Northrop Grumman Federal Credit Union and Subsidiary

Consolidated Financial Statements

December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Supervisory Committee
Northrop Grumman Federal Credit Union

We have audited the accompanying consolidated financial statements of Northrop Grumman Federal Credit Union (the credit union) and subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2017 and 2016, the 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 the consolidated financial statements that are free of 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of 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 credit union'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 credit union'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 Northrop Grumman Federal Credit Union and subsidiary as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Turner, Warren, Hwang + Conrad

Burbank, California
April 23, 2018

NORTHROP GRUMMAN FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Cash and cash equivalents	$ 27,495,439	$ 35,826,156
Investments:		
Securities available for sale	412,272,943	477,733,627
Other	10,780,000	9,484,000
Loans receivable, net	625,333,246	524,756,739
Accrued interest receivable	3,247,122	3,097,427
Property and equipment	7,478,876	6,144,312
National Credit Union Share Insurance Fund (NCUSIF) deposit	9,436,408	8,802,157
Other assets	8,179,746	7,259,123
Total assets	$ 1,104,223,780	$ 1,073,103,541
LIABILITIES AND MEMBERS' EQUITY		
Liabilities:		
Members' share accounts	$ 976,281,706	$ 946,595,302
Accrued expenses and other liabilities	12,683,560	13,260,862
Total liabilities	988,965,266	959,856,164
Members' equity:		
Regular reserve	3,559,687	3,559,687
Undivided earnings	119,741,682	118,493,187
Accumulated other comprehensive loss	(8,042,855)	(8,805,497)
Total members' equity	115,258,514	113,247,377
Total liabilities and members' equity	$ 1,104,223,780	$ 1,073,103,541

The accompanying notes are an integral part of these consolidated financial statements.

Northrop Grumman Federal Credit Union and Subsidiary

Consolidated Statements of Income

Years Ended December 31, 2017 and 2016

	2017	2016
INTEREST INCOME		
Loans receivable	$ 23,826,080	$ 21,131,294
Investments and interest-bearing accounts	13,425,013	10,918,132
Total interest income	37,251,093	32,049,426
INTEREST EXPENSE		
Members' share accounts	6,226,022	5,748,571
Borrowed funds	3,542,528	932,615
Total interest expense	9,768,550	6,681,186
NET INTEREST INCOME	27,482,543	25,368,240
PROVISION FOR LOAN LOSSES	3,173,232	3,091,124
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	24,309,311	22,277,116
NON-INTEREST INCOME		
Fees and charges	1,958,866	2,097,313
Gain (loss) on sale of securities available for sale	(156,224)	109,579
Other income	2,867,179	2,722,596
Total non-interest income	4,669,821	4,929,488
NON-INTEREST EXPENSE		
Compensation and benefits	14,160,229	11,173,314
Operations	12,184,420	11,628,558
Occupancy	1,385,988	1,308,453
Total non-interest expense	27,730,637	24,110,325
NET INCOME	$ 1,248,495	$ 3,096,279

The accompanying notes are an integral part of these consolidated financial statements.

NORTHROP GRUMMAN FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
NET INCOME	$ 1,248,495	$ 3,096,279
OTHER COMPREHENSIVE INCOME		
Net change in unrealized losses on securities available for sale	606,418	810,109
Less: reclassification adjustment for realized (gains) losses included in net income	156,224	(109,579)
Total other comprehensive income	762,642	700,530
COMPREHENSIVE INCOME	$ 2,011,137	$ 3,796,809

The accompanying notes are an integral part of these consolidated financial statements.

Northrop Grumman Federal Credit Union and Subsidiary

Consolidated Statements of Members' Equity

Years Ended December 31, 2017 and 2016

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2015	$ 3,559,687	$115,396,908	$ (9,506,027)	$109,450,568
Comprehensive income:				
Net income	-	3,096,279	-	3,096,279
Other comprehensive income	-	-	700,530	700,530
Total comprehensive income				3,796,809
Balance, December 31, 2016	3,559,687	118,493,187	(8,805,497)	113,247,377
Comprehensive income:				
Net income	-	1,248,495	-	1,248,495
Other comprehensive income	-	-	762,642	762,642
Total comprehensive income				2,011,137
Balance, December 31, 2017	$ 3,559,687	$119,741,682	$ (8,042,855)	$115,258,514

The accompanying notes are an integral part of these consolidated financial statements.

NORTHROP GRUMMAN FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,248,495	$ 3,096,279
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,068,475	1,058,454
Provision for loan losses	3,173,232	3,091,124
Amortization of investments, net	3,083,894	3,215,966
Amortization of deferred loan origination costs, net	73,353	118,227
(Gain) loss on sale of securities available for sale	156,224	(109,579)
Amortization of mortgage servicing rights	53,615	70,075
Gain on sale of property and equipment	-	(2,329)
Net change in:		
Accrued interest receivable	(149,695)	(59,864)
NCUSIF deposit	(634,251)	(424,693)
Other assets	(974,238)	202,680
Accrued expenses and other liabilities	(577,302)	4,021,300
Net cash provided by operating activities	6,521,802	14,277,640
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities available for sale	(34,647,341)	(171,743,121)
Proceeds from sales, maturities and principal payments received on securities available for sale	97,630,549	164,659,670
Net increase in other investments	(1,296,000)	(9,234,000)
Net increase in loans receivable	(103,823,092)	(58,217,608)
Purchases of property and equipment	(2,403,039)	(955,815)
Proceeds from the sale of property and equipment	-	15,854
Net cash used in investing activities	(44,538,923)	(75,475,020)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' share accounts	29,686,404	51,231,728
Net cash provided by financing activities	29,686,404	51,231,728
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,330,717)	(9,965,652)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	35,826,156	45,791,808
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 27,495,439	$ 35,826,156
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION AND NONCASH INVESTING ACTIVITIES		
Dividends paid on members' share accounts	$ 6,229,384	$ 5,751,315
Purchase of securities available for sale	-	698,312
Interest paid on borrowed funds	3,542,528	932,615

