss on sale of investments</td>
<td>21,073</td>
<td>41,349</td>
</tr>
<tr>
<td>Increase in accrued interest receivable</td>
<td>(2,037,769)</td>
<td>(1,496,146)</td>
</tr>
<tr>
<td>Decrease (increase) in other assets</td>
<td>1,182,250</td>
<td>(3,120,272)</td>
</tr>
<tr>
<td>Increase in accrued expenses and other liabilities</td>
<td>3,343,927</td>
<td>34,407,348</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>$100,370,972</td>
<td>$103,490,591</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>INVESTING ACTIVITIES</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net proceeds from sale of property and equipment</td>
<td>474,066</td>
<td>1,383,287</td>
</tr>
<tr>
<td>Purchases of available-for-sale investments</td>
<td>(206,709,158)</td>
<td>(387,772,408)</td>
</tr>
<tr>
<td>Proceeds from maturities, prepayments and calls of available-for-sale investments</td>
<td>260,253,906</td>
<td>273,783,998</td>
</tr>
<tr>
<td>Proceeds from sales of available-for-sale investments</td>
<td>-</td>
<td>7,684,348</td>
</tr>
<tr>
<td>Net increase in other investments</td>
<td>(12,472,724)</td>
<td>(17,883,509)</td>
</tr>
<tr>
<td>Net increase in loans to members</td>
<td>(629,168,107)</td>
<td>(495,695,899)</td>
</tr>
<tr>
<td>Merger, net of cash received</td>
<td>(7,677)</td>
<td>54,300</td>
</tr>
<tr>
<td>Increase in the National Credit Union Share Insurance Fund deposit</td>
<td>(3,940,659)</td>
<td>(4,764,135)</td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>(26,301,370)</td>
<td>(21,707,164)</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(617,871,723)</td>
<td>(644,917,182)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FINANCING ACTIVITIES</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from borrowed funds</td>
<td>264,959,808</td>
<td>400,820,152</td>
</tr>
<tr>
<td>Net increase in members’ deposits</td>
<td>418,628,352</td>
<td>422,555,691</td>
</tr>
<tr>
<td>Net cash provided by financing activities</td>
<td>683,588,160</td>
<td>823,375,843</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>INCREASE IN CASH AND CASH EQUIVALENTS</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents at the beginning of the year</td>
<td>166,087,409</td>
<td>281,949,252</td>
</tr>
<tr>
<td>Net cash provided by financing activities</td>
<td>724,139,258</td>
<td>442,190,006</td>
</tr>
<tr>
<td>增加 in cash and cash equivalents at end of year</td>
<td>$ 890,226,667</td>
<td>$ 724,139,258</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SUPPLEMENTAL CASH FLOW INFORMATION</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends paid on members’ deposits &amp; interest paid on borrowed funds</td>
<td>$ 44,191,659</td>
<td>$ 39,815,190</td>
</tr>
<tr>
<td>Other real estate acquired in settlement of loans</td>
<td>$ 192,080</td>
<td>$ 2,102,427</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated statements.
1. **SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

VyStar Credit Union (the Credit Union) is a state-chartered credit union organized under the provisions of Florida Statutes.

**Principles of Consolidation**

The consolidated financial statements include the accounts of VyStar Credit Union and its wholly-owned subsidiary, VyStar Financial Group, LLC, a credit union service organization that provides title insurance to Credit Union members as well as non-members. All significant inter-company accounts and transactions have been eliminated.

**Nature of Operations**

The Credit Union operates forty-five full service branches, thirteen high school branches, two drive-thru branches and one Call Center in Jacksonville, Florida and the surrounding areas. The Credit Union’s primary source of revenue is providing loans to members who live or work in a twenty-two-county area in northeastern Florida.

**Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses.

**Subsequent Events**

Credit Union Management has evaluated subsequent events through March 5, 2018, the date on which the financial statements were available to be issued.

**Cash, Cash Equivalents and Cash Flows**

Cash and cash equivalents consist of cash on hand, demand deposits, and other non-term deposits in other financial institutions. For purposes of reporting cash flows, loans to members, other investments, members’ deposits and borrowed funds are reported net.

**Investments**

Investments the Credit Union intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available-for-sale and are carried at fair value. Unrealized gains and losses on investments classified as available-for-sale have been accounted for as accumulated other comprehensive income. Gains and losses on the sale of available-for-sale securities are determined using the specific-identification method. Amortization of premiums and accretion of discounts are recognized in interest income over the period to maturity. Declines in the fair value of individual
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

available-for-sale securities below their costs that are other than temporary, result in write-downs of the individual securities to their fair value. Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer or that management would not have the ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value. Other investments are classified separately and are stated at cost except for the deferred compensation plan created in accordance with Internal Revenue Code 457(b), which is stated at fair market value.

Federal Home Loan Bank Stock

The Credit Union, as a member of the FHLB of Atlanta, is required to maintain a minimum stock investment with the FHLB based on a formula developed by the FHLB that considers the Credit Union's total assets and outstanding advances from the FHLB. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment. Because this stock is viewed as a long-term investment, impairment is based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Visa Inc. Stock

In early 2008, as part of the restructuring of Visa Inc., the Credit Union was issued shares of Class B Common Stock in Visa Inc. The shares represented by this issuance are fully paid and non-assessable. At December 31, 2017, the Credit Union held 80,778 shares of Visa’s Class B Common Stock. Currently, there is no readily available fair market value of the stock and therefore, the stock is not reflected in the Credit Union's financial statements. Once a readily available fair market value of the stock is known, the value of the stock will be reflected in the Credit Union's financial statements.

Loans

The Credit Union grants mortgage, business and consumer loans to members. Mortgage loans secured by real estate located primarily in northeast Florida comprise about 51% of the loan portfolio at December 31, 2017 and 53% of the loan portfolio at December 31, 2016. The ability of the members to honor their contracts is dependent upon the member’s financial soundness and general economic conditions in this area.

Loans that the Credit Union has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, less an allowance for loan losses and net deferred loan origination fees and discounts. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding for consumer loans and the amortized-interest method on principal amounts outstanding for most mortgage loans.

The accrual of interest on loans is discontinued at the time the loan is 91 days delinquent. Credit card loans and other personal loans are typically charged-off no later than 180 days past due. Past due status is based on contractual terms of the loan. Loans are placed on non-accrual 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 non-accrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery 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.

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans, adjusted for estimated prepayments based on the Credit Union’s historical prepayment experience.

**Troubled Debt Restructurings**

A loan is classified as a troubled debt restructure when a borrower is experiencing financial difficulties that lead to a restructuring of the loan, and the Credit Union grants concessions to the borrower in the restructuring that it would not otherwise consider. The Credit Union strives to identify members in financial difficulty early and works with them to modify to more affordable terms before their loan reaches nonaccrual status. These concessions include but are not limited to interest rate reductions, principal forgiveness, extension of maturity date and other actions intended to minimize economic loss and to avoid foreclosure or repossession of the collateral.

