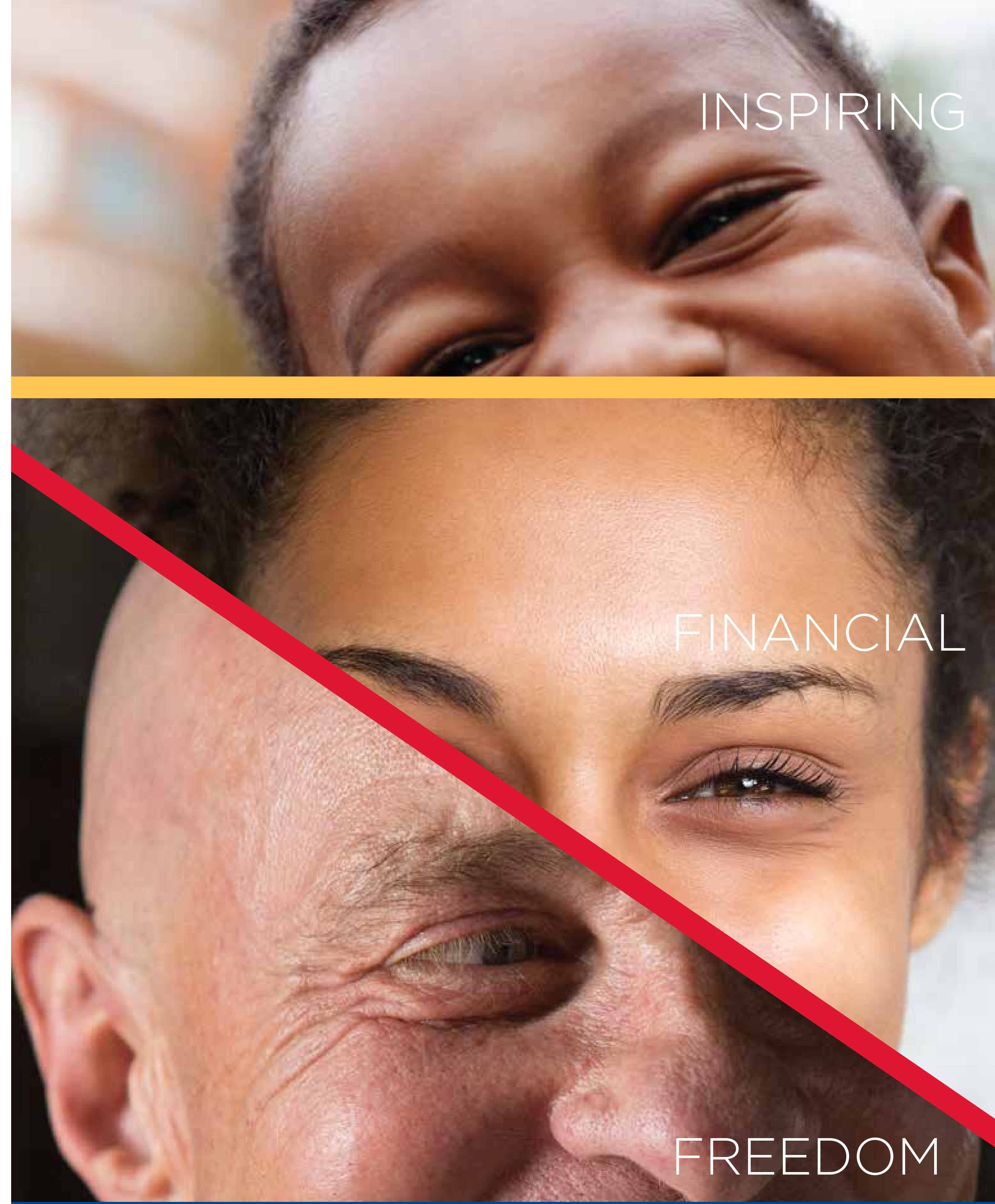
FARMERS INSURANCE
FEDERAL
CREDIT UNION



2017 Annual Report

Inspiring Financial Freedom

The Credit Union exists solely for its members, and our job is to help them achieve their financial goals and freedom with passion and smarts.

That's why members tend to stick with us and pass down a tradition of membership to their families.

In fact, our family tree has grown over the past 80 years of our history, and this year we welcomed our fifty thousandth member to the family!

Thank you to all our members for inspiring us!

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FINANCIAL HIGHLIGHTS 2014-2017

RETAINED EARNINGS

2017	$104,392,126
2016	$99,958,770
2015	$93,896,443
2014	$87,762,386

NET INCOME

2017	$4,433,356
2016	$6,062,327
2015	$6,134,057
2014	$6,898,640

TOTAL NET LOANS

2017	$707,944,982
2016	$628,940,677
2015	$595,168,428
2014	$556,439,500

MEMBERSHIP SHARES

2017	$640,675,567
2016	$600,273,107
2015	$589,848,198
2014	$559,106,826

LETTER FROM THE CHAIRMAN

The theme for this year's report, Inspiring Financial Freedom, is a testament to the Credit Union staff and the Farmers Family. From its early years in the 1930s to the present, through the good and bad times, the Credit Union has consistently created a unique and rewarding environment for our members. We set out to provide a better banking option with "big bank" capabilities and a personal touch. All this grounded in the best products, advice and service so you can achieve a strong financial future — faster. In short, we're here to help you build financial freedom. In return we have enjoyed your trust and loyal support, and on this note, I'm proud to recognize the milestone we reached this year, when we welcomed the 50,000th member to our Credit Union family! I am equally proud to report that the Credit Union experienced another successful year in all areas of growth, quality, productivity and profitability. On behalf of the Board of Directors, I want to thank management and staff for their dedication and service in achieving — and exceeding — their 2017 goals.

The Credit Union achieved gross income of $47,489,801 and net income of $4,433,356. We continued to grow net worth to 13.3% of record high assets of $787,705,796. As a result, the Credit Union was able to return an extra $2.3 million to members in the form of cash dividends, loan rebates and higher dividend rates. These earnings would normally be returned to stockholders in a for-profit institution. Because the Credit Union, however, is not-for-profit, we give it back as value-added to our members, to help you build financial freedom.

In addition, the Credit Union grew its Member Service Satisfaction Score by over 9%, a considerable increase over the prior year. Our score is truly a reflection of the commitment and passion of our Credit Union staff to ensure that our members feel valued, appreciated and well advised. They can be confident that we are helping them build financial freedom.