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business: Northrop Grumman Federal Credit Union (the credit union) is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act. The credit union provides a variety of financial services to its members. Participation in the credit union is limited to those individuals who qualify for membership as defined in its charter and bylaws. The credit union's primary deposit products are share accounts, and its primary lending products are real estate, automobile and unsecured loans.

The credit union's wholly owned subsidiary, Flight Plan Financial Services, Inc., provides insurance and investment services for members.

Field of Membership and Sponsor: Participation in the credit union is limited to those individuals who qualify for membership as defined in its charter and bylaws. The primary field of membership of the credit union consists of employees and former employees of Northrop Grumman Corporation.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the credit union and its wholly owned subsidiary, Flight Plan Financial Services, Inc. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues 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 fair value of investments and the allowance for loan losses.

Fair Value: Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, provides a framework for measuring fair value that requires an entity to determine fair value based on the exit price in the principal market for the asset or liability being measured. Fair value is defined as the exchange price that would be received on the measurement date to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants. The guidance also establishes a three-level fair value hierarchy that describes the inputs used to measure assets and liabilities.

- Level 1 asset and liability fair values are based on quoted prices in active markets for identical assets and liabilities.
- Level 2 asset and liability fair values are based on observable inputs that include quoted market prices for similar assets or liabilities, quoted market prices that are not in an active market, or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 assets and liabilities are financial instruments whose value is calculated by the use of pricing models and/or discounted cash flow methodologies, as well as financial instruments for which the determination of fair value requires significant management judgment or estimation.

The credit union's financial instruments and other accounts subject to fair value measurement and/or disclosure are summarized in Note 14.

Cash and Cash Equivalents: For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand and in financial institutions, and all highly liquid debt instruments with original maturities of three months or less.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments: Investments that the credit union intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other 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 individual securities available for sale below their cost that are deemed to be other than temporary are reflected in (1) credit losses, which are reflected in earnings as realized losses, and (2) noncredit losses, which are recorded in other comprehensive income. In determining whether other-than-temporary impairment (OTTI) exists, management considers many factors, including (1) the length of time and extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) the current liquidity and volatility of the market for each of the individual security categories, (4) the projected cash flows from the specific security type, (5) the financial guarantee and financial rating of the issuer, and (6) the intent and ability of the credit union to retain its investments 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 the costs of securities sold are determined using the specific-identification method.

Other investments are classified separately and stated at cost.

Federal Home Loan Bank (FHLB) Stock: The credit union, as a member of the FHLB system, is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of 1% of its Membership Asset Value, subject to a cap of $15 million, or 2.7% of advances from the FHLB. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans Receivable, Net: The credit union grants mortgage and consumer loans to members. A substantial portion of the loan portfolio is represented by automobile and mortgage loans to members. Members' ability to honor their loan agreements is dependent upon the economic stability of the various groups composing the credit union's field of membership.

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 costs. Interest on loans is recognized over the term of the loan and calculated using the simple-interest method on principal amounts outstanding.

The accrual of interest on loans is discontinued at the time a loan is 60 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 the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if management believes, after considering economic conditions, business conditions and collection efforts, that 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. The interest on these loans is accounted for on the cash-basis or cost-recovery method until the loans qualify 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.

Certain loan fees and 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Troubled Debt Restructurings (TDRs): In situations where, for economic or legal reasons related to a member's financial difficulties, the credit union grants a concession to a member for other than an insignificant period of time that the credit union would not otherwise consider, the related loan is classified as a TDR. The credit union strives to identify members in financial difficulty early and work with them to modify their loan to more affordable terms before it reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the credit union grants a member new terms that provide for a reduction of interest or principal, the credit union measures any impairment on the restructuring using the methodology for individually impaired loans. Loans classified as TDRs are reported as impaired loans.

Allowance for Loan Losses: The credit union maintains an allowance for loan losses to absorb losses inherent in the loan portfolio. The allowance is based on ongoing monthly assessments of the probable estimated losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses and decreased by charge-offs when management believes the uncollectibility of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Management develops and documents its systematic methodology for determining the allowance for loan losses by dividing its portfolio into classes based on initial measurement attributes, risk characteristics, or its method of monitoring and assessing credit risk. Management first divides its portfolio into three segments: commercial, residential real estate and consumer. The credit union further divides the portfolio segments into classes based on initial measurement attributes, risk characteristics or its method of monitoring and assessing credit risk. The commercial portfolio segment comprises commercial real estate loans. The classes within the residential real estate portfolio segment are first mortgage, home equity line of credit (HELOC) and other mortgage. The classes within the consumer portfolio segment are automobile, credit card and other consumer.