Troubled debt restructurings are considered impaired loans by their nature. The amount of the impairment is derived based on discounting expected cash flows at the loan’s effective rate of interest. Therefore, assumptions must be made as to the amount of the future cash flows, which will consider the borrower’s willingness and ability to pay contractual principal and interest payments.

**Other Real Estate Owned (Foreclosed Property)**

Assets acquired through, or in lieu of, loan foreclosure are held-for-sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, additional expenses related to improvements to the property are capitalized. 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 included in operating expenses.

As of December 31, 2017, the Credit Union has approximately $192,000 in foreclosed residential and commercial real estate property held for sale. In addition, the Credit Union has approximately $4.3 million in loans collateralized by residential and commercial real estate in the process of foreclosure.

**Allowance for Loan Losses**

The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the required allowance for loan losses balance using past loan loss experience, known and inherent risks in the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance for loan losses may be made for specific loans, but the entire allowance is available for any loan that, in
Management's judgment, should be charged-off. Loan losses are charged against the allowance for loan losses when Management believes the uncollectibility of a loan balance is confirmed.

The allowance for loan losses consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

Due to the nature of uncertainties related to an estimation process, Management’s estimate of loan losses inherent in the loan portfolio may change in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

A loan is considered impaired when, based on current information and events, full payment under the loan terms is not expected. Impairment is generally evaluated in total for smaller-balance loans of similar nature such as consumer and credit card loans but may be evaluated on an individual loan basis if deemed necessary. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows or at the fair value of collateral if repayment is expected solely from the collateral.

**Transfers and Servicing of Financial Assets**

The Credit Union accounts for transfers and servicing of financial assets in accordance with generally accepted accounting principles (GAAP) codified in the Financial Accounting Standards Board’s (FASB) Accounting Standards Codification (ASC) section 860. GAAP requires application of a financial-components approach that focuses on control. Under this approach, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. The statement also distinguishes transfers of financial assets that are sales from transfers of financial assets that are secured borrowings.

The Credit Union generally retains the right to service mortgage loans sold to others. The cost allocated to the mortgage servicing rights retained has been recognized as a separate asset and is being amortized in proportion to and over the period of estimated net servicing income. Mortgage servicing rights are periodically evaluated for impairment based on the fair value of those rights. Fair values are estimated using discounted cash flows based on current market rates of interest and current expected future prepayment rates.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

**Property and Equipment**

Land is carried at cost. Building, leasehold improvements, and furniture and equipment are carried at cost, less accumulated depreciation and amortization. Buildings and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases.
National Credit Union Share Insurance Fund Deposit

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each federally insured Credit Union in an amount equal to 1% of its insured members’ deposits. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, if it converts its insurance coverage to another source or if management of the fund is transferred from the NCUA Board.

Members’ Deposits

Members’ deposits consist of the savings and other deposit accounts of the owners of the Credit Union. Ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. Irrespective of the amount of deposits owned, no member has more than one vote. Members’ deposits are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members’ deposits are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union.

Members’ deposits are classified as members’ equity in the consolidated statements of financial condition. It is the Credit Union’s position that members’ deposits represent an ownership interest and are properly classified as equity. Such classification is not in accordance with GAAP. GAAP requires members’ deposits to be classified as liabilities. This change has no effect on the consolidated statements of operations.

Regular Reserve

The Credit Union is required by regulation to maintain a statutory reserve, “regular reserve”. The regular reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of dividends to members.

Equity Acquired in Merger

Equity acquired in a merger represents equity accounted for in accordance with the acquisition method of accounting. Under this accounting method, regular reserves and undivided earnings of the acquiree are combined on the acquirer’s statement of financial condition as a component of equity called merged equity. This component of equity is considered part of net worth as defined by regulations established by the NCUA.

Income Taxes

The Credit Union is exempt, by statute, from federal taxes on income related to the exempt purpose of the Credit Union. However, the Credit Union is subject to taxes on certain “unrelated business income” as further discussed in Note 8.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the members’ equity section of the consolidated statements of financial condition.
Recently Issued Accounting and Reporting Standards

Accounting Standards Update (ASU) 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). ASU 2016-13 significantly changes how entities will measure credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale (AFS) debt securities and provides a simplified accounting model for purchased financial assets with credit deterioration since their origination. The standard will replace the current incurred loss approach with an expected loss model, referred to as the current expected credit loss (“CECL”) model. The new standard will apply to financial assets subject to credit losses and measured at amortized cost and certain off-balance-sheet credit exposures, which include, but are not limited to, loans, leases, held-to-maturity securities, loan commitments and financial guarantees. ASU 2016-13 simplifies the accounting for purchased credit-impaired debt securities and loans and expands the disclosure requirements regarding an entity’s assumptions, models and methods for estimating the allowance for loan and lease losses (“ALLL”). In addition, CECL requires credit unions to measure expected credit losses on financial assets carried at amortized cost on a collective or pool basis when similar risk characteristics exist. ASU 2016-13 is effective for “private” companies, including credit unions, for interim and annual reporting periods beginning after December 15, 2020. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. The Credit Union is currently not planning to early adopt. Upon adoption, ASU 2016-13 provides for a modified retrospective transition by means of a cumulative-effect adjustment to undivided earnings as of the beginning of the period in which the guidance is effective. While the Credit Union is currently evaluating the impact, this standard will have on the results of operations, financial position and disclosures, the Credit Union expects to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective.

ASU 2016-02 – Leases (Topic 842) (“ASU 2016-02”). ASU 2016-02 amends the existing standards for lease accounting effectively requiring most leases be carried on the balance sheets of the related lessees by requiring them to recognize a right-of-use asset and a corresponding lease liability. ASU 2016-02 includes qualitative and quantitative disclosure requirements intended to provide greater insight into the nature of an entity’s leasing activities. The standard must be adopted using a modified retrospective transition with a cumulative-effect adjustment to undivided earnings as of the beginning of the period in which it is adopted. The effective date of ASU 2016-02 for credit unions is for annual reporting periods beginning after December 15, 2019, and interim periods within those annual periods with early adoption permitted. The Credit Union has several leases, which are currently treated as operating leases and are not shown on the Credit Union’s Consolidated Statements of Financial Condition. The Credit Union is currently evaluating the impact this standard will have on the Credit Union’s results of operations, financial position and disclosures, but it is not expected to have a material impact.

