THE SPIRIT OF MAIN STREET

PENFED®
CREDIT UNION

2017
ANNUAL REPORT

PenFed Mission, Purpose and Core Values

WHO WE ARE

We are America's member-owned, growth-oriented financial leader providing competitive pricing, digital convenience and exemplary service to those we serve.

OUR MISSION

To provide superior financial services, responsive to members' needs, in a cost-effective manner.

OUR PURPOSE

PenFed is a member-owned financial cooperative, democratically controlled by its members and for its members. Unlike a bank, all benefits derived from the institution are returned directly to the members through best-in-class rates, superior products and the peace of mind only the safest financial institutions can provide.

We operate for the purpose of helping our members "Do Better" financially. We achieve this purpose by providing credit and savings at competitive rates and delivering superior financial services to our members located around the world.

We exist to serve those who serve and those who support them. And we provide credit when credit is needed, contributing to the financial strength, growth and well-being of our nation's defenders.

OUR CORE VALUES

Our core values reflect our overarching beliefs for how we serve our members, operate our credit union, and lead in the financial services industry. We are an organization of strong character and strength, achieved by these shared guiding principles. It is though these values that we will achieve our mission, our vision and our purpose.

We are ***collaborative***, ***inspirational*** and ***results-driven***. We believe in the power and goodness of our members, our staff and our leaders, embracing our philosophy: Be kind with no surprises, striving to take perfect care of our members and our employees.

LETTER FROM THE CHAIRMAN

“

GROWTH IS KEY TO OUR SUCCESS BUT DELIVERING A BEST-IN-CLASS MEMBER EXPERIENCE MUST COME FIRST.

Fellow Members,

I am pleased to report that 2017 was another great year for your credit union. In 2017, assets reached $22.9 billion (growing by $1.6 billion) and membership reached 1.6 million people (adding 150,000 net new members). Our growth was planned and managed to maintain a sound financial posture; we continued to make improvements to our branches; and our mission has remained steadfast: Help you succeed financially through superior rates and services.

However, 2017 was not without its challenges. Growth is key to our success but delivering a best-in-class member experience must come first. Unfortunately, an almost 10% growth in membership caused delays in providing a timely response to members' needs. Consequently, we hired about 200 new employees. We will continue to invest in our people and technology to make our member experience even better, whether you are online, on the phone or in one of our branches.

While we have strategies to deal with many challenges, we cannot anticipate the unpredictable. This year, Hurricanes Harvey, Irma and Maria had devastating impacts, touching the lives of about one in 10 of our members. We witnessed heart-breaking property losses in Texas and Florida and life-altering experiences for our members and employees in Puerto Rico.

In the past, I have recounted the superb efforts of our staff within the communities they serve. They have built homes with Habitat for Humanity and have raised money to support military families and wounded warriors through the PenFed Foundation. But, in 2017 they went above and beyond.

Our staff in the Puerto Rico branches overcame their own personal losses to report to work and provide incredible support to our members there. The member service staff worked long hours and made personal sacrifices to ensure that members were served as quickly and efficiently as possible. I cannot say enough about their ability to rise above their normal job duties and successfully react to unprecedented challenges. It was their finest hour.

This is what we mean by "The Spirit of Main Street": the dedication of our extended community and the commitment of people helping people, no matter where we live. Your Board of Directors is proud of what our team has accomplished in 2017. We thank you for your membership and support as we move forward in 2018.

Sincerely,

Edward B. Cody

Edward B. Cody,
Chairman, Board of Directors

PRESIDENT'S REPORT

This past year was the most successful in our credit union's 83-year history. PenFed finished 2017 with all-time highs in membership, assets and earnings. But at PenFed, our success story is not only told by our numbers. It's also told by our members. Our member surveys tell us that PenFed is rated among the world's top firms. Every day, our 1.6 million members vote with their wallets. And our members vote for PenFed over 11,000 other financial institutions in America.

Even though PenFed has grown to become one of our nation's largest institutions, our 2,500 dedicated employees stay in close touch with our members. And we invest in all our delivery systems so that whether you connect with PenFed at a branch, by phone or online, you should expect to receive the same world-class service.

That's why during 2017, while we were welcoming record numbers of new members, we reinforced our member services to keep pace. We invested in our call centers to improve our average call wait time to less than two minutes. We opened a state-of-the-art Availability Command Center to ensure our Information Technology Systems are "Always On." As a result, we can make this promise to you as members: Wherever, whenever you make a transaction – around the world, 24/7 – PenFed is working to make sure your money and your identity remain protected.

PenFed's first strategic intent is to "Deliver a best-in-class member experience." In 2017, we introduced a new, second strategic intent: "Be a value leader to our members by providing market-leading products and services."

What does this mean to you?

You can count on PenFed to offer great rates on all our core products: auto loans, credit cards, mortgages, personal loans, refinanced student loans and savings certificates.

You can count on PenFed to offer products and services with the lowest fees on the market.

And you can count on PenFed to maintain lower operating expenses than our peers, so we can **return the savings to you**.

At PenFed, our members are our most important asset. Please know how much we appreciate your membership and how proud we are to report to you on this record year.

Sincerely,

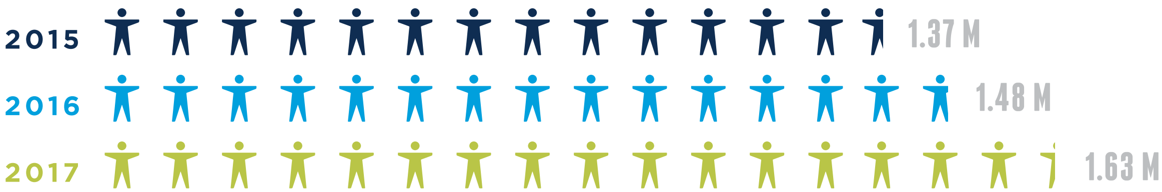
James Schenck

James R. Schenck
President & CEO

FINANCIAL HIGHLIGHTS

TOTAL MEMBERS

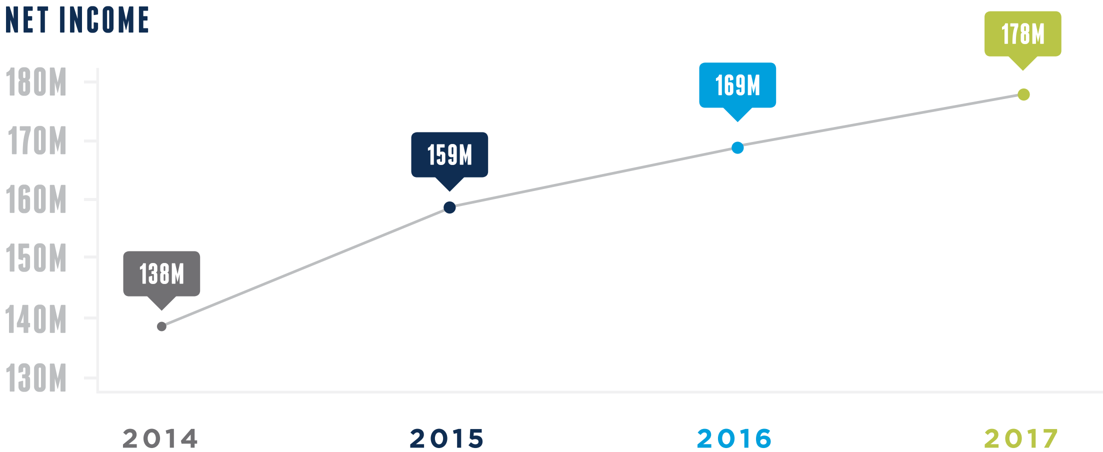
Membership grew by 10% during 2017.



TOTAL ASSETS

Assets and net income have continued to climb steadily over the past several years.

NET INCOME



NET WORTH RATIO

After several years of holding steady, net worth ratio increased.

PENFED IN THE COMMUNITY

At PenFed, we define the "Spirit of Main Street" as a sense of community. Even though our members and employees are spread across the nation, they are united by their work ethic, their patriotism and their compassion for others. Whether in our hometowns or in support of those far away, we will always strive to help our neighbors in need.

HURRICANE RELIEF

From near and far, PenFed members and employees came together to help those affected by natural disasters across the nation. PenFed led the way, with a $50,000 donation to the American Red Cross Corpus Christi and Houston Chapters for disaster relief.

In Puerto Rico, where some residents are still struggling to come back from the devastation of the storm, PenFed has donated more than $50,000, as well providing meals and generators. Our three branches there have served as distribution centers and hubs within the community as the recovery continues.

In these communities and Florida as well, PenFed has been proactive in reaching out to members with information regarding Emergency Relief Loans to ensure they receive the support they need.

HELPING OUR NATION'S HEROES

For the third consecutive year, PenFed Credit Union donated $25,000 to the Northern Virginia Technology Council (NVTC) Foundation in support of the NVTC Veterans Employment Initiative. Through this donation, PenFed helps veterans and their spouses secure jobs and careers within Northern Virginia's technology sector.

We also helped change the lives of more disabled veterans by donating $30,000 to Segs4Vets. This donation was specifically earmarked to build custom-designed ALLY Chairs for combat veterans wounded in Afghanistan and Iraq. These ALLY Chairs are modified Segways that can be operated from a seated position, giving paraplegics and double, triple or quadruple amputees the freedom to operate independently.

In addition, PenFed donated $300,000 to Serve Our Willing Warriors to construct a home that will provide a week-long respite in the Virginia countryside for hundreds of Wounded Warriors undergoing long-term medical treatment. Many of these Wounded Warriors spend 365 days per year in the hospital recovering from service-related injuries. This donation will allow twice as many Wounded Warriors, along with their families and caregivers, to get out of the hospital, reconnect, refresh and experience a sense of normalcy.

The PenFed Foundation continues to be a leader in identifying and meeting the unmet needs of service members, veterans and their families, as well as wounded warriors and their caregivers. In 2017 alone, the foundation provided more than 600 grants to help veterans face financial setbacks or help caregivers manage expenses. They enabled more than 125 military heroes and their families to purchase a first home or replace a lost one. And they touched the lives of more than 1,800 military personnel with no interest loans that helped them avoid the perils of predatory lending. In addition, the Defenders Lodge continued to provide free accommodations to wounded warriors receiving outpatient treatment at the Palo Alto VA and their caregivers.

BOARD OF DIRECTORS

Your board members and supervisory committee members are volunteers who serve without compensation. In addition to their service to the credit union, they spend hundreds of hours from their personal lives on credit union business and activities in the interest of our esteemed members.