On behalf of the Board of Directors, I would like to thank you for your trust and support. The Credit Union exists only to serve our members and to enhance their financial lives. Please share your experiences with family and coworkers, and with your encouragement we will reach another milestone before long — our 60,000th member and $1 billion in assets! With your support, we will continue to help all of our members forge a fantastic financial future.

Scott Lindquist, Chairman of the Board

CREDIT UNION HIGHLIGHTS 2014-2017

TOTAL MEMBERS

2017	50,178
2016	48,493
2015	48,399
2014	46,768

TOTAL ASSETS

2017	$787,705,796
2016	$712,400,434
2015	$690,953,558
2014	$653,489,671

MEMBER SATISFACTION

2017	90.33%
2016	82.77%
2015	90.15%
2014	92.40%

LETTER FROM THE CEO

Delivering great member service to you is the bedrock of our business. Working with you to make your dreams a reality today is why we're so successful. And without you continuing to choose us over other financial institutions for your consumer and small business needs, we would be nowhere. But, indeed, we are "somewhere."

Exactly where is our Credit Union, and where are we headed? In 2017, we had another great year, earning a bottom line of almost $5 million which goes to building up our capital base, and that was net of our 'Credit Union Gives Back' program payout of over $2 million to active members. And, that was over and above our highly competitive, in some cases the best, everyday values. Only a Credit Union would be able to do this. Why? Because, of our unique business model, where everything goes back to our members.

Our net worth ratio is almost double what our federal regulator, the National Credit Union Administration, says is "well capitalized." This super strong capital position facilitates the virtuous circle of being able to make an appropriate bottom line, and in turn being able to return more to you, whether it's in hard dollars or via the improvement of our technology-driven services. We recently invested $3.5 million in new technology that will radically improve our delivery of convenient, easy-to-use, technology-driven services in the not-too-distant and very bright future.

Please feel free to check out our financial statements in this 2017 Annual Report, and if you have any questions, contact me personally.

Let me return to the huge importance of delivering great member service. Is it in our business core? Absolutely, and we've been working for decades to make it so. But, we've worked hard to learn these behaviors, so perhaps some think it just comes naturally. As people who have mastered the fine art of delivering great service have learned, it doesn't "just happen." Farmers knows it's this way in the insurance industry; we know it's this way on the hyper-competitive, consumer financial landscape as well.

We appreciate you responding to our member service surveys, and for taking the time to write or call us, sometimes to give us an opportunity to correct a mistake, but typically to thank us as we have a very high Member Service Satisfaction score of over 90% favorable. We're working on getting that to 100%!

I thank you for being an active member of our Credit Union family.

Mark Herter

Mark Herter, Chief Executive Officer

BOARD MEMBERS

Scott Lindquist
Chief Financial Officer

Jim Snikeris
Retired

Michael Ashe
Retired

Frank Ceglar
Retired

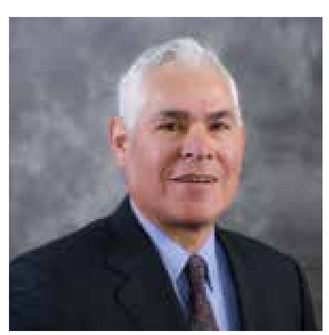
Danny Davison
District Manager, Oregon

Carl Hackling
Head of Distribution

Marilyn Huntamer
Agent, California

Ed McMahan
Retired

Linda Sanazaro
Chief Financial Brokered Solutions and Corp. Service



Rudy Trevino
Chief Compliance Officer, FGI

Lewis Williams
Head of IT Finance

LEADERSHIP TEAM

Mark Herter
Chief Executive Officer

Laura Campbell
President

Harland Bengs
Chief Financial Officer

Kathy Chicas
Chief Operations Officer

Brian Leonard
Chief Lending Officer

Yusef Mustafa
Chief Technology Officer

SUPERVISORY COMMITTEE (Not Pictured)

Leeann Badgett
Controller, Farmers New World Life

Derek Ferrendelli
Head of Personal Lines Finance

Mary Monesi
Director, Corporate Finance, Expense Analytics

Beth Rodgers
Chief Marketing Officer

Year In Review

JANUARY

High Yield Checking Rate Increased

Technically introduced in December 2016 (but you reaped the benefit throughout 2017) we increased our High Yield Checking rate from 2% to 5%, making this one of highest checking account interest rates in the U.S. (GOBankingRates.com, Oct 2017)!

New 30-month Certificate

Our brand new 30-month Certificate made its debut, giving members even more choices to grow financially with our industry-leading earnings.

MARCH

Referral Bonus

We kicked off our new Referral Bonus for members — $50 each — as a way of saying thank you for all those co-worker and family introductions.

MAY

New Branch In Phoenix, AZ

We opened our brand new Phoenix branch located at 24000 North Farmers Way—complete with three branch counselors ready to welcome members.

AUGUST

Credit Card Payments Available Via Mobile Banking

Mobile Banking was upgraded to accept Credit Card Payments!

Home Equity Loans Offered In Texas

Backed by popular demand, we were proud to be able to introduce Home Equity loans in the Lone Star State.

OCTOBER

50,000th Member

Our 50,000th member! Welcome Menelik, from the great city of Seattle, to our Credit Union family!

DECEMBER

Your Credit Union Gives Back $2.5 Million

The Credit Union was able to return nearly $2.5 million to members in the form of cash bonuses, loan rebates and higher dividend rates.

Increased Member Satisfaction Score to 90.33%

With our members top of mind, we were able to deliver service that rewarded us with a high satisfaction score of over 90%. We're doing a lot of things well, and we'll keep shooting for 100%.

This year we have been celebrating our member-owners, who inspire us every day to provide great service and help them reach their goals in life faster. We love getting to know each and every one of them. We make great friends in the process, and get rewarded by hearing about their lives, families and aspirations for the future. This year we wanted to share a few of their stories.

Enjoy.