The allowance for loan losses consists of the specific loan loss allowance for impaired loans and the general loan loss allowance. The credit union evaluates the residential real estate and consumer segments for impairment on a pooled basis, unless they represent TDRs, as part of the general loan loss allowance and evaluates the commercial loans individually. Impaired loans are subject to the specific loan loss allowance. Loans are considered impaired when the individual evaluation of current information regarding the borrower's financial condition, loan collateral and cash flows indicates that the credit union will be unable to collect all amounts due according to the contractual terms of the loan agreement, including interest payments. Impairment is measured based on the present value of the expected future cash flows discounted at the loan's effective interest rate or, as an expedient, at the loan's observable market price or the fair value of the collateral, less costs to sell, if the loan is collateral dependent.

A general loan loss allowance is provided on loans not specifically identified as impaired. The allowance is determined by pooling residential real estate, consumer and non-impaired commercial loans by portfolio class and applying a historical loss percentage to each class. The credit union's historical loss percentage may be adjusted for significant qualitative and environmental factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date. The conditions evaluated for qualitative and environmental factors may include existing general economic and business conditions affecting the key lending areas and products of the credit union, credit quality trends and risk identification, collateral values, loan volumes, underwriting standards and concentrations, specific industry conditions within portfolio segments, recent loss experience in particular classes of the portfolio and duration of the current business cycle.

In estimating the allowance for loan losses, significant risk characteristics considered for the residential real estate segments were historical and expected future charge-offs, borrower's credit and property collateral. The significant characteristics considered for the commercial segment include payment history, borrower cash flow, collateral value, and market conditions and trends.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Real Estate Owned: Real estate properties acquired through or in lieu of loan foreclosure are held for sale and initially recorded at fair value less estimated selling costs at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less costs to sell.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to have been surrendered when (1) the assets have been isolated from the credit union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the credit union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Loan Servicing: Servicing assets are recognized as separate assets initially measured at fair value, if practicable, when the credit union sells mortgage loans with servicing retained. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, discount rate, custodial earnings rate, inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are reported in other assets and amortized into non-interest expense in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing assets are evaluated for impairment based on the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the credit union later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Property and Equipment: Land is carried at cost. Building, furniture and equipment, data processing equipment and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Building, furniture and equipment, and data processing 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.

NCUSIF Deposit: The deposit in the NCUSIF is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to 1% of its insured shares. The deposit will be refunded to the credit union if its insurance coverage is terminated, if it converts insurance coverage to another source, or if the operations of the fund are transferred from the NCUA Board.

NCUSIF Insurance Premium and Temporary Corporate Credit Union Stabilization Fund (TCCUSF) Assessment: The credit union is required to pay an annual insurance premium and/or TCCUSF assessment based on a percentage of its total insured shares as declared by the NCUA Board, unless the payment is waived by the Board. There were no assessments during the years ended December 31, 2017 and 2016.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Members' Share Accounts: Members' share accounts are the savings deposit accounts of the owners of the credit union. Share 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 shares owned, no member has more than one vote. Members' share accounts are subordinated to all other liabilities of the credit union upon liquidation.

Dividends on members' share accounts are based on available earnings at the end of a dividend period and are not guaranteed by the credit union. Dividend rates on members' share accounts are set by the Board of Directors based on an evaluation of current and future market conditions.

Members' Equity: The credit union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of dividends.

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 securities available for sale, are reported as a separate component of the members' equity section in the accompanying consolidated statements of financial condition.

Income Taxes: The credit union is exempt from federal and California taxes on income. The credit union's wholly owned subsidiary, however, is subject to federal and state income taxes. The operations of the subsidiary resulted in immaterial income taxes for the years ended December 31, 2017 and 2016.

Advertising Costs: Advertising costs are expensed as incurred.

Reclassification: Certain reclassifications have been made to the consolidated financial statements of the prior year in order to conform to classifications used in the current year.

Recent Accounting Pronouncement: On March 30, 2017, the FASB published ASU No. 2017-08—*Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. This new guidance shortens the amortization period for certain callable debt securities held at a premium. The amendments in ASU No. 2017-08 require the premium to be amortized to the earliest call date. There is no required change for securities held at a discount, and the discount continues to be amortized to maturity.

For public entities, the amendments under ASU No. 2017-08 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. If an entity early adopts ASU No. 2017-08 in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes the interim period. ASU No. 2017-08 should be applied on a modified retrospective basis through a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption. An entity should provide disclosures about a change in accounting principle in the period of adoption. The credit union is currently evaluating the impact of ASU No. 2017-08 on its consolidated financial statements.

Subsequent Events: Subsequent events have been evaluated through April 23, 2018, which is the date the consolidated financial statements were available to be issued.