Mr. Edward B. Cody, Chairman

Mr. Walter P. Fairbanks, Vice Chairman

Ms. Sandra L. (Sam) Patricola, Treasurer

Lt Col (USAF Ret.) John A. Rolando, Secretary

COL (Ret.) Ronald P. Hudak

The Honorable Frederick F.Y. Pang

COL (Ret.) James F. Quinn

LTC (USAR) Philip F. Romanelli

Mr. Alfred E. Rudolf

COL (Ret.) Robert W. Siegert, III

Mr. Ron Spear

LTC (Ret.) Bill R. Vinson, Director Emeritus

HONORS AND AWARDS

In June, the Credit Union National Association (CUNA) awarded PenFed President & CEO James Schenck with its 2017 Credit Union Hero of the Year Award. The award recognizes those who serve as examples for the entire credit union movement through their service, advocacy and commitment to credit union ideals. Schenck was selected to win the award by his peers, the readers of CUNA's *Credit Union Magazine.*

At the end of the year, Schenck was also elected to the U.S. Chamber of Commerce Board of Directors. He will serve a 2-year term through November 2019. As a Director, Schenck will be a strong voice for the nation's 100 million-plus credit union members and their interests.

The U.S. Treasury's financial intelligence unit recognized PenFed for compliance efforts that led to the successful prosecution of a significant criminal case. PenFed provides compliance training to all members of the Board of Directors, the Supervisory Committee and all full-time employees to ensure vigilance against fraud, money-laundering and other criminal financial activities.

The credit union and its advertising agency, WHITE64, were awarded a Midas Award® for financial advertising. This internationally recognized award was given for videos that were produced for the 2016 PenFed Foundation Night of Heroes Gala as well as for PenFed's national advertising campaign.

2017 SUPERVISORY COMMITTEE REPORT

Under the Federal Credit Union Act, your Supervisory Committee — appointed by PenFed's Board of Directors — is responsible for providing assurance that the credit union's operations are carried out in in a safe and sound manner in accordance with the Act and the regulations of the National Credit Union Administration (NCUA).

The Supervisory Committee is represented at all Board of Directors meetings and also attends key meetings with the Board and executive team. We meet regularly with PenFed's Audit Services Department, NCUA examiners and external auditors to monitor and evaluate internal controls that help ensure that your assets are safeguarded and that PenFed is operating effectively and efficiently.

This year, the Committee engaged the services of the independent public accounting firm BDO USA, LLP, to audit PenFed's financial statements. As noted in this report, BDO issued its opinion that the credit union's financial statements for the year ended December 31, 2017, are presented fairly in all material respects. Importantly, PenFed had no weaknesses in its controls over financial reporting. In other words, you can be assured that the Board of Directors, Supervisory Committee and executive team are fulfilling their fiduciary responsibilities for sound fiscal stewardship.

This year, the Chairs of the Board of Directors and Supervisory Committee commenced quarterly meetings with the newly appointed Chief Risk and Chief Compliance Officers. In this manner, we receive first-hand updates on PenFed's actions to protect its members and their assets. We also ensure unwavering support for efforts to protect the nation's financial system and deter and detect criminal activities.

Based on the activity of our external and internal auditors and examiners, as well as our own observations, we can report that PenFed has maintained a high level of financial and operational safety and soundness. PenFed continues to be a leader in financial services and an asset to the global credit union community.

The Supervisory Committee is here for your benefit. We are proud to volunteer our time to serve as liaisons between you and your credit union. If ever you need assistance that cannot be resolved through normal channels, I encourage you to contact us. We are always available to answer questions or review comments regarding credit union activities.

Theresa Grafenstine

Theresa Grafenstine
Chairwoman
Supervisory Committee

“PENFED CONTINUES TO BE A LEADER IN FINANCIAL SERVICES AND AN ASSET TO THE GLOBAL CREDIT UNION COMMUNITY.

PENTAGON FEDERAL CREDIT UNION AND SUBSIDIARIES

FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Years Ended December 31, 2017 and 2016

PENFED
CREDIT UNION

PENTAGON FEDERAL CREDIT UNION AND SUBSIDIARIES
FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
Years Ended December 31, 2017 and 2016

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Ten Penn Center
1801 Market Street, Suite 1700
Philadelphia, PA 19103

Report of Independent Registered Public Accounting Firm

Supervisory Committee and Management of
Pentagon Federal Credit Union
Tysons, Virginia

We have audited the accompanying consolidated financial statements of Pentagon Federal Credit Union and its subsidiaries, which comprise the consolidated statements of financial condition as of December 31, 2017 and 2016, and the related statements of income and comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 from material misstatement.

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

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

Opinion

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

BDO USA, LLP

Philadelphia, PA
March 30, 2018

PENTAGON FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands)

	December 31, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	$ 341,706	$ 378,786
Investment securities		
Available-for-sale (cost $1,544,195 and $1,261,762)	1,514,985	1,226,135
Federal Home Loan Bank stock and other	256,560	214,266
Loans, net of allowance of $98,409 and $59,080	19,415,023	18,457,723
Loans held for sale at fair value	194,389	110,689
Accrued interest receivable	64,072	49,553
NCUSIF deposit	155,939	140,495
Property and equipment, net	396,134	325,440
Other assets	520,068	398,274
Total assets	$ 22,858,876	$ 21,301,361
LIABILITIES AND MEMBERS' EQUITY		
Members' accounts:		
Regular shares	$ 2,209,802	$ 1,891,019
Checking accounts	1,024,174	781,157
Money market shares	4,208,388	3,982,411
Share certificates	8,156,196	7,770,688
IRA shares	222,522	217,101
IRA certificates	1,988,649	2,015,327
Total members' accounts	17,809,731	16,657,703
Borrowed funds	2,361,000	2,222,217
Accrued interest on members' accounts	9,398	8,770
Other liabilities	386,185	324,213
Total liabilities	20,566,314	19,212,903
Members' equity:		
Regular reserves	90,900	90,900
Undivided earnings	2,270,770	2,072,384
Accumulated other comprehensive loss	(69,108)	(74,826)
Total members' equity	2,292,562	2,088,458
Total liabilities and members' equity	$ 22,858,876	$ 21,301,361

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

PENTAGON FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands)

	Years Ended December 31,	
	2017	**2016**
Interest income		
Loans	$ 778,253	$ 656,365
Investment securities	51,780	22,953
Total interest income	830,033	679,318
Interest expense		
Members' accounts	222,618	211,205
Borrowed funds	72,528	53,986
Total interest expense	295,146	265,191
Net interest income	534,887	414,127
Provision for loan losses	136,345	77,703
Net interest income after provision for loan losses	398,542	336,424
Non-interest income		
Fees and charges	50,880	48,630
Credit card and debit card interchange	26,004	25,052
Gains on sales of loans	28,124	27,254
Gains on sales of investment securities	4,914	640
Other	59,837	61,195
Total non-interest income	169,759	162,771
Non-interest expense		
Compensation and benefits	193,120	165,680
Office operations	64,189	49,600
Loan servicing	31,362	24,076
Occupancy	22,059	18,720
Education and promotional	31,056	26,874
Professional and outside services	16,770	16,516
Other	31,123	28,674
Total non-interest expense	389,679	330,140
Net income	$ 178,622	$ 169,055

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

PENTAGON FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)

	Years Ended December 31,	
	2017	**2016**
Net income	$ 178,622	$ 169,055
Other comprehensive income/(loss)		
Change in net unrealized gains (losses) on investment securities during the year	1,503	(25,676)
Adjustment for realized gains on investment securities included in income	4,914	640
Change in unrealized net gains (losses) on cash flow hedges	3,164	4,370
Adjustment for realized pension and postretirement (credit) costs	(3,863)	3,766
Change in unrealized pension and postretirement liabilities	-	563
Other comprehensive income (loss), net of reclassification adjustments	5,718	(16,337)
Comprehensive income	$ 184,340	$ 152,718

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

PENTAGON FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
Years Ended December 31, 2017 and 2016
(dollars in thousands)

	Regular Reserves	Undivided Earnings	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2016	$ 90,900	$ 1,890,829	$ (58,489)	$ 1,923,240
Net income	-	169,055	-	169,055
Equity from Credit Union mergers	-	12,500	-	12,500
Other comprehensive loss, net of reclassification adjustments	-	-	(16,337)	(16,337)
Balance, December 31, 2016	90,900	2,072,384	(74,826)	2,088,458
Net income	-	178,622	-	178,622
Equity from Credit Union mergers	-	19,764	-	19,764
Other comprehensive income, net of reclassification adjustments	-	-	5,718	5,718
Balance, December 31, 2017	$ 90,900	$ 2,270,770	$ (69,108)	$ 2,292,562

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

PENTAGON FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Years Ended December 31, 2017	2016
Cash flows from operating activities:		
Net income	$ 178,622	$ 169,055
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	136,345	77,703
Depreciation and amortization	29,192	19,289
Net amortization of premiums and accretion of discounts	8,194	6,029
Gains on sales of loans	(28,124)	(27,254)
Gains on sales of investment securities	(4,914)	(640)
Loans originated and sold	(1,901,610)	(1,244,010)
Proceeds from sales of loans held for sale	2,019,582	1,329,947
Bargain gains from mergers	(21,042)	(28,273)
Changes in:		
Accrued interest receivable	(12,627)	(6,220)
Other assets- Credit Union owned life insurance	(57,487)	(80,688)
Other assets	(32,483)	(119,278)
Other liabilities	74,065	64,634
Net cash provided by operating activities	387,713	160,294
Cash flows from investing activities:		
Proceeds from maturities of investment securities	161,574	498,062
Purchases of investment securities	(522,715)	(1,310,677)
Decrease (increase) in Federal Home Loan Bank stock and other	(42,294)	40,989
Proceeds from sales of investment securities	164,160	478,146
Net increase in loans	(846,700)	(932,684)
Purchase of property and equipment	(82,429)	(75,603)
Cash from mergers	113,975	123,787
Entity value equity from mergers	(19,764)	(12,500)
Increase in NCUSIF deposit	(9,494)	(8,828)
Net cash used in investing activities	(1,083,687)	(1,199,308)
Cash flows from financing activities:		
Repayment of borrowings	(24,295,217)	(4,541,686)
Proceeds from borrowings	24,434,000	4,815,000
Increase in members' accounts, net	520,111	911,969
Net cash provided by financing activities	658,894	1,185,283
Net (decrease) increase in cash and cash equivalents	(37,080)	146,269
Cash and cash equivalents at beginning of year	378,786	232,517
Cash and cash equivalents at end of year	$ 341,706	$ 378,786
Additional cash flow information:		
Interest paid	$ 293,830	$ 265,158
Transfers of loans, net to other real estate owned	3,087	6,058

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

NOTE 1 – NATURE OF BUSINESS AND ORGANIZATION

Pentagon Federal Credit Union (the "Credit Union") is headquartered in Alexandria, Virginia and was organized and chartered on March 25, 1935 as a federal credit union under the provisions of the Federal Credit Union Act of 1934 for the purpose of promoting thrift among its members and creating a source of credit for provident or productive purposes. The principal common bond shared by the Credit Union's members is their affiliation with the United States defense sector. Participation in the Credit Union is limited to those individuals who qualify for membership as defined in its charter and bylaws.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statements Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and predominant practices within the banking industry. The consolidated financial statements and accompanying notes to the financial statements include the accounts of Pentagon Federal Credit Union and its wholly owned subsidiaries, PenFed Realty, LLC - which provides real estate brokerage services to the Credit Union's members and the general public, and PenFed Title, LLC - which provides real estate settlement title services to the Credit Union's members. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and in the accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change include the determination of the allowance for loan losses, determination of fair value for financial instruments, business combinations accounting and related adjustments, and employee benefit plan obligations and expenses.