ASU 2016-01 – Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”). ASU 2016-01 requires equity investments to be measured at fair value with adjustments to fair value recorded in net income. Currently the Credit Union does not have any securities meeting the definition of an equity security. Credit Unions with investments in mutual funds and stocks could see unacceptable levels of earnings volatility on the income statements. The amendments exempt all entities that are not public business
entities from disclosing fair value information for financial instruments measured at amortized cost. The Credit Union has early adopted this portion of the ASU. The effective date for the accounting for equity securities for credit unions is for fiscal years beginning after December 15, 2018. Credit Union’s may adopt this ASU early with fiscal years beginning after December 15, 2017. The Company is currently evaluating the impact this standard will have on the Company’s results of operations, financial position and disclosures, but it is not expected to have a material impact.

Reclassifications

Certain account reclassifications have been made to the 2016 financial statements in order to conform to classifications used in the current year.
2. **INVESTMENTS**

Trading
The carrying amount of trading securities as shown in the consolidated statement of financial condition was approximately $62,189 and $0 as of December 31, 2017 and 2016, respectively. The securities include no set maturity date and were purchased to offset executive compensation agreements.

Available-for-Sale
Investments classified as available-for-sale consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>Amortized Cost</th>
<th>Unrealized Gains</th>
<th>Unrealized Losses</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>December 31, 2017</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. government obligations and federal agencies securities</td>
<td>$ 56,351,440</td>
<td>$ 2,016</td>
<td>$(367,959)</td>
<td>$ 55,985,497</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>214,099,908</td>
<td>1,180,287</td>
<td>(1,544,337)</td>
<td>213,735,858</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>278,525,769</td>
<td>228,767</td>
<td>(3,175,089)</td>
<td>275,579,447</td>
</tr>
<tr>
<td>CMOs</td>
<td>534,531,339</td>
<td>727,827</td>
<td>(1,494,518)</td>
<td>533,764,648</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 1,083,508,456</td>
<td>$ 2,138,897</td>
<td>$(6,581,903)</td>
<td>$ 1,079,065,450</td>
</tr>
</tbody>
</table>

| **December 31, 2016** |                |                  |                   |            |
| U.S. government obligations and federal agencies securities | $ 135,081,953 | $ 668,260 | $(278,219) | $ 135,471,994 |
| Mortgage-backed securities | 268,465,559 | 2,668,784 | (2,068,974) | 269,065,369 |
| Corporate bonds | 261,095,609 | 350,213 | (3,776,822) | 257,669,000 |
| CMOs | 478,571,129 | 469,683 | (2,213,089) | 476,827,723 |
| **Total** | $ 1,143,214,250 | $ 4,156,940 | $(8,337,104) | $ 1,139,034,086 |
Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2017 and 2016 are as follows:

<table>
<thead>
<tr>
<th>Available-for-sale</th>
<th>Fair Value</th>
<th>Less Than 12 Months</th>
<th>Fair Value</th>
<th>More Than 12 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. government obligations and federal agencies securities</td>
<td>$25,458,249</td>
<td>$67,926</td>
<td>$20,525,948</td>
<td>$300,033</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>34,203,495</td>
<td>174,163</td>
<td>73,874,422</td>
<td>1,370,174</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>95,325,031</td>
<td>386,667</td>
<td>136,214,940</td>
<td>2,788,422</td>
</tr>
<tr>
<td>CMOs</td>
<td>163,888,611</td>
<td>263,130</td>
<td>135,879,256</td>
<td>1,231,388</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$318,875,386</strong></td>
<td><strong>$891,886</strong></td>
<td><strong>$366,494,586</strong></td>
<td><strong>$5,690,017</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Available-for-sale</th>
<th>Fair Value</th>
<th>Less Than 12 Months</th>
<th>Fair Value</th>
<th>More Than 12 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. government obligations and federal agencies securities</td>
<td>$28,586,018</td>
<td>$278,219</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>124,010,772</td>
<td>2,068,974</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>197,967,285</td>
<td>3,776,822</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>CMOs</td>
<td>234,227,781</td>
<td>1,364,382</td>
<td>106,664,659</td>
<td>848,707</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$584,791,856</strong></td>
<td><strong>$7,488,397</strong></td>
<td><strong>$106,664,659</strong></td>
<td><strong>$848,707</strong></td>
</tr>
</tbody>
</table>

There are a total of one hundred sixty-three and one hundred fifty-five investments with unrealized losses as of December 31, 2017 and 2016, respectively. The unrealized losses associated with these investments are considered temporary as the Credit Union has the ability to hold these investments for a period of time sufficient to allow for any anticipated recovery in fair value.

Gross realized gains on sales of investments available-for-sale were zero in 2017 and $29,374 in 2016; gross realized losses were $21,073 in 2017 and $70,723 in 2016. Proceeds from the sales of investments available-for-sale were zero in 2017 and $7,684,348 in 2016.
Investments by maturity as of December 31, 2017 are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>Available-for-sale</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amortized Cost</td>
<td>Fair Value</td>
<td></td>
</tr>
<tr>
<td>No contractual maturity</td>
<td>$ -</td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td>Less than 1 year maturity</td>
<td>29,965,546</td>
<td>29,913,858</td>
<td></td>
</tr>
<tr>
<td>1 to 5 years maturity</td>
<td>228,033,949</td>
<td>225,609,466</td>
<td></td>
</tr>
<tr>
<td>5 to 10 years maturity</td>
<td>76,877,714</td>
<td>76,041,620</td>
<td></td>
</tr>
<tr>
<td>Mortgage-backed securities and CMOs</td>
<td>748,631,247</td>
<td>747,500,506</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$ 1,083,508,456</td>
<td>$ 1,079,065,450</td>
<td></td>
</tr>
</tbody>
</table>

Expected maturities of mortgage-backed securities and CMOs may differ from contractual maturities because borrowers may have the right to call or prepay the obligations. Securities not due at a single maturity date, primarily mortgage-backed securities and CMOs, are shown separately.

Other Investments

Other investments consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>December 31</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2016</td>
<td></td>
</tr>
<tr>
<td>FHLB stock</td>
<td>$ 54,831,900</td>
<td>$ 42,805,200</td>
<td></td>
</tr>
<tr>
<td>Credit Union Service Organizations</td>
<td>4,723,682</td>
<td>4,346,801</td>
<td></td>
</tr>
<tr>
<td>Other Credit Unions-CDs</td>
<td>507,364</td>
<td>500,410</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$ 60,062,946</td>
<td>$ 47,652,411</td>
<td></td>
</tr>
</tbody>
</table>

3. LOANS TO MEMBERS

Loans to members are shown below. Included in these loan amounts are approximately $59.2 million and $48.6 million of deferred loan origination fees/costs as of December 31, 2017 and 2016, respectively.