NOTE 2 – INVESTMENTS

The amortized cost and fair value of securities available for sale are as follows:

2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Federal agency securities	$ 25,504,872	$ -	$ (335,345)	$ 25,169,527
Mortgage-backed securities	394,810,926	566,176	(8,273,686)	387,103,416
	$ 420,315,798	$ 566,176	$ (8,609,031)	$ 412,272,943
2016				
Federal agency securities	$ 22,824,560	$ -	$ (254,459)	$ 22,570,101
Mortgage-backed securities	463,714,564	551,391	(9,102,429)	455,163,526
	$ 486,539,124	$ 551,391	$ (9,356,888)	$ 477,733,627

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position are as follows:

2017	Fair Value	Continuous Unrealized Losses Existing for Less Than 12 Months	Continuous Unrealized Losses Existing for 12 Months or Longer	Total Unrealized Losses
Federal agency securities	$ 25,169,527	$ (21,106)	$ (314,239)	$ (335,345)
Mortgage-backed securities	297,488,637	(499,854)	(7,773,832)	(8,273,686)
	$ 322,658,164	$ (520,960)	$ (8,088,071)	$ (8,609,031)
2016				
Federal agency securities	$ 22,570,101	$ (254,459)	$ -	$ (254,459)
Mortgage-backed securities	403,328,743	(5,387,379)	(3,715,050)	(9,102,429)
	$ 425,898,844	$ (5,641,838)	$ (3,715,050)	$ (9,356,888)

Management evaluates securities for OTTI on at least an annual basis and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (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.

As of December 31, 2017, 14 investments have been in a continuous unrealized loss position for less than 12 months and 119 have been in a continuous unrealized loss position for 12 months or longer. The unrealized losses associated with these investments are considered temporary, as the credit union has both the intent and ability to hold these investments for a period of time sufficient to allow for any anticipated recovery in fair value.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period in which the OTTI is identified. There was no OTTI loss recorded for the years ended December 31, 2017 and 2016.

NOTE 2 – INVESTMENTS (CONTINUED)

Other investments consist of the following:

	2017	2016
Contributed capital in a corporate credit union	$ 250,000	$ 250,000
FHLB stock	10,530,000	9,234,000
	$ 10,780,000	$ 9,484,000

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

	Securities Available for Sale		
	Amortized Cost	Fair Value	Other
No contractual maturity	$ -	$ -	$ 10,780,000
Less than one year	6,250,000	6,209,325	-
Five to ten years	14,291,279	14,129,792	-
More than ten years	4,963,593	4,830,410	-
	25,504,872	25,169,527	10,780,000
Mortgage-backed securities	394,810,926	387,103,416	-
	$ 420,315,798	$ 412,272,943	$ 10,780,000

Because borrowers may prepay obligations with or without call or prepayment penalties, the expected maturities of mortgage-backed securities may differ from the contractual maturities. Mortgage-backed securities are therefore classified separately with no specific maturity date.

NOTE 3 – LOANS RECEIVABLE, NET

Loans outstanding by portfolio segment and class of loan are as follows:

	2017	2016
Commercial:		
Commercial real estate	$ 19,268,737	$ -
Residential real estate:		
First mortgage	270,635,260	234,426,391
HELOC and other mortgage	99,924,354	89,799,300
	370,559,614	324,225,691
Consumer:		
Automobile	151,179,308	122,731,803
Credit card	36,006,415	40,714,255
Other consumer, primarily unsecured	52,684,613	40,434,549
	239,870,336	203,880,607
Total loans	629,698,687	528,106,298
Net deferred loan origination fees	(470,055)	(220,649)
Allowance for loan losses	(3,895,386)	(3,128,910)
Total loans, net	$ 625,333,246	$ 524,756,739

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

The allowance for loan losses and the recorded investment in loans, by portfolio segment, are as follows:

2017	Commercial	Residential Real Estate	Consumer	Total
Allowance for loan losses:				
Beginning balance	$ -	$ 1,328,599	$ 1,800,311	$ 3,128,910
Charge-offs	-	(215,033)	(2,602,752)	(2,817,785)
Provision (credit) for loan losses	-	(319,456)	3,492,688	3,173,232
Recoveries	-	15,255	395,774	411,029
Ending balance	$ -	$ 809,365	$ 3,086,021	$ 3,895,386
Individually evaluated for impairment	$ -	$ 540,094	$ 937,249	$ 1,477,343
Collectively evaluated for impairment	-	269,271	2,148,772	2,418,043
Ending balance	$ -	$ 809,365	$ 3,086,021	$ 3,895,386
Recorded investment in loans:				
Individually evaluated for impairment	$ -	$ 4,152,635	$ 1,145,163	$ 5,297,798
Collectively evaluated for impairment	19,268,737	366,406,979	238,725,173	624,400,889
Ending balance	$ 19,268,737	$ 370,559,614	$ 239,870,336	$ 629,698,687
2016				
Allowance for loan losses:				
Beginning balance	$ -	$ 575,217	$ 1,488,072	$ 2,063,289
Charge-offs	-	(487,433)	(1,804,973)	(2,292,406)
Provision for loan losses	-	1,199,903	1,891,221	3,091,124
Recoveries	-	40,912	225,991	266,903
Ending balance	$ -	$ 1,328,599	$ 1,800,311	$ 3,128,910
Individually evaluated for impairment	$ -	$ 777,832	$ 121,742	$ 899,574
Collectively evaluated for impairment	-	550,767	1,678,569	2,229,336
Ending balance	$ -	$ 1,328,599	$ 1,800,311	$ 3,128,910
Recorded investment in loans:				
Individually evaluated for impairment	$ -	$ 3,757,993	$ 196,513	$ 3,954,506
Collectively evaluated for impairment	-	320,467,698	203,684,094	524,151,792
Ending balance	$ -	$ 324,225,691	$ 203,880,607	$ 528,106,298

Changes in Accounting Methodology: There were no changes in accounting methodology for the allowance for loan losses during the years ended December 31, 2017 and 2016, respectively.