(dollars in thousands)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Business Combinations and Acquisitions

The Credit Union accounts for mergers under the applicable provisions of Accounting Standards Codification ("ASC") 805, "Business Combinations" and the operations of the merged entities are included with the Credit Union's consolidated balances as of the effective dates of each acquisition. Under this guidance, the assets acquired and liabilities assumed for each credit union merger are recorded at their respective fair values at the effective date of the merger. If the fair value of the acquired liabilities exceeds the fair value of the acquired assets, then goodwill is recorded; however, if fair value of assets acquired exceeds the fair value of liabilities assumed and entity value acquired, then the difference is recognized in the Credit Union's income statement- other non-interest income- as a bargain purchase gain.

There were 6 credit union mergers in 2017, which are detailed below.

2017 Business Combinations – Mergers

Fair Value of Assets Acquired	Merger A	Merger B	Merger C	Merger D	Merger E	Merger F	2017 Total
Cash	$ 30,734	$ 45,581	$ 6,093	$ 392	$ 17,883	$ 13,292	$ 113,975
Investment securities	668	24,476	749	64,089	464	3,200	93,646
Loans	62,808	141,105	3,203	92,023	90,607	40,511	430,257
Property & equipment	694	8,326	37	804	5,880	1,716	17,457
Other	4,430	9,630	294	7,547	3,982	4,019	29,902
Total Assets Acquired	$ 99,334	$ 229,118	$ 10,376	$ 164,855	$ 118,816	$ 62,738	$ 685,237
Fair Value of Liabilities Acquired							
Other liabilities	$ 3,196	$ 2,119	$ 100	$ 3,099	$ 3,000	$ 1,000	$ 12,514
Member accounts	91,164	219,224	10,076	147,418	106,164	57,871	631,917
Total Liabilties Acquired	$ 94,360	$ 221,343	$ 10,176	$ 150,517	$ 109,164	$ 58,871	$ 644,431
Net Equity Acquired from Mergers	$ 4,974	$ 7,775	$ 200	$ 14,338	$ 9,652	$ 3,867	$ 40,806
Entity Value	$ 2,292	$ 4,364	$ 100	$ 7,730	$ 3,303	$ 1,975	$ 19,764
Residual Bargain Gain	2,682	3,411	100	6,608	6,349	1,892	21,042
	$ 4,974	$ 7,775	$ 200	$ 14,338	$ 9,652	$ 3,867	$ 40,806

The 6 mergers in 2017 had aggregate total assets of approximately $685 million, with total liabilities of approximately $644 million, and a resulting addition to equity of approximately $20 million and a bargain purchase gain recognized in non-interest income - other of approximately $21 million.

(dollars in thousands)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Business Combinations and Acquisitions – Continued

There were 4 credit union mergers in 2016, which are detailed below.

2016 Business Combinations – Mergers

Fair Value of Assets Acquired	Merger A	Merger B	Merger C	Merger D	2016 Total
Cash	$ 33,742	$ 79,792	$ 9,259	$ 994	$ 123,787
Investment securities	5,233	1,003	359	733	7,328
Loans	23,088	230,027	32,019	35,322	320,456
Property & equipment	456	8,014	1,637	1,153	11,260
Other	1,872	6,184	1,156	3,214	12,426
Total Assets Acquired	$ 64,391	$ 325,020	$ 44,430	$ 41,416	$ 475,257
Fair Value of Liabilities Acquired					
Other liabilities	$ 1,100	$ 3,857	$ 1,000	$ 4,196	$ 10,153
Member accounts	57,132	291,693	40,574	34,932	424,331
Total Liabilties Acquired	$ 58,232	$ 295,550	$ 41,574	$ 39,128	$ 434,484
Net Equity Acquired from Mergers	$ 6,159	$ 29,470	$ 2,856	$ 2,288	$ 40,773
Entity Value	$ 2,000	$ 9,200	$ 700	$ 600	$ 12,500
Residual Bargain Gain	4,159	20,270	2,156	1,688	28,273
	$ 6,159	$ 29,470	$ 2,856	$ 2,288	$ 40,773

The 4 mergers in 2016 had aggregate total assets of approximately $475 million, with total liabilities of approximately $434 million, and a resulting addition to equity of approximately $12.5 million and a bargain purchase gain recognized in non-interest income – other of approximately $28.3 million.

(dollars in thousands)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Goodwill and Intangibles

Total Goodwill was approximately $18.7 million at both December 31, 2017 and 2016, and is a component of other assets. Additions in 2016 were mostly the result of smaller-based acquisitions in PenFed Realty, LLC.

	Carrying Value Goodwill December 31, 2017	
Goodwill at beginning of year	$	18,707
Goodwill additions during the year		-
Adjustments		-
Goodwill at end of year	$	18,707

	Carrying Value Goodwill December 31, 2016	
Goodwill at beginning of year	$	13,500
Goodwill additions during the year		5,207
Adjustments		-
Goodwill at end of year	$	18,707

The Credit Union has total intangibles from acquisitions at December 31, 2017 and 2016, of $12.1 million and $4.5 million, respectively. Net additions to acquisition intangibles were mostly related to the mergers, which had total additions of $9.1 million and $4.2 million for 2017 and 2016, respectively. The acquisition intangibles in both 2017 and 2016 relate mostly to core deposit intangibles, which represent the estimated fair value of the relationships within the members' share deposits acquired. The remaining disclosures for the 2017 and 2016 asset acquisitions, goodwill, and other acquisition intangibles were omitted due to materiality.

	Carrying Value Intangibles December 31, 2017	
Intangibles at beginning of year	$	4,498
Intangible additions during the year		9,132
Amortization and adjustments		(1,574)
Intangibles at end of year	$	12,056

	Carrying Value Intangibles December 31, 2016	
Intangibles at beginning of year	$	777
Intangible additions during the year		4,188
Amortization and adjustments		(467)
Intangibles at end of year	$	4,498

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements

In January 2016, FASB ASU No. 2016-01, amends ASC Sub-Topic 825-10 "Financial Instruments-Overall." This update amends certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Specifically, among other amendments, this update eliminates the disclosure of fair value of financial instruments that are at amortized cost, while requiring separate presentation of financial assets and liabilities by measurement category on the balance sheet or in the notes to financial statements. These amendments are effective for the annual periods beginning after December 15, 2018. The implementation of ASU No. 2016-01 is not expected to have a material effect on the Credit Union's consolidated financial statements.

In February 2016, the FASB issued new guidance for Leases (ASU 2016-02). The new guidance requires lessees to recognize assets and liabilities related to certain operating leases on the balance sheet. The new guidance also requires additional disclosures by lessees and contains targeted changes to accounting by lessors. This guidance is effective for fiscal years beginning after December 15, 2018. The implementation of ASU No. 2016-02 is not expected to have a material effect on the Credit Union's consolidated financial statements.

In March 2016, the FASB issued new guidance related to Derivatives and Hedging (ASU 2016-05 and 06). The new guidance clarifies the assessment of whether contingent call or put options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment will be required to assess the embedded call or put options solely in accordance with the pre-existing four-step decision sequence. The new guidance also clarifies that derivative instrument novation's do not require de-designation of the related hedging relationship provided that all other hedge accounting criteria continue to be met. This guidance is effective for fiscal years beginning after December 15, 2017. The adoption of this guidance is not expected to be material to the consolidated financial statements.

In June 2016, the FASB issued new guidance for Credit Losses (ASU 2016-13). The new guidance replaces the incurred loss impairment methodology with an expected credit loss methodology. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. Purchased credit deteriorated loans will receive an allowance account for expected credit losses at the acquisition date that represents a component of the purchase price allocation. Credit losses relating to AFS securities will be recorded through an allowance for expected credit losses, with such allowance limited to the amount by which fair value is below amortized cost. An allowance will be established for estimated credit losses on HTM securities. This guidance is effective for fiscal years beginning after December 15, 2020. The Credit Union is evaluating the impact of the adoption of this ASU but expects that the allowance for loan losses to be higher upon adoption.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements – Continued

In January 2017, the FASB issued new guidance for Intangibles- Goodwill (ASU 2017-04). To simplify the subsequent measurement of goodwill, the Board eliminated Step 2 from the goodwill impairment test. Instead, under the amendments in this ASU, an entity should perform its annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This guidance is effective for annual goodwill impairment tests in fiscal years beginning after December 15, 2020. Early adoption is permitted for annual goodwill impairment tests performed on testing dates after January 1, 2017. The Credit Union is evaluating the impact of the adoption of ASU 2017-04.

In March 2017, the FASB issued new guidance for Compensation- Retirement Benefits (ASU 2017-07). This guidance requires that the Credit Union records its retirement related service cost components as compensation expense, while all other components of retirement related costs are required to be presented in the income statement separately (in other income or other expenses) from the compensation expense, among other requirements. This guidance is effective for fiscal years beginning after December 15, 2018. The Credit Union is evaluating the impact of the adoption of ASU 2017-07.

In August 2017, the FASB issued new guidance for Derivatives and Hedging (ASU 2017-12). This derivatives and hedging guidance simplifies certain documentation required for hedging activities while also simplifying assessment requirements. This guidance also expands the risk management activities that qualify for hedge accounting. Additionally, the guidance eliminates the concept of separately recording hedge ineffectiveness, and expands disclosure requirements of the impact of hedging relationships. This guidance is effective for fiscal years beginning after December 15, 2019 and early adoption is permitted. The Credit Union is evaluation the impact of the adoption of ASU 2017-12.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, shares in other credit unions, and demand deposits in other financial institutions. Amounts due from financial institutions may, at times, exceed federally insured limits.