<table>
<thead>
<tr>
<th></th>
<th>December 31</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2016</td>
<td></td>
</tr>
<tr>
<td>Residential first mortgage real estate loans</td>
<td>$ 2,116,169,907</td>
<td>$ 1,932,164,743</td>
<td></td>
</tr>
<tr>
<td>Residential second mortgage real estate loans</td>
<td>258,146,054</td>
<td>248,850,156</td>
<td></td>
</tr>
<tr>
<td>Consumer secured loans</td>
<td>1,974,643,720</td>
<td>1,599,124,865</td>
<td></td>
</tr>
<tr>
<td>Consumer unsecured loans</td>
<td>502,100,462</td>
<td>476,692,553</td>
<td></td>
</tr>
<tr>
<td>Business real estate loans</td>
<td>205,604,352</td>
<td>189,946,685</td>
<td></td>
</tr>
<tr>
<td>Other business loans</td>
<td>9,728,094</td>
<td>7,569,031</td>
<td></td>
</tr>
<tr>
<td>Gross loans to members</td>
<td>5,066,392,589</td>
<td>4,454,348,033</td>
<td></td>
</tr>
<tr>
<td>Allowance for loan losses</td>
<td>(32,908,463)</td>
<td>(30,261,982)</td>
<td></td>
</tr>
<tr>
<td>Loans to members, net</td>
<td>$ 5,033,484,126</td>
<td>$ 4,424,086,051</td>
<td></td>
</tr>
</tbody>
</table>
The following summarizes the activity by loan categories in the allowance for loan losses account:

<table>
<thead>
<tr>
<th></th>
<th>Residential Real Estate</th>
<th>Consumer</th>
<th>Business</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Allowance for Loan Losses:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning balance</td>
<td>$12,677,050</td>
<td>$13,292,674</td>
<td>$4,292,258</td>
<td>$30,261,982</td>
</tr>
<tr>
<td>Provision for loan losses</td>
<td>(2,587,461)</td>
<td>22,420,388</td>
<td>(62,895)</td>
<td>19,770,032</td>
</tr>
<tr>
<td>Recoveries</td>
<td>300,097</td>
<td>1,311,504</td>
<td>192,797</td>
<td>1,804,398</td>
</tr>
<tr>
<td>Loans charged off</td>
<td>(925,361)</td>
<td>(17,917,301)</td>
<td>(85,287)</td>
<td>(18,927,949)</td>
</tr>
<tr>
<td>Ending balance</td>
<td>$9,464,325</td>
<td>$19,107,265</td>
<td>$4,336,873</td>
<td>$32,908,463</td>
</tr>
<tr>
<td>Ending allowance for loans individually evaluated for impairment</td>
<td>$172,495</td>
<td>$ -</td>
<td>$1,924,933</td>
<td>$2,097,427</td>
</tr>
<tr>
<td>Ending allowance for loans collectively evaluated for impairment</td>
<td>$9,291,830</td>
<td>$19,107,265</td>
<td>$2,411,940</td>
<td>$30,811,036</td>
</tr>
</tbody>
</table>

**Loans to Members:**

<table>
<thead>
<tr>
<th></th>
<th>Residential Real Estate</th>
<th>Consumer</th>
<th>Business</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans individually evaluated for impairment</td>
<td>$719,096</td>
<td>$ -</td>
<td>$17,140,872</td>
<td>$17,859,968</td>
</tr>
<tr>
<td>Loans collectively evaluated for impairment</td>
<td>2,373,596,865</td>
<td>2,476,744,182</td>
<td>198,191,574</td>
<td>5,048,532,621</td>
</tr>
<tr>
<td>Ending balance</td>
<td>$2,374,315,961</td>
<td>$2,476,744,182</td>
<td>$215,332,446</td>
<td>$5,066,392,589</td>
</tr>
</tbody>
</table>
The following summarizes the activity by loan categories in the allowance for loan losses account:

<table>
<thead>
<tr>
<th>Allowance for Loan Losses:</th>
<th>Residential Real Estate</th>
<th>Consumer</th>
<th>Business</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning balance</td>
<td>$ 18,360,118</td>
<td>$ 12,478,043</td>
<td>$ 5,456,065</td>
<td>$ 36,294,226</td>
</tr>
<tr>
<td>Provision for loan losses</td>
<td>(4,485,868)</td>
<td>11,663,123</td>
<td>(1,202,154)</td>
<td>5,975,101</td>
</tr>
<tr>
<td>Recoveries</td>
<td>164,008</td>
<td>1,428,002</td>
<td>190,750</td>
<td>1,782,760</td>
</tr>
<tr>
<td>Loans charged off</td>
<td>(1,361,208)</td>
<td>(12,276,494)</td>
<td>(152,403)</td>
<td>(13,790,105)</td>
</tr>
<tr>
<td>Ending balance</td>
<td>$ 12,677,050</td>
<td>$ 13,292,674</td>
<td>$ 4,292,258</td>
<td>$ 30,261,982</td>
</tr>
</tbody>
</table>

Ending allowance for loans individually evaluated for impairment:

| Residential Real Estate | $ 524,362 | $ - | $ 1,812,716 | $ 2,337,078 |

Ending allowance for loans collectively evaluated for impairment:

| Residential Real Estate | $ 12,152,688 | $ 13,292,674 | $ 2,479,542 | $ 27,924,904 |

**Loans to Members:**

Loans individually evaluated for impairment:

| Residential Real Estate | $ 1,921,348 | $ - | $ 18,594,050 | $ 20,515,398 |

Loans collectively evaluated for impairment:

| Residential Real Estate | 2,179,093,551 | 2,075,817,418 | 178,921,666 | 4,433,832,635 |

Ending balance:

| Residential Real Estate | $ 2,181,014,899 | $ 2,075,817,418 | $ 197,515,716 | $ 4,454,348,033 |

The accompanying notes are an integral part of these consolidated statements.
The following is a summary of information pertaining to impaired loans at:

<table>
<thead>
<tr>
<th>With a related allowance recorded:</th>
<th>December 31, 2017</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unpaid Principal Balance</td>
<td>Related Allowance</td>
<td>Average Recorded Investment</td>
<td></td>
</tr>
<tr>
<td>Residential 1st mortgage real estate loans</td>
<td>$56,833,517</td>
<td>$6,835,768</td>
<td>$56,895,849</td>
<td></td>
</tr>
<tr>
<td>Residential 2nd mortgage real estate loans</td>
<td>6,043,813</td>
<td>1,139,984</td>
<td>6,060,322</td>
<td></td>
</tr>
<tr>
<td>Consumer secured loans</td>
<td>622,406</td>
<td>6,270</td>
<td>628,607</td>
<td></td>
</tr>
<tr>
<td>Consumer unsecured loans</td>
<td>1,010,585</td>
<td>193,864</td>
<td>1,011,523</td>
<td></td>
</tr>
<tr>
<td>Business real estate loans</td>
<td>17,115,501</td>
<td>1,899,562</td>
<td>17,122,946</td>
<td></td>
</tr>
<tr>
<td>Other business loans</td>
<td>592,712</td>
<td>82,105</td>
<td>593,402</td>
<td></td>
</tr>
<tr>
<td>With no related allowance recorded:</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Residential 1st mortgage real estate loans</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Residential 2nd mortgage real estate loans</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Consumer secured loans</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Consumer unsecured loans</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Business real estate loans</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Other business loans</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Total impaired loans:</td>
<td>$62,877,330</td>
<td>$7,975,752</td>
<td>$62,956,171</td>
<td></td>
</tr>
<tr>
<td>Residential real estate loans</td>
<td>$1,632,991</td>
<td>$200,134</td>
<td>$1,640,130</td>
<td></td>
</tr>
<tr>
<td>Consumer loans</td>
<td>$17,708,213</td>
<td>$1,981,667</td>
<td>$17,716,348</td>
<td></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated statements.
The following is a summary of information pertaining to impaired loans at:

<table>
<thead>
<tr>
<th></th>
<th>Unpaid Principal Balance</th>
<th>Related Allowance</th>
<th>Average Recorded Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>With a related allowance recorded:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential 1st mortgage real estate loans</td>
<td>$64,393,821</td>
<td>$8,842,771</td>
<td>$64,330,165</td>
</tr>
<tr>
<td>Residential 2nd mortgage real estate loans</td>
<td>6,155,408</td>
<td>1,291,475</td>
<td>6,181,848</td>
</tr>
<tr>
<td>Consumer secured loans</td>
<td>951,846</td>
<td>4,466</td>
<td>959,490</td>
</tr>
<tr>
<td>Consumer unsecured loans</td>
<td>1,015,435</td>
<td>19,868</td>
<td>1,017,653</td>
</tr>
<tr>
<td>Business real estate loans</td>
<td>18,557,421</td>
<td>1,776,088</td>
<td>18,567,183</td>
</tr>
<tr>
<td>Other business loans</td>
<td>36,628</td>
<td>36,628</td>
<td>36,959</td>
</tr>
<tr>
<td><strong>With no related allowance recorded:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential 1st mortgage real estate loans</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Residential 2nd mortgage real estate loans</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Consumer secured loans</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Consumer unsecured loans</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Business real estate loans</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other business loans</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total impaired loans:</strong></td>
<td>$70,549,229</td>
<td>$10,134,246</td>
<td>$70,512,013</td>
</tr>
<tr>
<td>Residential real estate loans</td>
<td>$1,967,281</td>
<td>$24,334</td>
<td>$1,977,118</td>
</tr>
<tr>
<td>Consumer loans</td>
<td>$18,594,049</td>
<td>$1,812,716</td>
<td>$18,604,142</td>
</tr>
<tr>
<td>Business loans</td>
<td>$731,465</td>
<td>$4,744,599</td>
<td>$5,802,057</td>
</tr>
<tr>
<td>Nonaccrual loans</td>
<td>$8,442,492</td>
<td>$22,381,464</td>
<td>$15,431,921</td>
</tr>
</tbody>
</table>

The following is a summary age analysis of past due loans:

<table>
<thead>
<tr>
<th></th>
<th>2 to &lt; 6 Months Past Due</th>
<th>6 to &lt; 12 Months Past Due</th>
<th>Greater than 12 Months Past Due</th>
<th>Total</th>
<th>Nonaccrual Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential 1st mortgage real estate loans</td>
<td>$6,232,611</td>
<td>$1,478,416</td>
<td>$731,465</td>
<td>$8,442,492</td>
<td>$4,744,599</td>
</tr>
<tr>
<td>Residential 2nd mortgage real estate loans</td>
<td>1,056,514</td>
<td>530,376</td>
<td>262,703</td>
<td>1,849,593</td>
<td>1,177,716</td>
</tr>
<tr>
<td>Consumer secured loans</td>
<td>3,463,255</td>
<td>583,064</td>
<td>-</td>
<td>4,046,319</td>
<td>2,032,772</td>
</tr>
<tr>
<td>Consumer unsecured loans</td>
<td>4,852,697</td>
<td>1,322,826</td>
<td>-</td>
<td>6,175,523</td>
<td>5,802,757</td>
</tr>
<tr>
<td>Business real estate loans</td>
<td>851,785</td>
<td>519,608</td>
<td>496,144</td>
<td>1,867,537</td>
<td>1,674,077</td>
</tr>
<tr>
<td>Other business loans</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$16,456,862</td>
<td>$4,434,290</td>
<td>$1,490,312</td>
<td>$22,381,464</td>
<td>$15,431,921</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated statements.
The following is a summary age analysis of past due loans:

<table>
<thead>
<tr>
<th></th>
<th>2 to &lt; 6 Months</th>
<th>6 to &lt; 12 Months</th>
<th>Greater than 12 Months</th>
<th>Total</th>
<th>Nonaccrual Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential 1st mortgage real estate loans</td>
<td>$4,161,700</td>
<td>$1,674,766</td>
<td>$873,950</td>
<td>$6,710,416</td>
<td>$4,699,690</td>
</tr>
<tr>
<td>Residential 2nd mortgage real estate loans</td>
<td>1,212,117</td>
<td>202,794</td>
<td>81,468</td>
<td>1,496,379</td>
<td>835,074</td>
</tr>
<tr>
<td>Consumer secured loans</td>
<td>2,782,410</td>
<td>728,408</td>
<td>15,835</td>
<td>3,526,653</td>
<td>1,709,414</td>
</tr>
<tr>
<td>Consumer unsecured loans</td>
<td>3,318,163</td>
<td>1,073,484</td>
<td>-</td>
<td>4,391,647</td>
<td>4,044,110</td>
</tr>
<tr>
<td>Business real estate loans</td>
<td>987,274</td>
<td>1,190,438</td>
<td>918,616</td>
<td>3,096,328</td>
<td>2,682,309</td>
</tr>
<tr>
<td>Other business loans</td>
<td>6,296</td>
<td>-</td>
<td>-</td>
<td>6,296</td>
<td>6,296</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$12,467,960</strong></td>
<td><strong>$4,869,890</strong></td>
<td><strong>$1,889,869</strong></td>
<td><strong>$19,227,719</strong></td>
<td><strong>$13,976,893</strong></td>
</tr>
</tbody>
</table>

The following table presents a summary of credit exposure based upon payment activity. Internally assigned loan grades are defined as either performing loans or nonperforming loans. A performing loan’s primary source of loan repayment is satisfactory, with secondary sources very likely to be realized if necessary. A loan classified as nonperforming is considered potentially uncollectible with a likelihood of charge-off. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it means that charge-off is likely in the near future.