Credit Quality Indicators: The credit union assesses the credit quality of its commercial real estate loans with a nine-grade risk rating system, where a higher grade represents a higher level of credit risk. The nine-grade risk rating system can generally be classified in the following categories: pass or watch, special mention, substandard, doubtful and loss. The risk ratings reflect the relative strength of the sources of repayment.

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

Pass or watch loans are generally considered to have sufficient sources of repayment in order to pay the loan in full in accordance with all terms and conditions. These borrowers may have some credit risk that requires monitoring, but full repayment is expected. Special mention loans are considered to have potential weaknesses that warrant close attention by management. Special mention loans are considered a transitory grade, and generally, the credit union has not had a loan remain categorized as special mention for longer than six months. If any potential weaknesses are resolved, the loan is upgraded to a pass or watch grade. If negative trends in the borrower's financial status or other information is presented indicating that the repayment sources may become inadequate, the loan is downgraded to substandard. Substandard loans are considered to have well-defined weaknesses that jeopardize the full and timely repayment of the loan. Substandard loans have a distinct possibility of loss if the deficiencies are not corrected. Additionally, when management has assessed a potential for loss but a distinct possibility of loss is not recognizable, the loan is still classified as substandard. Doubtful loans have insufficient sources of repayment and a high probability of loss. Loss loans are considered to be uncollectible and are therefore charged off. These internal risk ratings are reviewed continuously and adjusted for changes in borrower status and the likelihood of loan repayment.

As of December 31, 2017, the credit quality of commercial real estate loans totaling $19,268,737 were evaluated as pass or watch based on the internal risk grading system.

The credit union assesses the credit quality of its residential real estate and consumer loans by recent FICO score and loan-to-value (LTV) ratio.

FICO Scores: The credit union obtains FICO scores at loan origination, and the scores are updated at least annually. Loans that trend toward higher levels are generally associated with a lower risk factor, whereas loans that migrate toward lower ratings will generally result in a higher risk factor being applied to the related loan balances.

The FICO score distribution is as follows:

2017	First Mortgage	HELOC and Other Mortgage	Automobile	Credit Card	Other Consumer	Total
800 and above	$ 76,645,690	$ 19,842,091	$ 17,821,960	$ 2,247,610	$ 2,190,039	$ 118,747,390
720 to 799	151,589,725	50,351,904	73,454,979	17,177,906	25,006,032	317,580,546
680 to 719	22,110,098	12,455,246	21,429,935	6,633,384	10,221,942	72,850,605
640 to 679	9,882,810	6,840,074	13,590,172	4,861,295	6,624,524	41,798,875
580 to 639	4,065,809	5,052,534	10,988,448	3,044,059	4,389,922	27,540,772
579 and below	1,483,539	3,477,170	7,586,808	1,693,294	2,684,719	16,925,530
Unknown	4,857,589	1,905,335	6,307,006	348,867	1,567,435	14,986,232
	$ 270,635,260	$ 99,924,354	$ 151,179,308	$ 36,006,415	$ 52,684,613	$ 610,429,950

2016	First Mortgage	HELOC and Other Mortgage	Automobile	Credit Card	Other Consumer	Total
800 and above	$ 80,105,138	$ 19,566,289	$ 17,930,739	$ 2,357,869	$ 1,688,408	$ 121,648,443
720 to 799	117,773,334	44,069,356	57,077,477	19,428,215	17,550,876	255,899,258
680 to 719	18,811,747	11,291,207	18,913,112	8,126,332	9,106,398	66,248,796
640 to 679	8,943,401	6,082,680	12,772,343	5,475,284	5,836,802	39,110,510
580 to 639	4,224,252	4,733,708	8,951,377	3,141,644	3,741,512	24,792,493
579 and below	868,456	2,926,805	6,037,801	1,575,206	2,051,428	13,459,696
Unknown	3,700,063	1,129,255	1,048,954	609,705	459,125	6,947,102
	$ 234,426,391	$ 89,799,300	$ 122,731,803	$ 40,714,255	$ 40,434,549	$ 528,106,298

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

LTV and Combined LTV (CLTV) Ratios: Residential real estate loans are assessed for credit quality by LTV or CLTV, the ratio of the loan's unpaid principal balance to the value of the collateral securing repayment of the loan. If the credit union is in a junior lien position, only the excess collateral value over the amounts necessary to retire any senior lien positions is considered. LTVs are updated annually using a cascade approach that first uses values provided by an automated valuation model (AVM) for a property. If an AVM is not available, the value is estimated using the original appraised value adjusted by the change in Home Price Index (HPI) for the property location. If an HPI is not available, the original appraised value is used.