Investment Securities

Investment securities that management has the ability and intent to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for amortization of premiums and accretion of discounts using the interest method. Other investment securities are classified as available-for-sale and are carried at fair value. Unrealized gains and losses on investment securities available-for-sale are excluded from earnings and reported in accumulated other comprehensive loss in members' equity. Purchase premiums and discounts are recognized in interest income using the interest method over the term of the securities purchased. Gains and losses on dispositions of investment securities are computed using the specific identification method. Credit Union management evaluates investments for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer as well as 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.

Federal Home Loan Bank-Atlanta stock and other securities have no readily available markets and thus do not have a quoted market value. Therefore, Federal Home Loan Bank stock and other securities are carried at cost or cash value. The Federal Home Loan Bank-Atlanta stock totaled approximately $115 million and $109 million at year-end 2017 and 2016, respectively. Other securities also includes a Charitable Donation Account, in which any revenues and/or gains are used to support charities as allowed under credit union regulations. The Charitable Donation Account totaled approximately $109 million and $81 million at year-end 2017 and 2016, respectively. During 2017 and 2016, Federal Home Loan Bank stock and other securities were not impaired.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Loans and Allowance for Loan Losses

At origination, loans which management intends to hold until maturity are stated at the amount of unpaid principal, net of deferred loan origination costs/fees and the allowance for loan losses, while loans that management has a strategic intent to sell are designated as Loans Held for Sale (see below). Interest on loans is recognized over its term using the level yield method, except for credit cards where interest is calculated on an average balance detailed in the member's monthly statement. Loan fees and certain direct loan origination costs are deferred, and the net fee/cost is recognized as an adjustment to interest income over the term of the loans using the level yield method, except for credit cards - which are amortized on a straight-line basis.

The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb probable losses inherent in the loan portfolio. The allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, and trends in historical loss experience, in addition to specific impaired loans and economic conditions and trends (qualitative factors). Loans are typically charged off at 180 days or more delinquent consistent with regulatory guidance, with consideration of collateral valuations as deemed collectable. The loan portfolio is comprised primarily of large groups of smaller balance homogeneous loans that are collectively evaluated for impairment. First trust and home equity real estate loans that are generally 90 days or more past due, as well as modified loans classified as troubled debt restructurings, are identified and measured individually for impairment. Troubled debt restructurings are modified loans that include a concession to a member who is experiencing financial difficulty. The allowance is increased by a provision for loan losses (charged to expense) and the allowance is reduced by loan related charge-offs, net of recoveries. Changes in the estimated allowance are charged to the provision for loan losses. Due to the nature of uncertainties related to any estimation process, management's estimate of credit 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.

Interest accrued is discontinued on loans when management believes, after considering economic factors, business conditions, and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful, or after three months of nonpayment, whichever occurs first. Credit Card loans that are contractually past due 90 days or more have not been put on nonaccrual status as they are typically charged off at 180 days (per regulatory guidelines). Uncollectible interest previously accrued is reversed against interest income. The Credit Union generally places impaired loans in nonaccrual status and recognizes interest income on a cash basis as payments are received. Income is subsequently recognized when cash payments are received until, in management's judgment, the borrower's ability to make periodic payments is resumed, in which case the loan is returned to an accrual status.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Loans Held for Sale

At origination, loans are classified as either mortgage loans held for investment or loans held for sale, based on management's strategy, intent, and ability to hold or sell these loans. Interest income on loans held for sale is recognized in loan interest income as earned. The Credit Union follows the fair value method for loans held for sale in accordance with "ASC 825 Financial Instruments" and recognizes changes in fair value as adjustments to gains on sales of loans in non-interest income. This option is generally irrevocable. The Credit Union elected the Fair Value Option for loans held for sale because they are hedged using derivatives, and the historical accounting practice resulted in volatility in earnings. Loans held for sale are sold with the mortgage servicing rights retained by the Credit Union, and are generally sold without recourse, subject to customary representations and warranties. The Credit Union recognizes the sale of loans or other financial assets when the transferred assets are legally isolated from the Credit Union's creditors, the Credit Union has relinquished control over the financial assets, and the appropriate other accounting criteria are met for recognition of a sale of an asset. At December 31, 2017 and 2016, the Credit Union had $194,389 and $110,689, respectively, of loans held for sale, which were committed for sale prior to the respective year-end periods. The Credit Union had outstanding commitments to sell loans (net of loans held for sale) of $136 million and $37 million at December 31, 2017 and 2016, respectively (see Note 13 – Derivative Instruments). The Credit Union accounts for these loan sale commitments, as well as the related derivatives used to economically hedge loans held for sale, at fair value.

Mortgage Servicing Rights

Mortgage servicing rights are recognized as separate assets when mortgage loans are sold in the secondary market and the right to service these loans is retained for a fee. The Credit Union services for others approximately $6.2 billion and $5.5 billion in loan balances at December 31, 2017 and 2016, respectively. These rights are initially recognized at fair value determined by a valuation model that calculates the present value of estimated future net servicing income. The valuation model utilizes assumptions that market participants would use in estimating future net servicing income, such as contractual servicing fee income, costs to service, discount rates, ancillary income, prepayment speeds, and default rates. This model is highly sensitive to changes in certain assumptions. If actual experience differs from the anticipated rates used in the Credit Union's model, this difference could result in a material change in the value of mortgage servicing rights.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Mortgage Servicing Rights – Continued

The Credit Union uses assumptions and estimates within the fair value method for capitalized mortgage servicing rights. These assumptions include prepayment speeds and discount rates commensurate with the risks involved and comparable to assumptions used by market participants to value and bid servicing rights available for sale in the market. Specifically, at year-end 2017 and 2016, the Credit Union utilized assumptions in conditional prepayment rates of 10.3% and 9.3%, respectively, and also utilized a discount rate of 10.1% and 9.9% in 2017 and 2016, respectively, in determining the fair value of capitalized mortgage servicing rights. At December 31, 2017 and 2016, the mortgage servicing rights balance was $64,398 and $57,721, respectively. During 2017 and 2016, the Credit Union sold mortgage loans with proceeds from sales of loans totaling $2,019,582 and $1,329,947, respectively, and recognized net gains on sales of loans totaling $28,124 and $27,254, respectively, which were recorded as non-interest income.

Other Real Estate Owned

The Credit Union records real estate acquired through foreclosure ("real estate owned") at fair value on the date of acquisition, plus certain capitalized costs, net of estimated disposal costs, resulting in a new cost basis. Carrying costs such as interest and maintenance are expensed as incurred. After foreclosure, updated fair values are obtained, after which the real estate owned is carried at the lower of its carrying value or its fair value less estimated costs to sell. The balances of such assets are included in other assets in the consolidated statements of financial condition. Due to changing market conditions (and the fair value and disposal cost assumptions for real estate owned), the amounts ultimately realized from the sale of real estate owned may differ from the amounts reflected in the consolidated financial statements. At December 31, 2017 and 2016, the Credit Union had real estate owned (in other assets designation) with gross balances of $3,939 and $6,390, respectively, and related valuation allowance balances of $650 and $1,078, respectively. Additions to the valuation allowance were $789 and $1,000 for 2017 and 2016, respectively.

Property and Equipment

Property and equipment are stated at cost, including interest capitalized during the period of construction, less accumulated depreciation and amortization. Purchased software is capitalized if certain criteria are met. Depreciation and amortization are recognized using the straight-line method over the estimated useful lives of the assets. Land is stated at cost. Expenditures for maintenance and repairs are charged to operations as incurred. The cost and related accumulated depreciation are eliminated from the accounts when assets are disposed. Any resulting gain or loss is reflected in the results of operations. Leasehold improvements are amortized over the lesser of the estimated economic life of the improvements or the remaining term of the lease.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Members' Accounts

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

Members' Equity

The Credit Union is required by regulation to maintain statutory reserves ("regular reserves"); representing a regulatory restriction of members' equity and thus these regular reserves are not available for the payment of interest on share accounts. Other appropriated members' equity amounts may be established or transferred at the discretion of the Board of Directors.

National Credit Union Share Insurance Fund ("NCUSIF") Deposit

The NCUSIF deposit is in accordance with National Credit Union Administration ("NCUA") regulations, requiring the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured shares. The deposit would be refunded to the Credit Union if: (1) the insurance coverage is terminated; (2) the Credit Union converts to insurance coverage from another source; or (3) the operations of the fund are transferred from the NCUA Board.

Advertising Costs

Advertising costs are included in education and promotional expense and are expensed as incurred. Advertising expense for 2017 and 2016 was $31,056 and $26,874, respectively.

Income Taxes

The Credit Union is exempt from federal and state income taxes in accordance with Section 122 of the Federal Credit Union Act.

Comprehensive (Loss)/Income

Accounting principles generally require revenue, expenses, gains, and losses to be included in Net Income. Certain changes in assets and liabilities, such as unrealized gains and losses on investment securities, gains and losses on cash flow hedge derivatives, and pension related adjustments are reported as a separate component of members' equity in the Statements of Financial Condition.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fair Value of Assets and Liabilities

Fair value is a market-based measurement, not an entity-specific measurement, and the hierarchy gives the highest priority to quoted prices in active markets. Fair value measurements are disclosed by level within the fair value hierarchy. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

Valuation techniques are to be consistent with the market approach, the income approach, and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset/liability or unobservable, meaning those that reflect the entity's own assumptions developed based on the best information available in the circumstances.

The fair value hierarchy is as follows:

Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations have certain assumptions and projections, which require significant management judgment or estimation in determining the fair value assigned to such assets or liabilities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Derivative Instruments

A derivative is a financial instrument that derives its cash flows, and therefore its value, by reference to an underlying instrument, index, or referenced interest rate. These instruments include interest rate swaps, caps, floors, collars, financial forwards and futures contracts, swaptions, and when-issued securities, as examples. The Credit Union can use derivatives to manage economic risk related to securities, mortgage servicing rights and mortgage banking operations, share deposits, debt, and other funding sources.

Derivative financial instruments are classified primarily as either (1) a hedge of an exposure to changes in the fair value of a recorded asset or liability ("fair value hedge"), (2) a hedge of an exposure to changes in the cash flows of a recognized asset, liability or forecasted transaction ("cash flow hedge") or, (3) derivatives not designated as accounting hedges (such as economic hedging for loans held for sale). The fair value of derivatives in a gain or loss position are included in other assets or other liabilities.