The following is a summary of loans based on credit quality:

<table>
<thead>
<tr>
<th></th>
<th>Residential Real Estate</th>
<th>Consumer</th>
<th>Business</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>First</td>
<td>Second</td>
<td>Secured</td>
</tr>
<tr>
<td>Performing</td>
<td>$2,111,425</td>
<td>$256,968</td>
<td>$1,972,611</td>
</tr>
<tr>
<td>Nonperforming</td>
<td>4,745</td>
<td>1,178</td>
<td>2,033</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$2,116,170</td>
<td>$258,146</td>
<td>$1,974,644</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Residential Real Estate</th>
<th>Consumer</th>
<th>Business</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>First</td>
<td>Second</td>
<td>Secured</td>
</tr>
<tr>
<td>Performing</td>
<td>$1,927,465</td>
<td>$248,015</td>
<td>$1,597,416</td>
</tr>
<tr>
<td>Nonperforming</td>
<td>4,700</td>
<td>835</td>
<td>1,709</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,932,165</td>
<td>$248,850</td>
<td>$1,599,125</td>
</tr>
</tbody>
</table>
The following is a summary of information pertaining to troubled debt restructurings for the years ending December 31, 2017 and 2016:

### For the year ending December 31, 2017

<table>
<thead>
<tr>
<th>Number of Loans</th>
<th>Residential real estate loans</th>
<th>$1,646,666</th>
<th>$1,646,666</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer loans</td>
<td>76</td>
<td>$483,155</td>
<td>$483,155</td>
</tr>
<tr>
<td>Business loans</td>
<td>-</td>
<td>$-</td>
<td>$-</td>
</tr>
</tbody>
</table>

### Year ending December 31, 2017

<table>
<thead>
<tr>
<th>Number of Loans</th>
<th>Residential real estate loans</th>
<th>$-</th>
<th>$-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer loans</td>
<td>5</td>
<td>$34,015</td>
<td>$34,015</td>
</tr>
<tr>
<td>Business loans</td>
<td>-</td>
<td>$-</td>
<td>$-</td>
</tr>
</tbody>
</table>

### For the year ending December 31, 2016

<table>
<thead>
<tr>
<th>Number of Loans</th>
<th>Residential real estate loans</th>
<th>$3,658,102</th>
<th>$3,658,102</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer loans</td>
<td>84</td>
<td>$699,276</td>
<td>$699,276</td>
</tr>
<tr>
<td>Business loans</td>
<td>1</td>
<td>$646,103</td>
<td>$646,103</td>
</tr>
</tbody>
</table>

### Year ending December 31, 2016

<table>
<thead>
<tr>
<th>Number of Loans</th>
<th>Residential real estate loans</th>
<th>$-</th>
<th>$-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer loans</td>
<td>3</td>
<td>$26,713</td>
<td>$26,713</td>
</tr>
<tr>
<td>Business loans</td>
<td>-</td>
<td>$-</td>
<td>$-</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated statements.
4. **LOAN SERVICING**

Mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of these loans at December 31, 2017 and 2016 are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Mortgage loan portfolios serviced for Federal National Mortgage Association (FNMA)</td>
<td>$ 238,846,170</td>
</tr>
</tbody>
</table>

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in deposits, were approximately $1.8 million and $2.1 million at December 31, 2017 and 2016 respectively.

A summary of the changes in the balance of mortgage servicing rights in 2017 and 2016 were as follows:

<table>
<thead>
<tr>
<th>Years Ended December 31</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, beginning of year</td>
<td>$ 884,184</td>
<td>$ 1,178,678</td>
</tr>
<tr>
<td>Servicing assets recognized during the year</td>
<td>2,090</td>
<td>43,133</td>
</tr>
<tr>
<td>Amortization of servicing assets</td>
<td>(261,668)</td>
<td>(337,627)</td>
</tr>
<tr>
<td>Balance, end of year</td>
<td>$ 624,606</td>
<td>$ 884,184</td>
</tr>
</tbody>
</table>

5. **PROPERTY AND EQUIPMENT**

Property and equipment are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Land</td>
<td>$ 62,716,934</td>
</tr>
<tr>
<td>Buildings</td>
<td>93,758,813</td>
</tr>
<tr>
<td>Land and leasehold improvements</td>
<td>10,673,738</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>80,800,399</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>2,982,860</td>
</tr>
<tr>
<td>Total cost</td>
<td>250,932,744</td>
</tr>
<tr>
<td>Accumulated depreciation and amortization</td>
<td>(99,837,126)</td>
</tr>
<tr>
<td>Total property and equipment, net</td>
<td>$ 151,095,618</td>
</tr>
</tbody>
</table>
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. MEMBERS’ DEPOSITS

Members’ deposits are summarized as follows:

<table>
<thead>
<tr>
<th>Account</th>
<th>December 31 2017</th>
<th>December 31 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings accounts</td>
<td>$1,550,343,042</td>
<td>$1,370,309,799</td>
</tr>
<tr>
<td>Checking accounts</td>
<td>1,073,527,926</td>
<td>952,822,761</td>
</tr>
<tr>
<td>Money market accounts</td>
<td>1,311,518,062</td>
<td>1,227,277,023</td>
</tr>
<tr>
<td>Individual retirement accounts</td>
<td>186,308,735</td>
<td>187,134,126</td>
</tr>
<tr>
<td>Certificates of deposit</td>
<td>1,282,941,938</td>
<td>1,248,467,642</td>
</tr>
<tr>
<td></td>
<td>$5,404,639,703</td>
<td>$4,986,011,351</td>
</tr>
</tbody>
</table>

Certificates of deposit by maturity as of December 31, 2017 are summarized as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$736,464,262</td>
</tr>
<tr>
<td>2019</td>
<td>180,114,479</td>
</tr>
<tr>
<td>2020</td>
<td>159,478,313</td>
</tr>
<tr>
<td>2021</td>
<td>143,435,651</td>
</tr>
<tr>
<td>2022</td>
<td>63,449,233</td>
</tr>
<tr>
<td></td>
<td>$1,282,941,938</td>
</tr>
</tbody>
</table>

Savings, checking, money market and individual retirement accounts have no contractual maturity. Certificate accounts have maturities of sixty months or less.

The National Credit Union Share Insurance Fund insures members' shares up to $250,000. This includes all account types, such as savings, checking, money market and certificates of deposit. Individual Retirement Account coverage is an additional $250,000. At December 31, 2017, the aggregate amount of members’ deposit accounts that are federally insured is $5.1 billion. Conversely, the aggregate amount of members’ deposit accounts that are not federally insured is approximately $322 million.