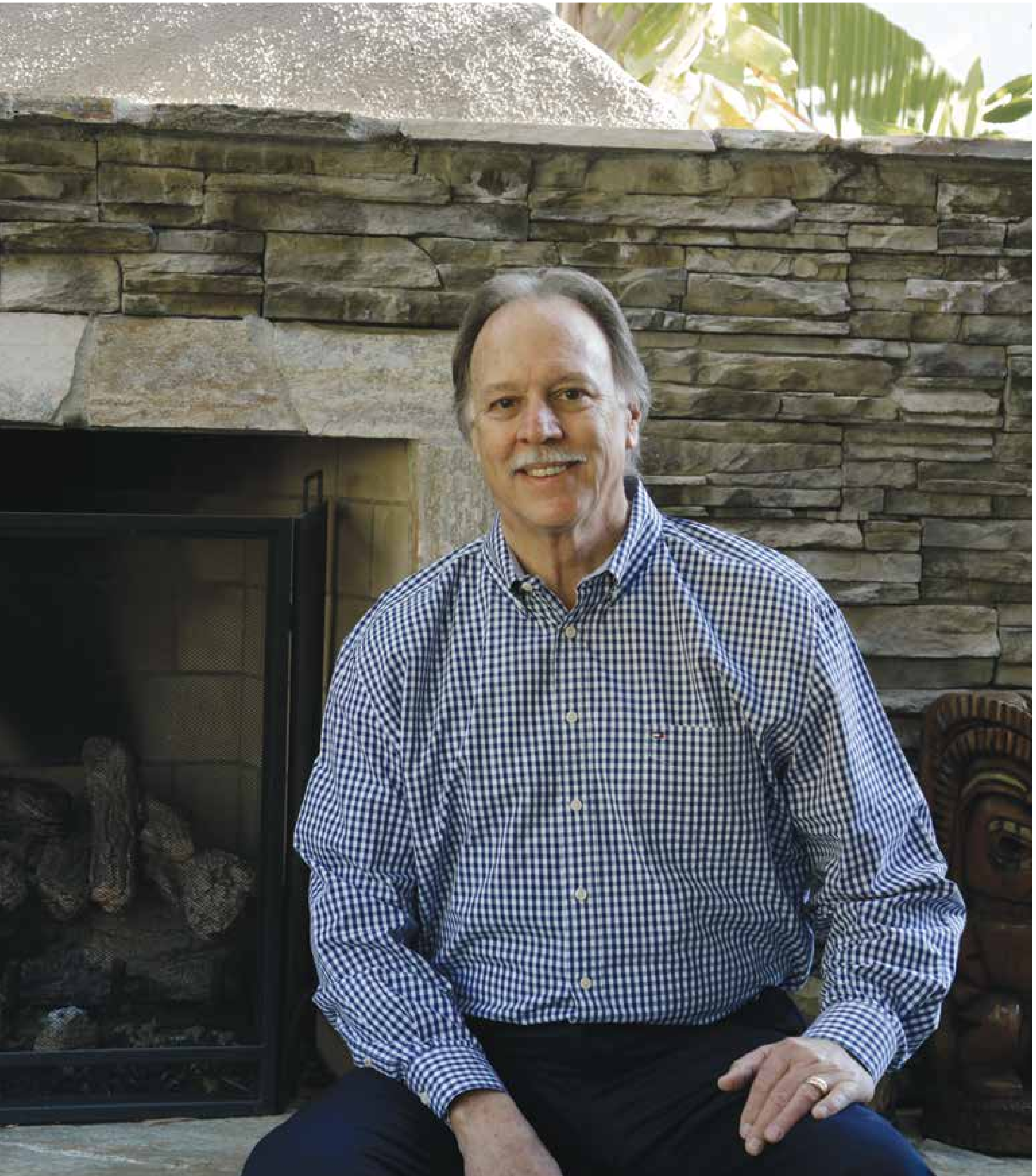
"First thing, I was told you need to join the Credit Union... It wasn't an order... but it turned out to be a good idea."

Mark Toohey — Communicator

Mark could probably have written this article himself — and with more panache! Growing up in Buffalo, NY, Mark moved to Texas to pursue a career in journalism — his "beat" including the Johnson Space Center, early Space Shuttle flights and state and federal politics. He parlayed these skills to Farmers Insurance, where over a 25-year career he helped build out the communications and government affairs functions as Senior VP in a variety of external affairs and corporate communications roles. So naturally he is not short of a few words or anecdotes.

Mark remembers early days at Farmers Insurance. "First thing, I was told you need to join the Credit Union," he recalls. "It wasn't an order"— he smiles — "but it turned out to be a good idea." A few good ideas later, Mark was promoted and moved from Texas to Home Office in Los Angeles. "I had a growing family to support and the cost of houses [in Los Angeles] gave me 'sticker shock.' The Credit Union helped [with a home purchase]. The process was very easy, friendly; very service-oriented. I was impressed at how fast it was."

An avid sports fan and golfer, Mark supports the Bills and Astros. In fact, growing up Mark's ambition was to become a lawyer and a pro-baseball player (3rd base). "Third base," he explained," is known as the 'hot corner', because you get a lot of hard shots hit at you." A coach once told him that at this position, "You must be on your toes and not on your heels." Mark added, "This was great advice for both 3rd base and for life." He likes how the Credit Union shares this attribute, and is always ready to help. "I can't remember any encounter when they did not bend over backwards to help...It's like when they are there, they are really there." It's our great pleasure, Mark.



"My heart and soul have been with the Credit Union."

Bob Ruddy —"Voice"

"The Voice"—sounds like a new member of the Fantastic Four—has a special gift. Known affectionately as "The Voice of the Vanguards," Bob's been announcing high school football, basketball and baseball at El Modena High School in Orange for so long that he's a household name in Orange, CA. The mayor once quipped, "I'm the mayor, but you know more people than I do." Bob, married for 42 years (to the same fine lady!) has two sons, one who played baseball for San Diego State University.

Bob is a born-and-raised Californian, growing up then attending college at Compton College in Los Angeles County. We caught up with him in the back yard of his home which looks like an homage to Jimmy Buffet—his favorite recording artist— complete with mandatary Hawaiian-paradise exotic vegetation, tiki-bar signs, waterfall pool and surf boards. You immediately feel like "family" when you enter his house, which is the way he likes it. Same with his job, which is providing insurance (Farmers of course). When he started out it was, in his own words, "dialing for dollars." These days, he observed, "it's very much about relationships." His clients—he has 3,000 active policies—"are like family for me."

Bob showed us his military "scrapbook," —thank you Bob for your service—he served in the U.S. Army in 1972-74 as an MP at Fort Belvoir, Virginia and told us how this experience made a teenage kid grow up real fast, in addition to giving him many of the life-tools and ambition necessary to succeed. Another "tool," or partner, that helped him along the way is the Credit Union. His then District Manager told him that "he had to get involved with them." Ever since—he's been a member for 38 years—"My heart and soul have been with the Credit Union." Early on he used to connect with the Credit Union a lot, "they were always such a great asset." More established now, he doesn't need the same hand-holding "but when I do [need them] they are always there to help...they are on it right away. That's the greatest thing, the quickness" We have to be on our toes to keep up with the rapid-fire "Voice"!

"I always found the people very easy to do business with and to be very fair in their dealings with me."