Changes in the fair value of derivatives not designated as cash flow hedges are recognized in current period earnings. The Credit Union has netting agreements within its derivatives agreements, but presents gross assets and liabilities in the Consolidated Statements of Financial Condition. At inception and at least quarterly during the life of the hedge, the Credit Union documents its analysis of actual and expected hedge effectiveness for cash flow hedges. This analysis includes techniques such as regression analysis and hypothetical derivatives to demonstrate that the hedge has been, and is expected to be, highly effective in offsetting corresponding changes in the fair value or cash flows of the hedged item. For a cash flow hedge, changes in the fair value of the derivatives that have been highly effective are recognized in accumulated other comprehensive loss until the related cash flows from the hedged item are recognized in earnings. If the cash flow hedge ceases to be highly effective, the Credit Union discontinues hedge accounting and recognizes the changes in fair value in current period earnings. If a derivative that qualifies as a fair value or cash flow hedge is terminated or de-designated, the realized or then unrealized gain or loss is recognized in income over the life of the hedged item (fair value hedge) or in the period in which the hedged item affects earnings (cash flow hedge). Immediate recognition in earnings is required upon sale or extinguishment of the hedged item (fair value hedge) or if it is probable that the hedged cash flows will not occur (cash flow hedge).

Reclassifications

Certain account reclassifications have been made to the 2016 consolidated financial statement disclosures in order to conform to presentation used in the current year.

(dollars in thousands)

NOTE 3 – INVESTMENT SECURITIES

The amortized cost and fair values of investment securities available-for-sale, with gross unrealized gains and losses, are summarized as follows:

	December 31, 2017			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Securities available-for-sale				
Federal agency securities	$ 115,974	$ -	$ (4,032)	$ 111,942
Federal agency securities-MBS	1,369,792	358	(24,419)	1,345,731
Other	58,429	-	(1,117)	57,312
Total securities available-for-sale	$ 1,544,195	$ 358	$ (29,568)	$ 1,514,985

	December 31, 2016			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Securities available-for-sale				
Federal agency securities	$ 125,968	$ -	$ (3,953)	$ 122,015
Federal agency securities-MBS	1,023,140	-	(29,644)	993,496
Other	112,654	71	(2,101)	110,624
Total securities available-for-sale	$ 1,261,762	$ 71	$ (35,698)	$ 1,226,135

In 2017, the unrealized losses of $29.6 million included 150 securities, of which 139 were in a loss position for less than 12 months and 11 were in a loss position greater than 12 months. In 2016, the unrealized losses of $35.7 million included 108 securities, with 103 in a loss position for less than 12 months and 5 in a loss position greater than 12 months.

The Credit Union evaluates investments for other-than-temporary impairment (OTTI) on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Each security in a loss position is evaluated for OTTI. Consideration is given to the length of time and the extent to which the fair value has been less than cost and the financial condition and near-term prospects of the issuer. This evaluation also includes recent experience regarding principal and interest payments received, and whether it is more likely than not that these securities would be required to be sold before the anticipated recovery of the amortized cost basis. The Credit Union does not have a requirement to sell these securities and further anticipates these losses to recover with changes in market conditions or when these securities mature. The unrealized losses for 2017 and 2016 related predominately to current and prior year additions, and were the result of changes in interest rates after these securities were purchased, and thus are not an indication of impairment.

(dollars in thousands)

NOTE 3 – INVESTMENT SECURITIES, CONTINUED

The contractual maturities at December 31, 2017 and 2016 are detailed in the following table (actual maturities may differ from contractual maturities as certain security issuers have the right to call or prepay obligations without penalty):

	December 31 , 2017	
Investment securities available-for-sale	Amortized Cost	Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	109,528	107,420
Due after five years through ten years	404,081	394,503
Due after ten years	1,030,586	1,013,062
Total investment securities available-for-sale	$ 1,544,195	$ 1,514,985

	December 31 , 2016	
Investment securities available-for-sale	Amortized Cost	Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	121,386	119,618
Due after five years through ten years	386,407	372,622
Due after ten years	753,969	733,895
Total investment securities available-for-sale	$ 1,261,762	$ 1,226,135

Total sales of securities were $164.2 million and $478.1 million for 2017 and 2016, respectively, with gross gains of $7.3 million and gross losses of $2.4 million for 2017, and gross gains of $3.2 million and gross losses of $2.6 million for 2016.

(dollars in thousands)

NOTE 4 – LOANS, NET

Major classifications of loans to members are summarized as follows:

	December 31,	
	2017	2016
First trust mortgages	$ 11,325,715	$ 11,319,203
Term home equity	729,511	751,006
Equity lines of credit	1,495,091	1,269,825
Total real estate loans	13,550,317	13,340,034
Credit card loans, primarily unsecured	1,736,551	1,687,259
Vehicle loans	3,317,253	2,848,007
Unsecured consumer loans and other	801,694	557,469
Total vehicle and other loans	4,118,947	3,405,476
Net unamortized deferred fees and costs	107,617	84,034
Total loans, net of fees and costs	19,513,432	18,516,803
Less allowance for loan losses	(98,409)	(59,080)
Loans, net	$ 19,415,023	$ 18,457,723

Loans are comprised of real estate loans (1st & 2nd trust loans collateralized by real estate), unsecured credit card loans, vehicle loans and other loans (comprised mostly of unsecured lines of credits to members and student loans, among others). The overall risk within the real estate portfolios is supported by the collateral held and thus these values are monitored within current market trends for real estate. The overall risk within consumer and credit card loans is tied to trends in unemployment, broad economic trends, and consumer spending, to name a few. The Credit Union monitors performance of these portfolios against these trends and adjusts its lending strategies within established risk tolerance strategies.

The Credit Union holds deeds of trust/mortgages on underlying real estate to collateralize all first trust mortgage, term home equity, and equity line of credit loans. Approximately 31% of real estate loans at December 31, 2017 and 33% at December 31, 2016 are collateralized by residential real estate located in the District of Columbia metropolitan area.

Nonperforming loans include nonaccrual loans in addition to credit card loans that are contractually past due 90 days or more as to interest or principal, but have not been put on nonaccrual status (per regulatory guidelines).

(dollars in thousands)

NOTE 4 – LOANS, NET, CONTINUED

At December 31, 2017 and 2016, nonperforming loans were as follows:

	December 31, 2017	December 31, 2016
Nonaccrual loans-- real estate loans	$ 14,260	$ 9,051
Nonaccrual loans-- vehicle and other loans	36,483	13,136
Total nonaccrual loans	50,743	22,187
Credit card loans contractually past due 90 days or more and still accruing	30,866	21,204
Total nonperforming loans	$ 81,609	$ 43,391
Total nonperforming loans as % of net loans receivable	0.42%	0.23%

In addition, the following tables provide past due and aging information for the loan portfolio at 2017 and 2016 year end, as follows:

December 31, 2017	30-59 days Past Due	60-89 days Past Due	Non-Performing	Total Past Due	Current	Total
Real estate loans	$ 10,579	$ 5,819	$ 14,260	$ 30,658	$ 13,627,276	$ 13,657,934
Vehicle and other loans	35,774	14,357	36,483	86,614	4,032,333	4,118,947
Credit card loans	13,809	9,938	30,866	54,613	1,681,938	1,736,551
Total loans	$ 60,162	$ 30,114	$ 81,609	$ 171,885	$ 19,341,547	$ 19,513,432

December 31, 2016	30-59 days Past Due	60-89 days Past Due	Non-Performing	Total Past Due	Current	Total
Real estate loans	$ 4,604	$ 2,257	$ 9,051	$ 15,912	$ 13,408,156	$ 13,424,068
Vehicle and other loans	10,696	5,195	13,136	29,027	3,376,449	3,405,476
Credit card loans	9,478	7,826	21,204	38,508	1,648,751	1,687,259
Total loans	$ 24,778	$ 15,278	$ 43,391	$ 83,447	$ 18,433,356	$ 18,516,803

(dollars in thousands)

NOTE 4 – LOANS, NET, CONTINUED

The amount of interest income that would have been recognized on nonperforming loans under the original contractual terms of these loans was approximately $4.6 million and $2.9 million for the years ended December 31, 2017 and 2016, respectively. The actual interest income recognized on nonperforming loans was approximately $2.4 million and $1.6 million in 2017 and 2016, respectively, and thus the foregone interest lost was approximately $2.2 million and $1.3 million for December 31, 2017 and 2016, respectively. During 2017 and 2016, interest income recognized on impaired loans was approximately $0.2 million for each year.

Restructured loans are troubled debt restructurings where the Credit Union has granted a concession to a member who is experiencing financial difficulty. The following table provides a summary of restructured loans outstanding in accruing and nonaccrual status:

	December 31, 2017	December 31, 2016
Restructured loans-- real estate loans	$ 35,682	$ 38,113
Restructured loans-- non-real estate/other loans	4,956	6,005
Total restructured loans-- current	40,638	44,118
Restructured loans-- nonaccrual-- real estate loans	456	898
Restructured loans-- nonaccrual-- other loans	218	85
Total restructured loans	$ 41,312	$ 45,101

The total new restructured loans for 2017 and 2016 were $2.3 million and $3.1 million, respectively, involving mostly concessions in rate and/or extension of maturity to members experiencing financial difficulties. There were not any restructured loan defaults in 2017 and 2016. The remaining disclosures related to restructured loans for the years presented were omitted due to lack of materiality.

Changes in the allowance for loan losses for 2017 and 2016 were as follows:

December 31, 2017	Real Estate	Vehicle & Other	Credit Card	Total
Balance, beginning of year	$ 8,489	$ 16,607	$ 33,984	$ 59,080
Provision for loan losses	2,491	61,926	71,928	136,345
Loan losses charged to the allowance	(2,262)	(32,636)	(70,172)	(105,070)
Recoveries credited to the allowance	704	2,499	4,851	8,054
Balance, end of year	$ 9,422	$ 48,396	$ 40,591	$ 98,409

December 31, 2016	Real Estate	Vehicle & Other	Credit Card	Total
Balance, beginning of year	$ 9,111	$ 8,432	$ 29,480	$ 47,023
Provision for loan losses	3,194	25,849	48,660	77,703
Loan losses charged to the allowance	(4,435)	(19,270)	(48,509)	(72,214)
Recoveries credited to the allowance	619	1,596	4,353	6,568
Balance, end of year	$ 8,489	$ 16,607	$ 33,984	$ 59,080

(dollars in thousands)

NOTE 4 – LOANS, NET, CONTINUED

The Credit Union's allowance for loan loss evaluation is predominately based on a collective review for impairment, except for loans reviewed individually for impairment on a monthly basis- such as nonaccrual real estate loans and restructured loans. The Credit Union had 446 and 496 in the number of restructured loans at year-end December 31, 2017 and 2016 respectively. Factors considered in the review for impairment included (but are not limited to) the review of payment history, updated credit status, collateral value, and economic factors, among others. In the fourth quarter of 2017, the Credit Union made a qualitative adjustment for estimating losses related to the hurricanes for the Vehicle and Other Loans portfolio for approximately $9.8 million. The prior year did not have a significant qualitative adjustment.