Trends in LTV migration are considered in the way the credit union monitors credit risk and establishes the residential real estate allowance for loan losses. LTV does not necessarily reflect the likelihood of performance of a given loan but does provide an indication of collateral value. In the event of default, any loss to the credit union should be limited to approximately the portion of the loan amount in excess of the net realizable value of the underlying real estate collateral.

The LTV distribution of first mortgage and HELOC and other mortgage loans is as follows:

2017	Less Than 80%	80%–89%	90%–100%	Greater Than 100%	Unknown	Total
First mortgage	$ 253,032,743	$ 12,450,826	$ 3,333,279	$ 1,818,412	$ -	$ 270,635,260
HELOC and other mortgage	85,750,766	8,547,702	2,014,248	3,611,638	-	99,924,354
	$ 338,783,509	$ 20,998,528	$ 5,347,527	$ 5,430,050	$ -	$ 370,559,614
2016						
First mortgage	$ 216,232,020	$ 11,432,613	$ 4,701,820	$ 2,059,938	$ -	$ 234,426,391
HELOC and other mortgage	71,952,003	9,290,874	2,876,255	5,266,173	413,995	89,799,300
	$ 288,184,023	$ 20,723,487	$ 7,578,075	$ 7,326,111	$ 413,995	$ 324,225,691

Nonaccrual and Past Due Loans: Information relating to the age and nonaccrual status of the loans by class is as follows:

2017	Current	30–59 Days Past Due	60–179 Days Past Due	180–359 Days Past Due	360 Days or More Past Due	Total	Loans on Nonaccrual Status
Commercial real estate	$ 19,268,737	$ -	$ -	$ -	$ -	$ 19,268,737	$ -
First mortgage	269,418,837	1,022,900	-	-	193,523	270,635,260	193,523
HELOC and other mortgage	98,805,870	769,816	173,989	27,656	147,023	99,924,354	348,668
Automobile	149,582,542	1,021,734	279,276	271,347	24,409	151,179,308	575,032
Credit card	35,563,205	205,754	237,456	-	-	36,006,415	237,456
Other consumer	51,697,780	435,921	390,932	159,980	-	52,684,613	550,912
	$ 624,336,971	$ 3,456,125	$ 1,081,653	$ 458,983	$ 364,955	$ 629,698,687	$ 1,905,591
2016							
First mortgage	$ 232,188,750	$ 1,974,869	$ -	$ -	$ 262,772	$ 234,426,391	$ 262,772
HELOC and other mortgage	87,985,554	1,056,236	89,709	46,380	621,421	89,799,300	757,510
Automobile	121,262,419	996,558	313,157	111,463	48,206	122,731,803	472,826
Credit card	40,350,302	-	363,953	-	-	40,714,255	363,953
Other consumer	39,758,829	404,349	269,947	1,424	-	40,434,549	271,371
	$ 521,545,854	$ 4,432,012	$ 1,036,766	$ 159,267	$ 932,399	$ 528,106,298	$ 2,128,432

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

There were no loans 60 days or more past due and still accruing interest as of December 31, 2017 and 2016.

Impaired Loans: Impaired loans individually evaluated for impairment and the related amounts of interest income recognized during the period the loans were impaired are shown below. The average balances were calculated based on the year-end balances of the loans for the period reported.

2017	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
First mortgage	$ 1,123,432	$ 1,123,432	$ -	$ 954,599	$ 44,816
HELOC and other mortgage	1,513,383	1,513,383	-	1,433,165	57,872
	2,636,815	2,636,815	-	2,387,764	102,688
With an allowance recorded:					
First mortgage	1,045,159	1,045,159	289,668	960,865	23,501
HELOC and other mortgage	470,661	470,661	250,426	610,746	11,203
Automobile	519,785	519,785	311,871	347,251	649
Credit card	237,456	237,456	237,456	237,456	-
Other consumer	387,922	387,922	387,922	194,673	-
	2,660,983	2,660,983	1,477,343	2,350,991	35,353
Total:					
First mortgage	2,168,591	2,168,591	289,668	1,915,464	68,317
HELOC and other mortgage	1,984,044	1,984,044	250,426	2,043,911	69,075
Automobile	519,785	519,785	311,871	347,251	649
Credit card	237,456	237,456	237,456	237,456	-
Other consumer	387,922	387,922	387,922	194,673	-
	$ 5,297,798	$ 5,297,798	$ 1,477,343	$ 4,738,755	$ 138,041

2016	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
First mortgage	$ 785,765	$ 781,568	$ -	$ 812,052	$ 17,210
HELOC and other mortgage	1,352,947	1,349,745	-	1,514,336	34,747
Automobile	20,373	20,373	-	27,374	406
	2,159,085	2,151,686	-	2,353,762	52,363
With an allowance recorded:					
First mortgage	876,571	877,316	294,449	983,466	17,806
HELOC and other mortgage	750,830	749,364	483,383	687,435	9,276
Automobile	174,717	174,717	120,319	157,724	895
Other consumer	1,423	1,423	1,423	21,266	-
	1,803,541	1,802,820	899,574	1,849,891	27,977
Total:					
First mortgage	1,662,336	1,658,884	294,449	1,795,518	35,016
HELOC and other mortgage	2,103,777	2,099,109	483,383	2,201,771	44,023
Automobile	195,090	195,090	120,319	185,098	1,301
Other consumer	1,423	1,423	1,423	21,266	-
	$ 3,962,626	$ 3,954,506	$ 899,574	$ 4,203,653	$ 80,340

TDRs: There were no loans modified as TDRs during the years ended December 31, 2017 and 2016 and no restructurings for which there was a payment default subsequent to the restructuring, but within 12 months of the restructuring, during the years ended December 31, 2017 and 2016.