Pippa Wiley — Voyager

Don't let the quaint accent fool you. Pippa Wiley, who hails originally from the sedate British seaside town of Great Yarmouth—we pressed her for more details, but apparently not much happens there! —traded in her sand and seashells for Valvoline and wildcats when she married her oil-executive husband. This started her on a grand adventure that followed the smell of oil all over the world. Probably fitting for someone who once dreamed of becoming a photographer for National Geographic and taking photos from exotic locations all across the globe.

Pippa's "photographer's" keen observation has served her well over the years, especially as an insurance agent for Farmers where she always kept an eye out for her clients' needs with "above-and-beyond service." It was gratifying to hear that Pippa felt equally well-served by the Credit Union. Despite seeing a lot of changes in the 26 years since she joined, mainly computerization, the one constant for her was always "a feeling of family…and I always found the people very easy to do business with and to be very fair in their dealings with me."

Settled stateside now, Pippa still has the adventurer in her, including a recent trip to India. She also told us about a spur-of-the-moment trip to Alaska with friends. While there she tried salmon fishing for the first time and the accompanying photo of Pippa and her whopper testifies to her success. When we remarked "beginner's luck", she quipped back, "beginner's skill."

These days the world comes to her, in her adoptive city of Houston. "It's fabulous— very diverse— with a big public park in the center where you will hear 'every language in the world'. It's a very harmonious place." Pippa is a vocal ambassador for this great city with its great people and culture—where in her words "you are recognized for what you do, not who you are." We couldn't agree more with that sentiment, Pippa!

"I walked in with my five dollars and opened up my checking account. And I still have the same one 26 years later."

Naji Garabet — Craftsman

With members like Naji Garabet in your family, you're sure to lead an eventful life. Naji, by family-trade, is a master jeweler who took his artistry and applied it to the business of providing the security that comes with good insurance. Sit down with Naji and you'll think you've known him for a lifetime. He came as a young man to the U.S. from fabled Lebanon, and soon found a promising future at Farmers Insurance, where he now manages over 100 agents as a District Manager based out of his office complex in Pasadena, CA.

Naji believes that you don't make it on your own. The skill is "finding the right people to recognize your potential and support your ambition." In a financial partner he looks for "someone you know and trust...and you need the [good] relationship." He adds: "I'm looking for a professional. Someone that is easy to talk to, that is reachable...where I'm not a number, not just a transaction." He still recalls the day he started banking with us. "I walked in with my five dollars and opened up my checking account. And I still have the same one 26 years later. Along the way I bought my first house. Where nobody else would finance me, the Credit Union came through. And I bought a commercial building and several vehicles along the way. They have been my third, "silent partner." They have been there when I needed support." And thank you Naji for supporting us and being a part of our member family!

DoerenMayhew
CPAs AND ADVISORS

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Independent Auditor's Report

March 30, 2018

To the Supervisory Committee and Board of Directors
of Farmers Insurance Group Federal Credit Union

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Doeren Mayhew

Doeren Mayhew
Miami, FL

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION

STATEMENTS OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2017 AND 2016

Assets	2017	2016
Cash and cash equivalents	$33,023,999	$27,435,126
Interest bearing deposits	8,197,000	10,926,000
Investments:		
Available-for-sale	6,545,242	9,564,076
Held-to-maturity	3,120,000	8,590,000
Credit Union Service Organizations	10,365,094	9,036,389
Federal Home Loan Bank stock	1,726,000	1,686,600
Loans to members, net of allowance for loan losses	707,944,982	628,940,677
Accrued interest receivable	3,092,856	2,768,542
Prepaid and other assets	4,138,426	3,760,188
Property and equipment	3,554,059	3,812,704
NCUSIF deposit	5,998,138	5,880,132
Total assets	$787,705,796	$712,400,434
Liabilities and Members' Equity		
Liabilities:		
Members' shares and savings accounts	$640,675,567	$600,273,107
Borrowings	32,924,608	5,537,894
Accrued expenses and other liabilities	9,669,463	6,584,278
Total liabilities	683,269,638	612,395,279
Commitments and contingent liabilities		
Members' equity:		
Regular reserve	16,966,743	16,966,743
Undivided earnings	87,425,383	82,992,027
Accumulated other comprehensive income	44,032	46,385
Total members' equity	104,436,158	100,005,155
Total liabilities and members' equity	$787,705,796	$712,400,434

See accompanying notes to the financial statements.

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Interest income:		
Loans to members	$38,884,728	$35,883,003
Investment securities	944,381	834,995
Total interest income	39,829,109	36,717,998
Interest expense:		
Members' shares and savings accounts	3,869,343	3,513,898
Borrowings	392,867	31,134
Total interest expense	4,262,210	3,545,032
Net interest income	35,566,899	33,172,966
Provision for loan losses	3,279,999	3,107,718
Net interest income after provision for loan losses	32,286,900	30,065,248
Non-interest income:		
Overdraft and share draft fees	3,236,021	3,210,563
Interchange income	3,014,151	2,940,834
Service charges and other fees	1,076,356	1,104,025
Other income	334,164	350,005
Refund from pension plan	—	1,745,703
Total non-interest income	7,660,692	9,351,130
Non-interest expenses:		
Compensation and benefits	19,175,743	17,891,800
Office operating costs	7,460,313	7,630,882
Educational and promotional	2,974,013	2,555,128
Office occupancy	1,703,966	1,578,712
Professional and outside services	1,444,629	1,320,600
Other expenses	1,440,713	1,050,686
Loan servicing	1,314,859	1,326,243
Total non-interest expenses	35,514,236	33,354,051
Net income	$4,433,356	$6,062,327

See accompanying notes to the financial statements.

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION

STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Net income	$4,433,356	$6,062,327
Other comprehensive income/(loss):		
Available-for-sale investments:		
Net unrealized holding losses on available-for-sale investments	(2,353)	(8,351)
Reclassification adjustment for investment (gains)/losses included in net income	—	—
Total other comprehensive loss	(2,353)	(8,351)
Comprehensive income	$4,431,003	$6,053,976

See accompanying notes to the financial statements.