At December 31, 2017 and 2016, the allowance for loan loss balances included the following relative to the method for determining the allowance for loan losses:

	Allowance for Loan Losses		Loans, Net	
December 31, 2017	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate loans	$ 4,994	$ 4,428	$ 41,654	$ 13,616,280
Vehicle and other loans	182	48,214	5,174	4,113,773
Credit card loans	-	40,591	-	1,736,551
Total	$ 5,176	$ 93,233	$ 46,828	$ 19,466,604

	Allowance for Loan Losses		Loans, Net	
December 31, 2016	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate loans	$ 4,690	$ 3,799	$ 43,801	$ 13,380,267
Vehicle and other loans	221	16,386	6,090	3,399,386
Credit card loans	-	33,984	-	1,687,259
Total	$ 4,911	$ 54,169	$ 49,891	$ 18,466,912

In 2017 and 2016, net loan balance additions to impairments totaled $6,316 and $9,750, while net charge offs and removals totaled $9,644 and $15,411, respectively. The average total outstanding impaired loan balance in 2017 and 2016 was $43.3 million and $47.8 million, respectively. As of December 31, 2017 and 2016, there were no impaired loans that did not have a related allowance. During the year ended December 31, 2017, the Credit Union recorded- based on the appraised value of the underlying collateral- net increases/provisions of $265 on impaired loans and net reductions/recoveries of $428 related to write-downs of foreclosed real estate. During 2016, the Credit Union had net increases/provisions of $90 on impaired loans and net reductions/recoveries of $721 related to write-downs of foreclosed real estate. Remaining disclosures related to impaired loans were omitted due to lack of materiality.

(dollars in thousands)

NOTE 5 – PROPERTY AND EQUIPMENT, NET

Property and equipment are summarized as follows:

	Estimated useful life	December 31, 2017	December 31, 2016
Land		$ 39,612	$ 36,147
Buildings and improvements	5 to 50 years	253,295	232,719
Furniture and fixtures	3 to 8 years	41,408	32,171
Computer equipment	3 to 5 years	54,665	51,393
Computer software	3 to 10 years	163,182	101,069
Leasehold improvements	1 to 5 years	11,171	8,391
		563,333	461,890
Accumulated depreciation		(167,199)	(136,450)
Property and equipment, net		$ 396,134	$ 325,440

Depreciation and amortization expense for the years ended December 31, 2017 and 2016, was approximately $29,192 and $19,289, respectively, and is included in occupancy expense.

Future minimum rental commitments within non-cancelable leases as of December 31, 2017 were as follows:

2018	$ 6,157
2019	4,596
2020	3,182
2021	2,558
2022	1,593
Thereafter	3,848
Total minimum payments	$ 21,934

Rent expense was approximately $7,000 for each year ended 2017 and 2016, and was recorded in the income statement as occupancy expense within non-interest expense.

(dollars in thousands)

NOTE 6 – MEMBERS' ACCOUNTS

Share and deposit amounts up to $250 per ownership interest are federally insured through the National Credit Union Share Insurance Fund. Individual deposit account balances exceeding $250 at December 31, 2017 and 2016, totaled $1,983,870 and $1,952,828, respectively.

At December 31, 2017, scheduled maturities of members' accounts are as follows:

2018	$ 5,389,762
2019	3,017,917
2020	588,075
2021	493,323
2022	484,511
Thereafter	171,257
No contractual maturity	7,664,886
	$ 17,809,731

Interest expense on members' accounts for the 2017 and 2016 year end are as follows:

	December 31,	
	2017	2016
Regular shares	$ 5,894	$ 4,921
Money market shares	18,719	7,043
Share certificates	153,617	151,754
IRA shares	115	108
IRA certificates	44,273	47,379
	$ 222,618	$ 211,205

(dollars in thousands)

NOTE 7 – BORROWED FUNDS

Borrowed funds are summarized as follows:

	December 31, 2017	December 31, 2016
Federal Home Loan Bank advances	$ 2,361,000	$ 2,221,000
Other borrowings	-	1,217
	$ 2,361,000	$ 2,222,217

The Credit Union borrowed funds from the Federal Home Loan Bank of Atlanta ("FHLB") secured by a blanket lien on the Credit Union's first trust mortgage portfolio. Other borrowings are comprised of aged participation loan agreements accounted for as secured borrowings, with additional disclosures being omitted due to immateriality. Accrued interest payable on borrowings was $8.1 million and $7.4 million for year-end 2017 and 2016, respectively.

The scheduled maturities of and applicable interest rates (fixed rate terms) for FHLB borrowed funds at December 31, 2017 are as follows:

Years Ending December 31	Interest Rate	December 31, 2017 Amount
2018	1.42%	$ 65,000
2018	1.02%	100,000
2018	1.06%	150,000
2020	3.13%	240,000
2020	1.94%	300,000
2021	1.71%	150,000
2021	1.71%	150,000
2021	2.40%	150,000
2021	1.52%	100,000
2022	1.51%	100,000
2022	3.06%	150,000
2022	3.16%	100,000
2023	2.93%	130,000
2023	2.62%	130,000
2024	5.80%	33,000
2024	6.05%	33,000
2024	4.08%	100,000
2024	2.81%	80,000
2026	4.67%	50,000
2031	4.94%	50,000
		$ 2,361,000
Weighted Average %		2.48%

NOTE 8 – EMPLOYEE BENEFIT PLANS

Overview of Plans

The Credit Union sponsors a trustee, noncontributory, defined-benefit pension plan (the "Plan") covering eligible employees. Benefits under the Plan are primarily based on years of service and the employees' compensation during the last five years of employment. The Credit Union's policy is to make annual contributions to the Plan equal to the amount required to maintain the Plan in sound condition and to satisfy minimum funding requirements. Eligibility requirements of the Plan were modified in December 2006 to exclude employees hired or rehired after December 31, 2006 from participating in the Plan.

The Credit Union also established a Supplemental Retirement Plan, covering certain Credit Union executives, on July 26, 2005, which was terminated in 2016.

The Credit Union also sponsors a defined benefit postretirement plan. Eligibility requirements of the defined benefit postretirement plan were modified in December 2012 to exclude employees hired or rehired on or after December 1, 2012 from participating. The plan covers eligible employees providing medical, life insurance and sick leave benefits. The plan is contributory for retirees who retired after January 1, 1995. For these retirees, effective April 1, 2006, retiree medical contributions were set at 70% for retirees age 65 or above, and 90% for retirees age 55 to 65. Effective April 1, 2007, the plan includes an increase in the contribution level for retirees age 65 and above to 90% of the premium. The 70% and 90% contribution provisions do not apply to employees who retired before January 1, 1995, for whom the Credit Union pays 100% of the premiums.

In accordance with ASC 715, "Compensation-Retirement Benefits" the funding status of each benefit plan is reflected as an asset or liability in the statement of financial position and the associated transition adjustment is recognized through accumulated other comprehensive loss. ASC 715 requires an employer to recognize the overfunded or underfunded status of defined benefit pension and other postretirement plans, measured solely as the difference between the fair value of plan assets and the benefit obligation, as an asset or liability on the balance sheet. Unrecognized actuarial gains and losses, unrecognized prior service costs, and unrecognized transition obligation remaining from the adoption of earlier pronouncements in ASC 715 are included as a component of accumulated other comprehensive loss.

Actuarial gains and losses and prior service costs and credits that arise during a period, are included in other comprehensive income to the extent they are not included in net periodic pension cost (a component of compensation and benefits expense).

(dollars in thousands)

NOTE 8 – EMPLOYEE BENEFIT PLANS, CONTINUED

The following table sets forth changes in the benefit obligations and plan assets:

	Retirement Plan		Supplemental Retirement		Postretirement Benefits	
	2017	2016	2017	2016	2017	2016
Change in benefit obligation						
Benefit obligation at beginning of year	$ 124,730	$ 116,656	$ -	$ 5,874	$ 3,063	$ 4,175
Service cost	4,991	4,583	-	-	54	80
Interest cost	5,000	4,729	-	-	95	122
Plan participants' contributions	-	-	-	-	341	307
Amendments	-	-	-	(4,725)	-	-
Actuarial (gain) loss	17,290	5,152	-	-	(629)	(1,196)
Business combinations	2,113	-	-	-	-	-
Benefits paid/Settlements	(3,572)	(6,390)	-	(1,149)	(429)	(425)
Benefit obligation at end of year	$ 150,552	$ 124,730	$ -	$ -	$ 2,495	$ 3,063
Change in plan assets						
Fair value of assets at beginning of year	$ 94,928	$ 94,814	$ -	$ -	$ -	$ -
Actual return on plan assets	12,698	6,504	-	-	-	-
Business combinations	2,575	-	-	-	-	-
Employer contribution	-	-	-	1,149	88	118
Plan participants' contributions	-	-	-	-	341	307
Benefits paid/Settlements	(3,572)	(6,390)	-	(1,149)	(429)	(425)
Fair value of assets at end of year	$ 106,629	$ 94,928	$ -	$ -	$ -	$ -

The amounts recognized in the Credit Union's statement of financial condition at December 31, 2017 and 2016 are presented in the following table:

	Retirement Plan		Postretirement Benefits	
	2017	2016	2017	2016
Amounts recognized in the statement of financial condition consist of:				
Prepaid benefit cost	$ -	$ -	$ -	$ -
Accrued benefit liability	(43,923)	(29,802)	(2,495)	(3,063)
Accumulated other comprehensive loss (income)	50,041	45,036	(2,609)	(2,184)
Net amount recognized	$ 6,118	$ 15,234	$ (5,104)	$ (5,247)
Noncurrent assets	$ -	$ -	$ -	$ -
Current liabilities	-	-	(155)	(201)
Noncurrent liabilities	(43,923)	(29,802)	(2,340)	(2,862)
Net amount recognized	$ (43,923)	$ (29,802)	$ (2,495)	$ (3,063)
Amounts recognized in accumulated other comprehensive loss consist of:				
Net actuarial loss (gain)	$ 50,063	$ 45,083	$ (2,034)	$ (1,546)
Prior service cost (credit)	(22)	(47)	(575)	(638)
Total	$ 50,041	$ 45,036	$ (2,609)	$ (2,184)

(dollars in thousands)

NOTE 8 – EMPLOYEE BENEFIT PLANS, CONTINUED

The following table presents a reconciliation of the funded status of the plans and the weighted average assumptions used in the accounting for the plans:

	Retirement Plan		Postretirement Benefits	
	2017	2016	2017	2016
Reconciliation of funded status				
Funded status	$ (43,923)	$ (29,802)	$ (2,495)	$ (3,063)
Unrecognized net actuarial loss (gain)	50,063	45,083	(2,034)	(1,546)
Unrecognized prior service cost	(22)	(47)	(575)	(638)
Prepaid (accrued) benefit cost	$ 6,118	$ 15,234	$ (5,104)	$ (5,247)
Obligations and assets				
Projected benefit obligation	$ 150,551	$ 124,730		
Accumulated benefit obligation	121,146	101,348		
Fair value of plan assets	106,629	94,928		
Weighted-average assumptions to determine benefit obligations at measurement date				
Discount rate	3.45%	3.90%	3.90%	3.90%
Expected long-term rate of return on plan assets	6.00%	6.00%	N/A	N/A
Rate of compensation increase	4.00%	4.00%	N/A	N/A
Current year healthcare cost trend rate[1]	N/A	N/A	6.50%	6.50%
Percentage of the fair value of total plan assets held in each major category of plan assets				
Equity securities	53%	54%	N/A	N/A
Debt securities	47%	46%	N/A	N/A
Other securities	0%	0%	N/A	N/A

[1] The healthcare cost trend rate is assumed to decrease annually until it reaches an ultimate rate of 5% in 2023.