NOTE 4 – LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balance of loans serviced for Fannie Mae totaled $44,750,349 and $51,125,865 at December 31, 2017 and 2016, respectively. Mortgage servicing rights totaled $196,902 and $250,517 as of December 31, 2017 and 2016, respectively.

NOTE 5 – PROPERTY AND EQUIPMENT

The composition of property and equipment is summarized as follows:

	2017	2016
Land	$ 1,110,140	$ 1,110,140
Building	3,958,345	3,958,345
Furniture and equipment	5,177,966	4,563,633
Data processing equipment	12,164,048	11,185,975
Leasehold improvements	3,873,413	3,062,781
	26,283,912	23,880,874
Accumulated depreciation and amortization	(18,805,036)	(17,736,562)
	$ 7,478,876	$ 6,144,312

NOTE 6 – MEMBERS' SHARE ACCOUNTS

A summary of members' share accounts by type is as follows:

	2017	2016
Regular share	$ 239,482,609	$ 226,515,538
Share draft	135,612,549	126,943,872
Money market	296,303,299	290,490,862
Individual retirement account	13,185,141	12,659,474
Certificates of deposit	291,698,108	289,985,556
	$ 976,281,706	$ 946,595,302

Dividend rates are set by the Board of Directors, and dividends are charged to operations. The aggregate amounts of time deposits in denominations that met or exceeded the NCUSIF insurance limit were $40,993,598 and $38,773,259 at December 31, 2017 and 2016, respectively.

A summary of share certificate accounts by maturity at December 31, 2017 is as follows:

Years Ending December 31,	
2018	$ 165,862,926
2019	46,466,095
2020	30,172,709
2021	28,351,830
2022	13,855,006
Thereafter	6,989,542
	$ 291,698,108

NOTE 7 – BORROWED FUNDS

Corporate Credit Union: The credit union utilizes a demand loan agreement with Vizo Financial Corporate Credit Union (formed from the merger of Mid-Atlantic Corporate Federal Credit Union and First Carolina Corporate Credit Union). The terms of this agreement call for the pledging of all assets not already pledged as collateral under other borrowing agreements as security for any and all obligations taken by the credit union. The agreement provides for a credit limit of $5,000,000 with interest charged at a rate determined by the lender on a periodic basis. At December 31, 2017 and 2016, there were no borrowings under this agreement, which is annually reviewed for continuation by the lender and the credit union.

FHLB Advances: During the year ended December 31, 2016, the credit union established a line-of-credit arrangement with the FHLB under the Standard Credit Program and Securities-Backed Credit Program. At December 31, 2017, the credit union had pledged securities and real estate loans with a market value of $404,547,401 and $234,657,195, respectively, as collateral under the programs. The credit union's borrowing capacity is determined as a percentage of the fair value of the pledged securities and real estate loans, less outstanding advances, subject to a cap of 35% of total assets. As of December 31, 2017 and 2016, the credit union had a borrowing capacity of $390,088,839 and $342,184,679, respectively, with no outstanding borrowings.

FRB Discount Window: The credit union also has a secured borrowing arrangement through the FRB discount window. The credit union has pledged certain HELOC loans as collateral for any and all obligations of the credit union. The borrowing capacity is determined as a percentage of pledged collateral. As of December 31, 2017 and 2016, the credit union pledged HELOC loans with a collateral value of $40,538,887 and $40,173,637, respectively, as collateral for this borrowing arrangement. As of December 31, 2017 and 2016, there were no borrowings under this arrangement.

Repurchase Agreement: The credit union has a $50,000,000 repurchase agreement line of credit with Raymond James & Associates. As of December 31, 2017 and 2016, the credit union did not have any securities repurchased and did not have any outstanding borrowings.

NOTE 8 – LEASE COMMITMENTS

The credit union leases four offices. 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.

The required future minimum annual lease payments under the terms of the leases are as follows:

Years Ending December 31,	
2018	$ 1,148,162
2019	1,150,114
2020	1,183,969
2021	1,218,823
2022	1,227,898
Thereafter	2,468,481
	$ 8,397,447

Rent expense totaled approximately $1,118,000 and $1,093,000 for the years ended December 31, 2017 and 2016, respectively.

NOTE 9 – OFF-BALANCE-SHEET ACTIVITIES

The credit union is 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 first mortgage and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated 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 the loans recorded in the consolidated financial statements.

The credit union had no outstanding first mortgage loan commitments at December 31, 2017. The credit union had approximately $695,000 in outstanding first mortgage loan commitments at December 31, 2016.

The following financial instruments were outstanding whose contract amounts represent credit risk:

	2017	2016
HELOC	$ 118,585,939	$ 107,622,108
Lines of credit	49,584,326	50,770,629
Credit card	66,864,784	63,585,914
Courtesy pay program	1,126,099	1,110,712
	$ 236,161,148	$ 223,089,363

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. Since 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 creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the credit union upon extension of credit, is based on management's credit evaluation of the member. Collateral held generally consists of certificates of deposit, share accounts and real estate.