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION

STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2017 AND 2016

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance, December 31, 2015	$16,966,743	$76,929,700	$54,736	$93,951,179
Net income	—	6,062,327	—	6,062,327
Other comprehensive loss	—	—	(8,351)	(8,351)
Balance, December 31, 2016	16,966,743	82,992,027	46,385	100,005,155
Net income	—	4,433,356	—	4,433,356
Other comprehensive loss	—	—	(2,353)	(2,353)
Balance, December 31, 2017	$16,966,743	$87,425,383	$44,032	$104,436,158

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Net income	$4,433,356	$6,062,327
Adjustments to net cash provided from operating activities:		
Provision for loan losses	3,279,999	3,107,718
Depreciation and amortization	1,294,501	1,205,911
Loss/(income) attributable to investments in Credit Union Service Organizations	171,295	(356,225)
Changes in operating assets and liabilities:		
Accrued interest receivable	(324,314)	(339,611)
Prepaid and other assets	(378,238)	1,186,252
Accrued expenses and other liabilities	3,085,185	(569,903)
Total adjustments	7,128,428	4,234,142
Net cash provided from operating activities	11,561,784	10,296,469

See accompanying notes to the financial statements.

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

Cash Flows (Continued)

	2017	2016
Cash flows from investing activities:		
Decrease in interest bearing deposits	2,729,000	7,659,000
Proceeds from maturities and repayments of available-for-sale investments	3,016,481	3,191,359
Proceeds from the maturity of held-to-maturity investments	5,470,000	1,524,550
Purchase of held-to-maturity investments	—	(240,000)
Investment in Credit Union Service Organizations	(3,000,000)	(992,502)
Return on investment in Credit Union Service Organization	1,500,000	—
Purchase of FHLB stock	(39,400)	(40,400)
Net change in loans to members, net of charge-offs	(82,284,304)	(36,879,967)
Expenditures for property and equipment	(1,035,856)	(2,873,474)
Increase in NCUSIF deposit	(118,006)	(326,197)
Net cash used in investing activities	(73,762,085)	(28,977,631)
Cash flows from financing activities:		
Net change in members' shares and savings accounts	40,402,460	10,424,909
Proceeds from borrowings	27,850,000	5,537,894
Repayment of borrowings	(463,286)	—
Net cash provided from financing activities	67,789,174	15,962,803
Net change in cash and cash equivalents	5,588,873	(2,718,359)
Cash and cash equivalents - beginning	27,435,126	30,153,485
Cash and cash equivalents - ending	$33,023,999	$27,435,126

Supplemental Information

Interest paid	$4,262,210	$3,545,032

See accompanying notes to the financial statements.

Note 1 - Nature of Business and Significant Accounting Policies

Organization

Farmers Insurance Group Federal Credit Union (the Credit Union) is a cooperative association organized in accordance with the provisions of the Federal Credit Union Act for the purpose of promoting thrift among, and creating a source of credit for, its members. Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined by the Credit Union's Charter and Bylaws.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenses for the periods then ended. Actual results could differ from those estimates. Estimates that are particularly susceptible to change include the determination of the allowance for loan losses and the fair value of financial instruments. The significant accounting principles and policies used in the preparation of these financial statements, together with certain related information, are summarized below.

Concentrations of Credit Risk

A significant amount of the Credit Union's business activity is with members who are employees or former employees of Farmers Insurance Group, Inc. The Credit Union also may be exposed to credit risk from a regional economic standpoint, since a significant concentration of its borrowers work or reside in the state of California. However, the loan portfolio is well diversified and the Credit Union does not have any significant concentration of credit risk, except unsecured loans, which by their nature, increase the risk of loss compared to those loans that are collateralized.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Comprehensive Income/(Loss)

Accounting principles generally require the recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities are reported in a separate component of comprehensive income/(loss). Other comprehensive income/(loss) is limited to the changes in unrealized gain/(loss) on available-for-sale investments. When available-for-sale investments are sold, the gain or loss realized on the sale is reclassified from accumulated other comprehensive income/(loss) to the gain or loss on sale of investments reported on the statements of income.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand, amounts due from banks and corporate credit unions (including cash items in the process of clearing) and interest-bearing deposits in banks and corporate credit unions with an original maturity of 90 days or less including overnight deposits. Amounts due from banks and corporate credit unions may, at times, exceed federally insured limits.

Interest Bearing Deposits

Interest bearing deposits are time deposits with financial institutions with an original maturity in excess of 90 days. These deposits are all 100% insured as no deposit to one individual institution exceeds $250,000.

Investments

The Credit Union's investments are classified and accounted for as follows:

Available-for-sale: Government and government agency mortgage-backed securities, collateralized mortgage obligations, SBA-backed securities and private-label collateralized mortgage obligations are classified available-for-sale when the Credit Union anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors. These securities are reported at fair value on the consolidated statements of financial condition.

Held-to-Maturity: Negotiable certificates of deposit which the Credit Union has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts which are recognized in interest income using the interest method over the period to maturity.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Investments (Continued)

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

Investments in Credit Union Service Organizations

The Credit Union has investments in several credit union service organizations (CUSOs). As of December 31, 2017 and 2016, the Credit Union owned 50% of Community Mortgage Funding, LLC and 20.3% of Extensia Financial, LLC. Additionally, the Credit Union invested in Constellation Digital Partners, LLC during 2017 and owned 10.91% as of December 31, 2017. These investments are accounted for under the equity method based on the Credit Union's percentage of ownership and/or level of influence exercised over the companies.

Federal Home Loan Bank (FHLB) Stock

As a member of the FHLB, the Credit Union is required to invest in stock of the FHLB. The FHLB stock is carried at cost and its disposition is restricted. Based on its restricted nature, no ready market exists for this investment and it has no quoted market value.

Loans to Members

Loans that the Credit Union has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, less an allowance for loan losses and net deferred loan origination fees and costs. Interest on loans to members is recognized over the terms of the loans and is calculated on principal amounts outstanding.

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

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Loans to Members (Continued)

All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income on loans over the estimated life of the loans.

Allowance for Loan Losses

The allowance for loan losses ("allowance") is an estimate of loan losses inherent in the Credit Union's loan portfolio. The allowance is established through a provision for loan losses which is charged to expense. Loan losses are charged off against the allowance when the Credit Union determines the loan balance to be uncollectible. Cash received on previously charged-off amounts is recorded as a recovery to the allowance.