The Credit Union's target asset allocation at December 31, 2017 and 2016 was 40% to 60% for debt securities (Level 1 and Level 2) and 60% to 40% for equity securities (Level 1). The valuation methodologies used for the Plan's financial instruments are similar to those detailed in Note 12. The Credit Union's investment policy includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by participants. The investment guidelines consider a broad range of economic conditions. Central to the policy are target allocation ranges (as shown above) by major asset categories. The objectives of the target allocation are to maintain investment portfolios that diversify risk through prudent asset allocation parameters, achieve asset returns that meet or exceed the Plan's actuarial assumptions, and achieve asset returns that are competitive with like institutions employing similar investment strategies. The investment policy is reviewed and administered by the Pension Committee (the "Committee") appointed by the Board of Directors of the Credit Union. The Committee's responsibilities include, but are not limited to, oversight of the investment management's decisions. The investment policy is established and administered in a manner to comply at all times with applicable government regulations.

(dollars in thousands)

NOTE 8 – EMPLOYEE BENEFIT PLANS, CONTINUED

The Credit Union's expected long-term return on plan assets assumption is based on a periodic review and modeling of the plan's asset allocation and liability structure over a long-term horizon. Expectations of returns for each asset class are the most important assumptions used in the review and modeling and are based on comprehensive reviews of the historical data and economic/financial market theory. The expected long-term rate of return on assets was selected from within the reasonable range of rates determined by (a) historical real returns, net of inflation, for the asset classes covered by investment policy, and (b) projections of inflation over the long-term period during which benefits are payable to plan participants.

The following table sets forth for the years indicated, the amount of periodic benefit cost recognized, showing all contributing components; the amounts in accumulated other comprehensive loss expected to be recognized as components of net periodic benefit cost over 2017; and the weighted average assumptions used to determine net periodic cost:

	Retirement Plan		Supplemental Retirement		Postretirement Benefits	
	2017	2016	2017	2016	2017	2016
Net periodic benefit cost						
Service cost	$ 5,926	$ 5,520	$ -	$ -	$ 54	$ 80
Interest cost	5,000	4,729	-	-	95	122
Expected return on plan assets	(5,674)	(5,530)	-	-	-	-
Amortization of prior service cost (credit)	(25)	(25)	-	-	(63)	(64)
Recognized net actuarial loss	3,888	3,791	-	(1,952)	(141)	(101)
Net periodic benefit cost	$ 9,115	$ 8,485	$ -	$ (1,952)	$ (55)	$ 37
Recognized in earnings	$ 9,115	$ 8,485				
Other changes in plan assets and benefit obligations recognized in other comprehensive income						
Net actuarial (gain) loss	$ 9,331	$ 3,241	$ -	$ -	$ (629)	$ (1,196)
Less- recognized actuarial gain (loss)	(3,888)	(3,791)	-	-	141	101
Prior service cost (credit)	-	-	-	(4,725)	-	-
Business combinations	(462)	-	-	-	-	-
Less- recognized prior service (cost) credit	25	25	-	1,952	63	63
Total recognized in other comprehensive (income) loss	$ 5,006	$ (525)	$ -	$ (2,773)	$ (425)	$ (1,032)
Total recognized in net benefit cost and other comprehensive (income) loss	$ 14,121	$ 7,960	$ -	$ (4,725)	$ (480)	$ (995)
Amounts expected to be recognized into net periodic cost from accumulated other comprehensive loss in the coming year						
Loss (Gain) recognition	$ 4,015		$ -		$ (141)	
Prior service cost (credit) recognition	(22)		-		(63)	
Weighted-average assumptions used to determine net periodic cost						
Discount rate	3.90%	4.10%	N/A	3.30%	3.90%	4.25%
Expected return on plan assets	6.00%	6.00%	N/A	N/A	N/A	N/A
Rate of compensation increase	4.00%	4.00%	N/A	5.00%	N/A	N/A
Corridor	10.00%	10.00%	N/A	10.00%	10.00%	10.00%
Average future service period	9.22	9.28	N/A	6.00	13.18	13.51

(dollars in thousands)

NOTE 8 – EMPLOYEE BENEFIT PLANS, CONTINUED

The estimated benefit payments and contributions for fiscal years 2018 through 2027 are as follows:

Estimated Future Benefit Payments	Retirement Plan		Postretirement Benefits	
2018	$	6,945	$	155
2019		6,873		147
2020		8,200		145
2021		8,463		146
2022		9,014		132
2023-2027		52,223		683
Estimated Contributions for 2018	$	-	$	155

The Credit Union estimates that it will not make any contributions to the retirement plan in 2018. For measurement purposes, a 6.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for the 2018 year. The rate is assumed to decrease annually until it reaches 5.0% in 2023 and remains at that level thereafter. Assumptions for health care cost trend rates have a significant effect on the amounts reported for the postretirement benefits plan.

A 1% change in assumed health care cost trend rates would have the following effects:

		2017		2016
1-percentage point increase in healthcare cost trend				
Effect on total of service and interest cost components	$	19	$	26
Effect on accumulated postretirement benefit obligation		221		293
1-percentage point decrease in healthcare cost trend				
Effect on total of service and interest cost components	$	(15)	$	(21)
Effect on accumulated postretirement benefit obligation		(184)		(243)

401(k) Plan

The Credit Union has a 401(k) plan that provides for contributions by employees and the employer, with the employer contributions consisting of a 100% matching of the employees' contributions up to the first 4% of the employees' salaries, subject to federal limitations. The Plan is available to substantially all employees of the Credit Union. The expense related to this plan for 2017 and 2016 was $4,594 and $3,442, respectively.

(dollars in thousands)

NOTE 9 – CAPITAL REQUIREMENTS

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 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 generally accepted accounting principles. 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 in the regulations) to total assets (as defined). Credit unions are also required to calculate a Risk-Based Net Worth ("RBNW") requirement, which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNW ratio was 5.81% and 5.92% at December 31, 2017 and 2016, respectively. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes at December 31, 2017 and 2016, the Credit Union meets all capital adequacy requirements to which it is subject. At December 31, 2017, the most recent call reporting period, NCUA categorized the Credit Union as "well capitalized" under the prompt corrective action regulatory framework. 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. Management believes that there are no conditions or events since that notification that would change the Credit Union's category.

The Credit Union's actual capital amounts and ratios are presented below:

	Actual		To Be Adequately Capitalized Under Prompt Corrective Action Provisions		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2017						
Net Worth to Total Assets	$ 2,361,671	10.3%	≥ $ 1,371,533	≥ 6.0%	≥ $ 1,600,121	≥ 7.0%
December 31, 2016						
Net Worth to Total Assets	$ 2,163,284	10.2%	≥ $ 1,278,082	≥ 6.0%	≥ $ 1,491,095	≥ 7.0%

In performing its calculation of total assets, the Credit Union used the quarter-end balance option, as permitted by regulation. Because the RBNW requirement for the Credit Union is less than the actual net worth ratio, the Credit Union is not considered "complex" under the RBNW requirements.

(dollars in thousands)

NOTE 10 – FINANCIAL INSTRUMENTS-COMMITMENTS WITH OFF-BALANCE SHEET RISK

The Credit Union is party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its members and to reduce its own exposure to fluctuations in interest rates. These commitments include financial instruments to extend credit. Those instruments 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 in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Credit Union uses the same credit policies in making commitments as it does for on-balance-sheet instruments.

A summary of the Credit Union's commitments at December 31, 2017 is as follows:

	Fixed Rate	Variable Rate	Total Contract or Notional Amount
Thrifty credit services lines of credit	$ 565,452	$ -	$ 565,452
Second trust mortgages	37,136	3,135,039	3,172,175
Credit cards	-	8,206,875	8,206,875
First trust mortgages	758,758	386,984	1,145,742
	$ 1,361,346	$ 11,728,898	$ 13,090,244

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. As it relates to first trust mortgage commitments, these commitments include loans to be held for investment as well as loans intended to be sold. For details on commitments to sell loans - see Note 13.

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 counterparty. Collateral held varies but may include real estate and other tangible personal property. In the majority of cases, lines of credit established for credit card and thrifty credit service accounts are unsecured.

(dollars in thousands)

NOTE 11 – RELATED PARTY TRANSACTIONS

Members of the Board of Directors ("the Board"), Supervisory Committee, and executive officers of the Credit Union have outstanding loans and deposits at the Credit Union.

At December 31, 2017, the aggregate balances included 131 loans totaling $6,990, and member account balances (deposits) totaling $9,679 for 34 individuals. At December 31, 2016, the aggregate balances included 128 loans totaling $6,620 and member account balances (deposits) totaling $13,573 for 31 individuals.

The following table provides additional information regarding related party loan transactions:

	December 31, 2016	Disbursements	Repayments	December 31, 2017
First trust mortgages	$ 5,679	$ 1,230	$ (854)	$ 6,055
Equity lines of credit	22	7	(14)	15
Term home equity	423	-	(75)	348
Vehicle loans	248	105	(139)	214
Credit card loans	234	115	(69)	280
All other loans	14	64	-	78
	$ 6,620	$ 1,521	$ (1,151)	$ 6,990

(dollars in thousands)

NOTE 12 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting standards define fair value 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, with a three level valuation input hierarchy (see Note 2 – Fair Value of Assets and Liabilities).