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, 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 – LEGAL CONTINGENCIES

The credit union is party to various legal actions normally associated with financial institutions, the aggregate effect of which, in the opinion of management and legal counsel, would not be material to the financial condition of the credit union.

NOTE 11 – CONCENTRATION OF CREDIT RISK

At December 31, 2017, the credit union had no account balances at a financial institution that exceeded federally insured limits.

NOTE 12 – RELATED PARTY TRANSACTIONS

Loans to credit union officials and deposits held by credit union officials were treated the same with regard to rates, terms and requirements as loans and deposits of other members with similar circumstances. Loans to officials totaled $2,090,414 and $2,189,753 at December 31, 2017 and 2016, respectively.

NOTE 13 – EMPLOYEE BENEFIT PLANS

Multiple Employer Pension Plan: The credit union participates in a multiple employer retirement plan. Employees age 21 and older who have been employed by the credit union for three consecutive months are eligible to participate in the plan. The profit sharing portion of the plan is discretionary and non-contributory. The credit union makes a 3% profit sharing contribution to all eligible employees for each payroll period. All amounts contributed to the plan are deposited into a trust fund administered by independent trustees.

The 401(k) portion of the plan allows eligible employees to defer a portion of their salary into the plan. The employer match for the 401(k) plan is $1 for every $1 deferred up to 5% of the eligible employee's compensation. All matching contributions to the 401(k) plan are 100% vested. The contribution to the profit sharing and 401(k) plan for the years ended December 31, 2017 and 2016 totaled approximately $625,000 and $493,000, respectively.

Deferred Compensation Plan: In March 2012, the credit union established a nonqualified deferred compensation plan for certain executives under Internal Revenue Code Section 457(f). To support the deferred compensation plan, the credit union has elected to purchase credit union-owned variable life insurance. The surrender value of these investments included in other assets was approximately $2,396,000 and $2,336,000 as of December 31, 2017 and 2016, respectively. The accrued liability for the deferred compensation included in accrued expenses and other liabilities was approximately $203,000 and $159,000 as of December 31, 2017 and 2016, respectively.

NOTE 14 – FAIR VALUE

The following methods and assumptions were used to estimate fair value of the credit union's securities available for sale.

Fair values of securities available for sale 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 mortgage instruments.

Fair values of assets measured on a recurring basis are summarized as follows:

		Fair Value Measurements at Reporting Date Using		
2017	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Federal agency securities	$ 25,169,527	$ -	$ 25,169,527	$ -
Mortgage-backed securities:				
U.S. agency	385,801,839	-	385,801,839	-
Non-U.S. agency	1,301,577	-	1,301,577	-
	387,103,416	-	387,103,416	-
	$ 412,272,943	$ -	$ 412,272,943	$ -

NOTE 14 – FAIR VALUE (CONTINUED)

2016	Fair Value	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Federal agency securities	$ 22,570,101	$ -	$ 22,570,101	$ -
Mortgage-backed securities:				
U.S. agency	453,513,670	-	453,513,670	-
Non-U.S. agency	1,649,856	-	1,649,856	-
	455,163,526	-	455,163,526	-
	$ 477,733,627	$ -	$ 477,733,627	$ -

Fair values of assets measured on a nonrecurring basis are summarized as follows:

2017	Fair Value	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 140,447	$ -	$ -	$ 140,447
2016				
Impaired loans	$ 2,308,120	$ -	$ -	$ 2,308,120

Impaired loans are measured for impairment using the fair value of the collateral for collateral-dependent loans.

NOTE 15 – REGULATORY CAPITAL

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 consolidated financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the credit union must meet specific capital regulations that involve quantitative measures of the credit union's assets, liabilities and certain off-balance-sheet items as calculated under GAAP. The credit union's capital amounts and net worth 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 (as defined) to assets (as defined). The credit union is also required to calculate a risk-based net worth (RBNW) ratio that establishes whether the credit union will be considered "complex" under the regulatory framework. The credit union's RBNW ratio as of December 31, 2017 and 2016 was 6.20% and 6.27%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes, as of December 31, 2017, that the credit union meets all capital adequacy requirements to which it is subject.

NOTE 15 – REGULATORY CAPITAL (CONTINUED)

As of December 31, 2017, the most recent call reporting period, the NCUA categorized the credit union as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the credit union must maintain a minimum net worth ratio of 7% of assets and meet any applicable RBNW requirement. There are no conditions or events since that notification which management believes have changed the credit union's category.

	Actual		To Be Adequately Capitalized under Prompt Corrective Action Provisions		To Be Well Capitalized under Prompt Corrective action Provisions	
2017	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net worth	$ 123,301,369	11.17%	$ 66,253,427	6.00%	$ 77,295,665	7.00%
RBNW requirement	68,461,874	6.20%	N/A	N/A	N/A	N/A
2016						
Net worth	$ 122,052,874	11.37%	$ 64,386,212	6.00%	$ 75,117,248	7.00%
RBNW requirement	67,283,592	6.27%	N/A	N/A	N/A	N/A

Because the RBNW requirement is less than the net worth ratio, the credit union retains its original category.

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