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

For the purpose of determining the allowance disclosures, the Credit Union has segmented loans in the portfolio by product type. Loans are divided into the following segments: Consumer, Residential Real Estate, and Commercial. The Credit Union further disaggregates these segments into classes based on the associated risks within those segments. Consumer loans are divided into three classes: Unsecured, Automobile, and Other secured. Residential real estate loans are divided into three classes: First mortgage, Second mortgage, and Home equity line of credit (HELOC). Commercial loans are divided into three classes: Agency secured, Agency unsecured, and Real estate. Agency secured loans are secured by the value of agencies owned by a Farmers Insurance Agent or a Farmers Insurance District Manager. Agency unsecured loans are comprised of unsecured loans used for agency acquisitions by Farmers Insurance Agents and other agency business purposes. Each class of loans requires significant judgment to determine the estimation method that fits the credit risk characteristics of its portfolio segment. The Credit Union uses both internally developed and vendor supplied models in the process. The vendor model is supplied by P360, Inc. The P360, Inc. model provides meaningful insights into the portfolio's risk composition, as dictated by the intrinsic value and other relevant market data. The model is specifically designed to calculate the risk of the loan portfolio on an individual loan level basis to provide optimal loss coverage analysis over the next 12 months.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

The allowance consists of specific and general components. The specific component covers impaired loans and troubled debt restructurings and the specific allowances are established for these loans based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flows, the loan's estimated market value, or the estimated fair value of the underlying collateral. The general component covers non-impaired loans and is based on historical losses adjusted for current factors. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment or class of loans. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. These factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment. The Credit Union maintains a separate general valuation allowance for each portfolio segment.

Consumer Segment Allowance Methodology

For consumer loans, the Credit Union determines the allowance on a collective basis utilizing historical and forecasted losses to represent the best estimate of inherent losses at the measurement date. Loans are pooled, generally by loan types with similar risk characteristics. The Credit Union identifies consumer loans that underwent a troubled debt restructuring and evaluates these loans on an individual basis. In addition, the allowance model incorporates numerous other historical factors based upon the borrower, collateral type, loan performance, environment, and economy. These historical factors used in the analysis date back to 2001.

As appropriate, to achieve greater accuracy, further stratification of a selected portfolio may occur such as by year of origination, geographic location and other predictive characteristics. The consumer allowance model primarily uses historical delinquency and default experience. Information on forecasted delinquency analysis, member credit score trends, unemployment trends, industry trends and other key economic variables that may influence the frequency and severity of losses for each class of loan within the consumer segment may also be considered. Loans collateralized by a certificate or share account are considered fully secured unless otherwise notified.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

Residential Real Estate Segment Allowance Methodology

For residential real estate loans not identified as impaired, the Credit Union determines the allowance on a collective basis, utilizing various economic and financial simulations in order to determine the best estimate of inherent losses at the measurement date. Loans are pooled, generally by loan types with similar risk characteristics. In addition, the allowance model incorporates numerous other historical factors based upon the borrower, collateral type, loan performance, environment, and economy. These historical factors used in the analysis date back to 2001.

As appropriate, to achieve greater accuracy, further stratification of a selected portfolio may occur such as by year of origination, geographic location and other predictive characteristics. Information on member credit score trends, combined loan to value ratios, home price trends, unemployment trends, industry trends, and other key economic variables that may influence the frequency and severity of losses for each class of loan within the residential real estate segment may also be considered. The residential real estate allowance also includes an amount for the estimated losses on individually evaluated impaired loans.

Additionally, a mortgage sample analysis is performed periodically to assess the potential loss exposure within the residential real estate loan portfolio. The Credit Union obtains updated property values on all existing real estate loans in its portfolio. Using a sample of loans, the Credit Union performs individual reviews to assess the potential loss exposure based on various risk factors including combined loan to value, member credit score, delinquency, loan vintage, and type of collateral. Results of the sample analysis are extrapolated to the total population to assess the adequacy of the allowance.

Commercial Segment Allowance Methodology

For commercial loans not identified as impaired, the Credit Union determines the allowance on a collective basis utilizing historical and forecasted losses to represent the best estimate of inherent losses at the measurement date. In addition, the allowance model incorporates numerous other historical factors based upon the borrower, collateral type, loan performance, environment, and economy. These historical factors used in the analysis date back to 2001.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

Commercial Segment Allowance Methodology (Continued)

Loss estimates for the commercial loan portfolio segment may be adjusted as appropriate based on credit risk assessment and management's analysis of leading predictors of losses, as well as additional analysis of long-term average loss experience compared to previously forecasted losses, external loss data, or other risks identified from current economic conditions and credit quality trends. The commercial allowance may also include an additional allowance for individually evaluated high risk loans and an amount for the estimated losses on individually evaluated impaired loans.

The Credit Union's commercial loan portfolio also includes loans collateralized by contract value. These are considered fully secured unless notified otherwise, as these loans, when written within the guidelines established by Farmers, are secured and will be paid in full by Farmers upon member termination if the Credit Union's collection efforts were to ultimately fail.

Impaired Loans

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

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Troubled Debt Restructurings

Under certain circumstances, the Credit Union will provide borrowers relief through loan restructurings. A loan restructuring represents a troubled debt restructuring ("TDR") if for economic or legal reasons related to the borrower's financial difficulties the Credit Union grants a concession to the borrower that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above.

Credit Quality Indicators

The Credit Union uses the P360, Inc. model to monitor credit quality for the consumer, residential real estate, and commercial loan portfolios. The P360, Inc. model analyzes each loan's risk. When analyzing each loan, the model identifies a set of numbers, or vectors, which represent the borrower's probability of default and the loss severity of the loan over a set of different economic scenarios. These vectors are used to calculate the loan risk grade and run risk adjusted cash flows which result in the value-at-risk, pricing, and loan valuation.

The model incorporates over 150 data points covering more than credit score and collateral value. These loan level factors include institution and borrower specific data points as well as economic measures that feed into the risk analysis. They provide value reconciliation when refreshing property values and add updated values for the new and used auto portfolios. They continue to enhance the risk model by incorporating new technologies and applying all loan data available. In addition to credit score, the model incorporates numerous other factors based upon the borrower, collateral, loan performance, environment, institution, and economy as follows:

Macro-economic - This segment's data points are used to depict the overall health of the national economy such as: national unemployment, GDP growth, Treasury rate curves and forecasts, industry delinquencies and charge-offs, national credit scores, borrower bankruptcy rates, etc.

Institution - This segment focuses on the Credit Union and is used to model the borrower's profile, stability, and fine tune the risk adjustments to the specific institution. Examples of data points include delinquency rates and trends, charge-offs, and bankruptcies per 1,000 members.

Regional geography - This segment focuses on local economic factors such as unemployment, growth, and real estate values.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Credit Quality Indicators (Continued)

Loan - Additional data points added to this analysis are payment trend, auto pay, updated senior balances, last payment amounts, and use of proceeds.

Borrower - Examples of data points in this segment are disposable income, updated cash reserves, employment status, and direct deposit.

Asset - In addition to using different automated valuation model products for the residential portfolio, the model includes new data to improve vehicle valuations for the new and used auto portfolios.