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

	December 31, 2017			
	Total	(Level 1)	(Level 2)	(Level 3)
Federal agency securities	$ 111,942	$ -	$ 111,942	$ -
Federal agency securities-MBS	1,345,731	-	1,345,731	-
Other securities	57,312	-	57,312	-
Loans held for sale	194,389	-	194,389	-
Mortgage servicing rights	64,398	-	-	64,398
Derivative instruments	9,014	-	9,014	-
	$ 1,782,786	$ -	$ 1,718,388	$ 64,398

	December 31, 2016			
	Total	(Level 1)	(Level 2)	(Level 3)
Federal agency securities	$ 122,015	$ -	$ 122,015	$ -
Federal agency securities-MBS	993,496	-	993,496	-
Other securities	110,624	-	110,624	-
Loans held for sale	110,689	-	110,689	-
Mortgage servicing rights	57,721	-	-	57,721
Derivative instruments	7,061	-	7,061	-
	$ 1,401,606	$ -	$ 1,343,885	$ 57,721

There were no transfers between levels.

(dollars in thousands)

NOTE 12 – FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

The table below presents the reconciliation for the years ended December 31, 2017 and 2016, for all Level 3 assets that are measured at fair value on a recurring basis.

	Fair Value Measurements Using Significant Unobservable Inputs	
	December 31, 2017	**December 31, 2016**
Mortgage servicing rights at beginning of year	$ 57,721	$ 52,037
Total realized and unrealized gains or losses	(8,540)	(7,240)
Purchases and issuances	15,217	12,924
Transfers in and/or out of Level 3	-	-
Mortgage servicing rights at end of year	$ 64,398	$ 57,721

	Weighted-Average Mortgage Servicing Rights Assumptions	
	December 31, 2017	**December 31, 2016**
Prepayment Speed (CPR)	10.3	9.3
Projected Life (Years)	6.0	6.4
Discount Rate	10.08%	9.86%

	Hypothetical Effect on Mortgage Servicing Rights Fair Value	
	2017	**2016**
Dec. 31 Mortgage Servicing Rights Fair Value	$ 64,398	$ 57,721
Change in Fair Value from:		
-100 bp decline in 10 year US Treasury	(5,950)	(7,388)
-200 bp decline in 10 year US Treasury	(13,108)	(12,282)
+100 bp decline in 10 year US Treasury	6,391	5,507
+200 bp decline in 10 year US Treasury	9,614	8,590

(dollars in thousands)

NOTE 12 – FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

Fair Value on a Non-Recurring Basis- certain assets and liabilities are measured at fair value on a non-recurring basis that are subject to fair value adjustments in certain circumstances; such as loans with evidence of impairment and other real estate owned. Specifically, impaired loans and other real estate owned is recorded at the lower of the principal balance of the loan or fair value of the property (based on appraised values) less estimated selling expenses (which approximate 8%). There are no other material adjustments to appraised values based on unobservable inputs. Certain assumptions and unobservable inputs are currently being used by the appraisers of collateral for other real estate owned, therefore, qualifying these assets as Level 3. These methodologies may result in a significant portion of the fair value being derived from unobservable data. During 2017 and 2016, there were no transfers between levels. The following table presents the assets and liabilities carried on the Statements of Financial Condition by caption and by level within the valuation hierarchy as described above for which a non-recurring change in fair value has been recorded.

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Loans, net- identified as impaired	$ 41,652	$ -	$ -	$ 41,652
Other real estate owned, net	3,289	-	-	3,289
	$ 44,941	$ -	$ -	$ 44,941

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Loans, net- identified as impaired	$ 44,980	$ -	$ -	$ 44,980
Other real estate owned, net	5,312	-	-	5,312
	$ 50,292	$ -	$ -	$ 50,292

The Credit Union did not have any liabilities measured at fair value on a recurring basis.

Change in Level 3 Impaired Loans and Other Real Estated Owned, net

	December 31, 2017		**December 31, 2016**	
	Impaired	**REO, net**	**Impaired**	**REO, net**
Balance at beginning of year	$ 44,980	$ 5,312	$ 50,641	$ 7,949
Additions	6,316	3,087	9,750	6,058
Net reductions	(9,644)	(5,110)	(15,411)	(8,695)
Balance at end of year	$ 41,652	$ 3,289	$ 44,980	$ 5,312

(dollars in thousands)

NOTE 12 – FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

The fair values of the Credit Union's financial instruments are summarized as follows:

	December 31, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 341,706	$ 341,706	$ 378,786	$ 378,786
Investment securities	1,771,545	1,771,545	1,440,401	1,440,401
Loans, net	19,415,023	19,369,976	18,457,723	18,438,533
Loans held for sale	194,389	194,389	110,689	110,689
Mortgage servicing rights	64,398	64,398	57,721	57,721
Derivative instruments	9,014	9,014	7,061	7,061
	$ 21,796,075	$ 21,751,028	$ 20,452,381	$ 20,433,191
Financial liabilities:				
Members' accounts	$ 17,809,731	$ 17,875,709	$ 16,657,703	$ 16,719,886
Borrowed funds	2,361,000	2,400,596	2,222,217	2,283,296
Derivative instruments	444	444	292	292
	$ 20,171,175	$ 20,276,749	$ 18,880,212	$ 19,003,474

The specific estimation methods and assumptions used can have a substantial impact on the resulting fair values of financial instruments. Following is a brief summary of the significant methods and assumptions used in the above table (for Derivative Instruments- see Note 13). Changes to such assumptions could significantly affect those fair values.

Cash and cash equivalents- The carrying amounts of cash and cash equivalents approximate their fair value based on the short-term nature of the assets.

Investment securities- For marketable, fixed-maturity securities, fair values are based on quoted market prices or dealer quotes. For other securities held, fair value equals quoted market price, if available. If a quoted market price is not available, fair values are estimated using quoted market prices for similar securities or by discounting expected future cash flows using a current market rate applicable to the yield, credit quality, and maturity of the investments. Federal Home Loan Bank stock and other securities are redeemable at par and thus the carrying values approximate the fair value.

Loans, net and loans held for sale- The fair value of loans, net is estimated by discounting the future cash flows using the current interest rates at which similar loans would be made to borrowers/members with similar credit ratings and for similar maturities. The fair value of loans held for sale is based on quoted market prices within loan sale commitments.

NOTE 12 – FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

Mortgage servicing rights- The fair value of mortgage servicing rights is determined by 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 contractual servicing fee income, costs to service, discount rates, ancillary income, prepayment speeds, and default rates.

Members' accounts- The fair value of regular shares, IRA shares, money market shares, and checking accounts is the amount payable on demand at the reporting date. The fair value of share certificates and IRA certificates is estimated by discounting future cash flows using the rates currently offered for deposits of similar maturities.

Borrowed funds- The fair value of borrowed funds is estimated by discounting the future cash flows using current market rates for similar maturities.

NOTE 13 – DERIVATIVE INSTRUMENTS

A derivative is a financial instrument that derives its cash flows, and therefore its value, by reference to an underlying instrument, index, or referenced interest rate. These instruments include interest rate swaps, caps, floors, collars, financial forwards and futures contracts, swaptions, and when-issued securities, as examples. The Credit Union can use derivatives to manage economic risk related to securities, mortgage servicing rights and mortgage banking operations, share deposits, debt, and other funding sources. The fair value of derivatives in a gain or loss position is included in other assets or other liabilities.

Derivative financial instruments are classified primarily as either (1) a hedge of an exposure to changes in the fair value of a recorded asset or liability ("fair value hedge"), (2) a hedge of an exposure to changes in the cash flows of a recognized asset, liability or forecasted transaction ("cash flow hedge") or, (3) derivatives not designated as accounting hedges (such as economic hedging for loans held for sale). Changes in the fair value of derivatives not designated as cash flow hedges are recognized in current period earnings as non-interest income/expense. The Credit Union has netting agreements within its derivatives agreements, but presents gross assets and liabilities on the Consolidated Statements of Financial Condition. For a cash flow hedge, changes in the fair value that have been highly effective are recognized in accumulated other comprehensive loss until the related cash flows from the hedged item are recognized in earnings.

(dollars in thousands)

NOTE 13 – DERIVATIVE INSTRUMENTS, CONTINUED

The details of the derivative instruments at year-end December 31, 2017 and 2016, and their respective fair values are summarized as follows:

	December 31, 2017			
Derivatives- not designated as accounting hedges	Designation	Asset (Liability)	Notional $	FV Gain (Loss)
Interest rate lock commitments	Loans	$ 1,480	$ 214,571	$ 1,480
Forward loan sale commitments	Loans	(60)	330,148	(60)
Interest rate swap contracts & when issued securities	Mortgage Serv. Rights	(384)	40,000	(384)
Total derivatives- not designated as accounting hedges		$ 1,036	$ 584,719	$ 1,036
Derivatives- designated as accounting hedges				
Cash Flow interest rate swap contracts	Share Deposits	7,534	500,000	7,534
		$ 7,534	$ 500,000	$ 7,534

	December 31, 2016			
Derivatives- not designated as accounting hedges	Designation	Asset (Liability)	Notional $	FV Gain (Loss)
Interest rate lock commitments	Loans	$ 643	$ 36,807	$ 643
Forward loan sale commitments	Loans	1,933	110,689	1,933
Interest rate swap contracts & when issued securities	Mortgage Serv. Rights	(292)	30,000	(545)
Total derivatives- not designated as accounting hedges		$ 2,284	$ 177,496	$ 2,031
Derivatives- designated as accounting hedges				
Cash Flow interest rate swap contracts	Share Deposits	4,485	150,000	4,370
		$ 4,485	$ 150,000	$ 4,370

The table below presents details of the year-end gains (losses) on the cash flow hedges for 2017 and 2016.

	December 31, 2017		
Derivatives- designated as cash flow hedges	Gain (loss) in OCI Effective Portion	Gain (loss) in OCI Reclassification	Gain (loss) in OCI Ineffective Portion
Cash Flow interest rate swap contracts	$ 6,781	$ 752	$ 1
Total	$ 6,781	$ 752	$ 1

	December 31, 2016		
Derivatives- designated as cash flow hedges	Gain (loss) in OCI Effective Portion	Gain (loss) in OCI Reclassification	Gain (loss) in OCI Ineffective Portion
Cash Flow interest rate swap contracts	$ 4,033	$ 336	$ 1
Total	$ 4,033	$ 336	$ 1

The ineffectiveness portion of the cash flow hedges detailed in the schedule above for both 2017 and 2016 were not significant. The remaining disclosures related to derivative instruments for the years presented were omitted due to materiality.

NOTE 14 – SUBSEQUENT EVENTS

The Credit Union evaluated subsequent events through March 30, 2018, the date the financial statements were available to be issued. The Credit Union is not aware of any additional subsequent events that require recognition or disclosure in the audited consolidated financial statements.