The aggregate amount of certificate accounts in denominations greater than $250,000 were approximately $132 million and $116 million as of December 31, 2017 and 2016, respectively.

The aggregate amount of members' share and saving accounts maintaining a negative balance that were reclassified to loans receivable were approximately $838,000 and $911,000 as of December 31, 2017 and 2016, respectively.
7. NOTES PAYABLE

The Credit Union utilizes a demand loan agreement with the Federal Home Loan Bank of Atlanta (FHLB). The terms of the agreement call for pledging a portion of the Credit Union’s mortgage portfolio. The agreement provides for a maximum borrowing amount of $2.1 billion. As of December 31, 2017, fixed rate advances total $1.2 billion and have interest rates ranging from 1.1% to 4.935%.

The outstanding balances by maturity dates are as follows:

<table>
<thead>
<tr>
<th>December 31</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$</td>
<td>$511,150,000</td>
</tr>
<tr>
<td>2018</td>
<td>871,766,667</td>
<td>76,966,667</td>
</tr>
<tr>
<td>2019</td>
<td>109,071,429</td>
<td>116,785,714</td>
</tr>
<tr>
<td>2020</td>
<td>67,976,190</td>
<td>70,833,334</td>
</tr>
<tr>
<td>2021</td>
<td>8,928,571</td>
<td>11,785,714</td>
</tr>
<tr>
<td>2022</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Subsequent years</td>
<td>93,669,076</td>
<td>99,176,703</td>
</tr>
<tr>
<td></td>
<td>1,151,411,933</td>
<td>886,698,132</td>
</tr>
<tr>
<td>Interest payable</td>
<td>1,452,787</td>
<td>1,206,780</td>
</tr>
<tr>
<td></td>
<td>$1,152,864,720</td>
<td>$887,904,912</td>
</tr>
</tbody>
</table>

8. COMMITMENTS AND CONTINGENT LIABILITIES

The Credit Union leases office and ATM facilities. The operating leases contain renewal options and provisions requiring the Credit Union to pay property taxes and operating expenses over base period amounts. All rental payments are dependent only upon the lapse of time. Minimum rental payments for office and ATM facilities under operating leases with remaining terms of one year or more at December 31, 2017 are as follows:

<table>
<thead>
<tr>
<th>Years Ending December 31</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$1,599,174</td>
</tr>
<tr>
<td>2019</td>
<td>1,242,485</td>
</tr>
<tr>
<td>2020</td>
<td>1,061,201</td>
</tr>
<tr>
<td>2021</td>
<td>886,901</td>
</tr>
<tr>
<td>2022</td>
<td>725,913</td>
</tr>
<tr>
<td>Subsequent years</td>
<td>1,692,099</td>
</tr>
<tr>
<td></td>
<td>$7,207,773</td>
</tr>
</tbody>
</table>

Rental expense for the years ending December 31, 2017 and 2016 for all office facilities leased under operating leases totaled $346,000 and $471,000, respectively. Rental expense for the years ending December 31, 2017 and 2016 for all ATM facilities leased under operating leases totaled $773,000 and $664,000, respectively.
During the 2017 audit year, the Credit Union entered into contracts for the construction and renovation of branches. As of December 31, 2017, the current estimated cost of the construction and the amount incurred related to the projects was approximately $1.3 million, respectively. The Credit Union is expecting to be complete with construction in 2018.

The Credit Union has an available line of credit with one bank. The terms of the agreement provide for borrowings up to $777 million with interest payable at a rate determined by the lender on a periodic basis. There are currently no borrowings under this agreement.

The Credit Union is a party to various legal actions normally associated with collections of loans and other business activities of financial institutions, the aggregate effect of which, in management’s opinion, would not have a material adverse effect on the financial condition or results of operations of the Credit Union.

The Credit Union has no outstanding commitments to sell loans or investments at December 31, 2017.

**Concentration of Credit Risk**

The Credit Union may be exposed to credit risk from a regional economic standpoint, since a significant concentration of its borrowers work or reside in the Jacksonville area. However, the loan portfolio is well diversified and the Credit Union does not have any significant concentrations of credit risk except unsecured loans, which by their nature increase the risk of loss compared to those loans that are collateralized. The Credit Union’s policy for repossessing collateral is that when all other collection efforts have been exhausted, the Credit Union enforces its first lien holder status and repossesses the collateral. The Credit Union has full and complete access to repossessed collateral. Repossessed collateral normally consists of vehicles and residential real estate.

The Credit Union is a party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit which include credit cards, lines of credit and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements.
The Credit Union’s exposure to credit loss is represented by the contractual notional amount of these instruments. The Credit Union uses the same credit policies in making commitments as it does for loans recorded in the financial statements.

Unfunded loan commitments under lines of credit are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Credit card</td>
<td>$584,379,392</td>
</tr>
<tr>
<td>Other consumer</td>
<td>94,007,491</td>
</tr>
<tr>
<td>Home equity</td>
<td>196,021,054</td>
</tr>
<tr>
<td>Business</td>
<td>721,052</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$875,128,989</strong></td>
</tr>
</tbody>
</table>

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. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member’s credit worthiness on a case-by-case basis. The amount of collateral obtained to secure borrowing on the lines of credit is based on management’s credit evaluation of the member.

Unfunded commitments under lines-of-credit and revolving credit lines are commitments for possible future extensions of credit to existing members. These lines-of-credit are uncollateralized with the exception of home-equity loans and usually do not contain a specified maturity date and ultimately may not be drawn upon to the total extent to which the Credit Union is committed.

**Unrelated Business Income Tax:**

The Internal Revenue Service (“IRS”) and certain state taxing authorities continually revisit what products and services provided by state-chartered credit unions may be subject to unrelated business income tax (“UBIT”). There is currently very little guidance in the Internal Revenue Code on what activities should be subject to UBIT. The IRS has indicated that they are studying this area of taxation and may issue additional guidance.

As a result, at this time, there is uncertainty regarding whether state-chartered credit unions should pay income tax on certain types of net taxable income from activities that may be considered by taxing authorities as unrelated to the purpose for which the Credit Union was granted non-taxable status. The Credit Union has determined certain activities to be unrelated to the exempt purpose of its charter and has filed federal tax returns in the past for those potential taxable activities.

The taxing authorities have the ability to assess taxes, penalties and interest for any years for which no tax return was filed. In the opinion of management, any liability resulting from taxing authorities imposing income taxes on the net taxable income from activities deemed to be unrelated to the Credit Union’s non-taxable status is not expected to have a material effect on the Credit Union’s financial position or results of operations.
9. EMPLOYEE BENEFITS

The Credit Union has a qualified, contributory 401(k) profit sharing plan that allows employees to defer a portion of their salary into the 401(k) plan. The Credit Union matches a portion of employees’ wage deferrals. The employer contributions are funded on a bi-weekly basis. The Credit Union funded $2.2 million and $1.6 million for 401(k) plan years ending December 31, 2017 and 2016, respectively.