The model assigns a risk grade to all loans. Category ratings are reviewed quarterly, at which time management analyzes the resulting grades, as well as other external statistics and factors, to track loan performance. The risk ratings from Extensia Financial, LLC are taken into consideration when the P360, Inc. risk grades are applied to the individual commercial real estate loan participations.

The P360, Inc. risk grades are as follows:

V1 - Minimal risk - These loans generally show the ability to cover expenses with a minimal chance of default. The typical characteristics for these loans are long-term Credit Union members with excellent credit history, strong cash flow, quality money management, excellent access to alternative sources of financing, and well collateralized. These loans typically have very low potential loss, no greater than one percent of the loan balance in most cases when factoring the default probability and loss severity.

V2 - Low risk - These loans generally reflect good payment history, a healthy loan to value ratio and are adequately collateralized. The borrowing entity has very good to excellent credit, steady cash flow, quality money management, and good access to alternative sources of financing. As a result, the risk category is highly unlikely to experience a loss. If a loss does occur, it is likely to be minimal.

V3 - Acceptable risk - These loans are better than average loans with a low chance of a loss. The potential loss should be no greater than five percent of the loan balance when factoring default probability and loss severity. Most of the risk attributes for these loans are in line with a low risk profile but are on the fringe of adding risk. Borrower has some access to alternative sources of financing, good money management, and shows control of expenses.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Credit Quality Indicators (Continued)

V4 - Moderate risk - These loans have potential weaknesses or may show a propensity to deteriorate further. These loans are the start of the tipping point of the mid-range risk grades (V4 - V6) that tend to move either to a worsening position or a healthier position and is measured by a ten percent value at risk. This risk grade may include borrowers with only medium to fair credit ratings and a few recent problems. Cash flow is steady and generally adequate to service debt but may be subject to cyclical conditions. The borrower may have limited access to alternative financing.

V5 - Special mention - These loans can prove to be in the most critical stage. Most loans tend to either move up or down from the mid-range risk grades (V4 - V6). Both credit and collateral are substandard, with external economic factors bearing down. The outstanding loan balance may not be entirely protected by equity in the underlying asset with up to a fifteen percent potential loss produced by probability and severity. There may be one or more specific weaknesses jeopardizing the loan, and the Credit Union will most likely sustain a loss if the deficiencies are not corrected.

V6 - Increased risk - These loans generally have multiple vulnerable and weak risk factors that could be attributed to local economic factors. On the basis of currently known facts, the combination of weak attributes make collection or liquidation in full highly questionable and improbable. The risk grade is defined by potential losses of up to twenty percent of the loan balance.

V7 - Elevated risk - There is a strong probability that the Credit Union may not be able to recover on these loans. The Credit Union and the member must look at all options, including modification. Liquidation needs to be considered because most of the underlying assets for this risk grade have passed the tipping point. A loss is nearly impossible to avoid on repayment, refinancing, or liquidation for these loans. The value at risk could be upwards of thirty percent of the current loan balance.

V8 - Doubtful - These borrowers are most likely in a loss situation and can be measured by potential value at risk between thirty and forty percent of the outstanding loan balance. In most cases, assets in this region do not recover and the members and properties are being worked with directly. The most current information on the member and asset has been acquired and the Credit Union has a firm estimate of the loss when the time arrives.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Credit Quality Indicators (Continued)

V9 - Inherent loss - These loans are considered uncollectible and will be charged off immediately. Assets in this risk area have an inherent value at risk, north of forty percent. Modification is impossible without major concessions or write down. Residential and commercial properties have a high probability of becoming other real estate owned. In some cases, the Credit Union may find a glimmer of success in short sale opportunities. Other real estate owned, having extended liquidation times and expenses are most likely in less than optimal locations. Conditions prove challenging to draw respectable tenants and rent.

Loan Charge-off Policies

The Credit Union's quality control process includes preparing lists to monitor and track delinquent loans. Tracking the loans on these lists enables management to assess the performance of the loan portfolio and act to mitigate risk therein through necessary changes in policy and procedures. The quality control process also serves as a tool to assist the Credit Union in identifying loans for charge-off on a timely basis.

Consumer, residential real estate, and commercial loans are generally charged off when the loan is deemed to be uncollectible. A loan is deemed uncollectible when:

- the member has gained relief through bankruptcy;
- the loan is a deficiency balance from the sale of collateral and the borrower has indicated an unwillingness to make further payments;
- the borrower is determined to be a "skip";
- the member is deceased, collateral has been liquidated and there is no co-maker or estate to pursue for payment;
- the loan is 180 days or more delinquent, unless one of the following conditions exists:
    - the borrower is making monthly payments but cannot qualify for refinancing or re-aging;
    - the Credit Union or the member is waiting for settlement of a documented insurance/bond claim;
    - the borrower is deceased, and the Credit Union has substantial reason to expect settlement from the estate, co-makers, or relatives;
    - the Credit Union is waiting for the proceeds from the sale of repossessed collateral.

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Loan Charge-off Policies (Continued)

Uncollectible loans to be charged off to the allowance are approved by the Board of Director each month. For repossessed collateral, including foreclosed property, the loan is charged off to the allowance and the net realizable value moved to other assets.

Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation is computed principally by the straight-line method based upon the useful lives of the related assets. The cost of leasehold improvements is amortized using the straight-line method over the term of the lease, or the estimated life of the asset, whichever is less. The Credit Union reviews property and equipment (long-lived assets) for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Maintenance, repairs, and minor alterations are charged to current operations as expenditures occur and major improvements are capitalized.

NCUSIF Deposit

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

Perpetual Contributed Capital

As a requirement of membership, the Credit Union maintains a Perpetual Contributed Capital (PCC) account with Catalyst Corporate Federal Credit Union (CCFCU) of $600,000. The PCC is not subject to share insurance coverage by the NCUSIF or other deposit insurer. The PCC is not releasable due solely to a merger, charter conversion or liquidation and is callable at the option of CCFCU. The PCC has a perpetual maturity and a noncumulative dividend. The PCC is included with prepaid and other assets in the statements of financial condition.

Members' Shares and Savings Accounts

Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in annual elections of the Board of Directors. Irrespective of the amount of shares owned, no member has more than one vote.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Members' Shares and Savings Accounts (Continued)

Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' shares 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 on members' share accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Borrowings

The Credit Union has outstanding borrowings from the FHLB of San Francisco. FHLB borrowings are secured by qualified collateral, as defined in the FHLB Statement of Credit Policy.