The Credit Union also has a deferred compensation plan created in accordance with Internal Revenue Code Section 457(b). The plan permits the eligible employees to defer a portion of their salary until future years. The employer contributions are funded on a bi-weekly basis. The Credit Union funded $10,000 for Internal Revenue Code Section 457(b) plan year ended December 31, 2017. The Credit Union did not have a 457(b) plan for the year ended December 31, 2016.

10. MEMBERS’ EQUITY

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 generally accepted accounting principles. The Credit Union’s 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 table below) of net worth to total assets. Further, credit unions over $50 million in assets are also required to calculate a Risk-Based Net Worth (RBNW) requirement which establishes whether the Credit Union will be considered “complex” under the regulatory framework. The Credit Union’s RBNW requirements as of December 31, 2017 and 2016 were 5.17% and 5.26%, respectively. 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.
Key aspects of the Credit Union's minimum capital amounts and ratios are summarized as follows:

<table>
<thead>
<tr>
<th>General Capital Requirements:</th>
<th>December 31, 2017</th>
<th>December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount needed to be classified as “adequately capitalized”</td>
<td>$437,967,452</td>
<td>6.00%</td>
</tr>
<tr>
<td>Amount needed to be classified as “well capitalized”</td>
<td>$510,962,027</td>
<td>7.00%</td>
</tr>
<tr>
<td>Actual net worth</td>
<td>$640,580,056</td>
<td>8.78%</td>
</tr>
</tbody>
</table>

For December 31, 2017 and December 31, 2016, 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 that notification that management believes have changed the institution's category.

Because the RBNW requirement is less than the net worth ratio, the Credit Union retains its original category of “well capitalized”. Further, in performing its calculation of total assets, the Credit Union used the average of the quarter-end balances of the four most recent quarters, as permitted by regulation.

11. RELATED PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends credit to directors, audit committee members and executive officers. The aggregate loans to related parties were $1.6 million and $2.3 million at December 31, 2017 and 2016, respectively.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Credit Union discloses the fair value of assets and liabilities in accordance with the provisions of GAAP which defines fair value and establishes a framework for measuring fair value. The fair value of financial instruments represents the fair value in terms of the price in an orderly transaction between market participants to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability. The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or owes the liability. Therefore, the objective of a fair value measurement is to determine the price that would be received to sell the asset or paid to transfer the liability at the measurement date (an exit price).

To increase consistency and comparability in fair value measurements and related disclosures, the fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into
three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The availability of inputs relevant to the asset or liability and the relative reliability of the inputs might affect the selection of appropriate valuation techniques.

**Level 1 Inputs**

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. In general, a quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

**Level 2 Inputs**

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data (market-corroborated inputs). If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. An adjustment to a Level 2 input that is significant to the fair value measurement in its entirety might render the measurement a Level 3 measurement, depending on the level in the fair value hierarchy within which the inputs used to determine the adjustment fall.

**Level 3 Inputs**

Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Therefore, unobservable inputs shall reflect the reporting Credit Union’s own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs shall be developed based on the best information available in the circumstances, which might include the Credit Union’s own data. However, the unobservable inputs shall not ignore information about market participant assumptions that is reasonably available without undue cost and effort.

The asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Available-for-Sale Securities

Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments, or on discounted cash flow models based on the expected payment characteristics of the underlying instruments.

Assets Acquired in Liquidation

Fair value is measured based on the appraised value of the collateral or based on the collateral type, through the National Automobile Dealers Association (“NADA”) valuation tables. Collateral may be real estate, vehicles and/or business assets including equipment and value is determined based on appraisals by qualified licensed appraisers hired by the Credit Union for real estate or NADA valuation tables for consumer collateral. Appraised and reported values may be discounted based on management’s historical knowledge, changes in market conditions from the time of valuation, and/or management’s expertise and knowledge of the member and member’s business.

Fair Value on a Recurring Basis

The following table presents the balances of financial assets that are measured and presented in the statements of financial condition at fair value on a recurring basis:

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>December 31, 2017</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments AFS</td>
<td>$1,079,065,450</td>
<td>$1,079,065,450</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>December 31, 2016</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments AFS</td>
<td>$1,139,034,086</td>
<td>$1,139,034,086</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring 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. The following table presents assets and liabilities carried on the statements of financial condition for which a nonrecurring change in fair value has been recorded during the year ended:

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>December 31, 2017</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets acquired in liquidation</td>
<td>$691,576</td>
<td>-</td>
<td>$691,576</td>
<td>-</td>
</tr>
<tr>
<td><strong>December 31, 2016</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets acquired in liquidation</td>
<td>$2,300,744</td>
<td>-</td>
<td>$2,300,744</td>
<td>-</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated statements.
13. MERGED EQUITY

On November 1, 2016, the Credit Union completed the merger of Anchor 7 Federal Credit Union, the acquiree in this business combination. Anchor 7 Federal Credit Union was a federally chartered credit union located in Jacksonville, Florida, founded as a cooperative association for the purposes of promoting thrift among, and creating a source of credit for its members. The reason for the merger is to further promote thrift among its members consistent with purpose when founded. The merger is a business combination of two mutual entities accounted for in accordance with the provisions of acquisition method accounting. The application of acquisition method accounting requires that the acquiree credit union’s assets and liabilities be recorded at fair value. The difference between the fair value of assets and liabilities obtained during the merger are reflected in either a bargain purchase gain or goodwill. In addition, the acquirer in a combination of mutual entities recognizes the acquiree’s net assets as a direct addition to equity in its statement of financial position, not as an addition to retained earnings. Based on the asset size of Anchor 7 Federal Credit Union, amortized cost is equivalent to its fair market value and is reflected in the attached audited financial statements.

14. SUBSEQUENT EVENT

Subsequent to the audit date, the NCUA Board declared a distribution refund for the year ended December 31, 2017 in the form of a pro-rata dividend to eligible credit unions. The distribution approximates $3.3 million for the Credit Union and should be recorded as income and a receivable in the March 31, 2018, Call Report filed with the NCUA.

The funds available for distribution resulted from the closure of the Temporary Corporate Credit Union Stabilization Fund (TCCUSF). When the NCUA Board voted in September 2017 to close the TCCUSF, the remaining funds in the TCCUSF were required to be transferred to the National Credit Union Share Insurance Fund (NCUSIF).

The transfer of TCCUSF funds caused the NCUSIF to exceed a “normal operating level.” The NCUA Board is legally required to declare distributions to reduce the NCUSIF to a “normal operating level.”