Regular Reserve

The Credit Union is required to maintain a statutory reserve (regular reserve) in accordance with the Federal Credit Union Act. This statutory reserve represents a regulatory restriction and is not available for the payment of interest.

Advertising Costs

Advertising costs are expensed as incurred and are reported as Educational and Promotional expenses in the statements of income.

Income Taxes

The Credit Union is exempt from most federal, state, and local taxes under the provisions of the Internal Revenue Code and state tax laws. The Income Taxes Topic of the FASB ASC clarifies accounting for uncertainty in income taxes reported in the financial statements. The interpretation provides criteria for assessment of individual tax positions and a process for recognition and measurement of uncertain tax positions. Tax positions are evaluated on whether they meet the "more likely than not" standard for sustainability on examination by tax authorities. Federal credit unions are tax-exempt under Internal Revenue Code sections 501(c)(1)(a)(I) and 501(c)(14)(A). As such, the Credit Union has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Additionally, no interest or penalties have been recorded in the accompanying financial statements related to uncertain tax positions.

Reclassification

Certain amounts reported in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses. The ASU introduces a new accounting model, the Current Expected Credit Losses model (CECL), which requires earlier recognition of credit losses. The FASB's CECL model utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. For available-for-sale securities where fair value is less than cost, credit-related impairment, if any, will be recognized in an allowance for credit losses and adjusted each period for changes in expected credit risk. This model replaces the multiple existing impairment models in current GAAP, which generally require that a loss be incurred before it is recognized. The ASU will be effective for credit unions on December 31, 2021. Early application is permitted for annual periods beginning January 1, 2019.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which is intended to increase transparency and comparability of accounting for lease transactions. The ASU will require lessees to recognize most leases on the balance sheet as lease assets and lease liabilities and will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. Lessor accounting is largely unchanged. The guidance is effective December 31, 2020 with an option to early adopt. The Credit Union is evaluating whether to early adopt and the effect that ASU 2016-02 will have on its financial statements, regulatory capital and related disclosures.

Subsequent Events

Management has evaluated subsequent events through March 30, 2018, the date the financial statements were available to be issued. Management has not identified any items requiring recognition or disclosure.

Note 2 - Investments

The following tables present the amortized cost and estimated fair value of investments as of December 31, 2017:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Mortgage-backed securities	$1,068,406	$40,487	$—	$1,108,893
NCUA guaranteed notes	5,419,237	8,054	(4,539)	5,422,752
Collateralized mortgage obligations	13,567	30	—	13,597
	$6,501,210	$48,571	($4,539)	$6,545,242

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Negotiable certificates of deposit	$3,120,000	$22	($2,990)	$3,117,032

The following tables present the amortized cost and estimated fair value of investments as of December 31, 2016:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Mortgage-backed securities	$1,346,811	$50,398	$—	$1,397,209
NCUA guaranteed notes	8,152,509	1,734	(5,792)	8,148,451
Collateralized mortgage obligations	18,371	45	—	18,416
	$9,517,691	$52,177	($5,792)	$9,564,076

Note 2 - Investments (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Negotiable certificates of deposit	$8,590,000	$13,273	($699)	$8,602,604

The amortized cost and estimated fair value of debt securities as of December 31, 2017, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale		*Held-to-maturity*	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	$—	$—	$3,120,000	$3,117,032
Mortgage-backed securities	1,068,406	1,108,893	—	—
NCUA guaranteed notes	5,419,237	5,422,752	—	—
Collateralized mortgage obligations	13,567	13,597	—	—
Total	$6,501,210	$6,545,242	$3,120,000	$3,117,032

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

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
NCUA guaranteed notes	$2,157,405	($4,539)	$—	$—	$2,157,405	($4,539)

Note 2 - Investments (Continued)

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Held-to-maturity:						
Negotiable certificates of deposit	$3,017,204	($2,818)	$99,828	($172)	$3,117,032	($2,990)

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

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
NCUA guaranteed notes	$2,869,844	($5,792)	$—	$—	$2,869,844	($5,792)

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Held-to-maturity:						
Negotiable certificates of deposit	$99,847	($153)	$99,485	($516)	$199,332	($669)

Unrealized losses on securities issued by the U.S. Government and its Agencies have not been recognized into income because the implicit guarantee of the principal balances of these securities by the U.S. Government and its Agencies. The decline in fair value is primarily due to differences between security yields and market interest rates. Additionally, the decline in fair value is expected to be recovered as securities approach their maturity date and/or market rates decline. Management has the ability and intent to hold these securities through to recovery of fair value, which may be maturity. Unrealized losses on negotiable certificates of deposit have not been recognized into income because the principal balances of these deposits are guaranteed by the Federal Deposit Insurance Corporation.

Note 3 - Loans to Members

The composition of loans to members as of December 31, 2017 and 2016 is as follows:

	2017	2016
Consumer:		
Unsecured	$90,568,703	$91,968,661
Automobile	96,954,162	83,450,573
Other secured	1,599,366	1,791,561
	189,122,231	177,210,795
Residential Real Estate:		
First mortgage	89,774,510	92,227,528
Second mortgage	17,352,121	14,463,117
HELOC	24,552,805	25,029,914
	131,679,436	131,720,559
Commercial:		
Agency secured	204,888,849	183,342,451
Agency unsecured	43,379,240	24,033,875
Real estate	146,607,139	119,142,193
	394,875,228	326,518,519
Total loans	715,676,895	635,449,873
Deferred loan origination fees/costs, net	(1,777,421)	170,124
	713,899,474	635,619,997
Less: Allowance for loan losses	(5,954,492)	(6,679,320)
Loans to members, net	$707,944,982	$628,940,677

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended December 31, 2017:

	Consumer	Residential Real Estate	Commercial	Total
Allowance for loan losses:				
Beginning allowance	$3,556,008	$1,440,105	$1,683,207	$6,679,320
Charge-offs	(4,072,615)	(139,640)	(891,414)	(5,103,669)
Recoveries	795,101	67,151	236,590	1,098,842
Provision for loan losses	3,078,108	(204,855)	406,746	3,279,999
Ending allowance	$3,356,602	$1,162,761	$1,435,129	$5,954,492
Ending balance individually evaluated for impairment	$7,839	$1,095,385	$121,164	$1,224,388
Ending balance collectively evaluated for impairment	3,348,763	67,376	1,313,965	4,730,104
Ending allowance	$3,356,602	$1,162,761	$1,435,129	$5,954,492

The following table presents a summary of the recorded investment in loans by portfolio segment as of December 31, 2017:

	Consumer	Residential Real Estate	Commercial	Total
Loans :				
Ending balance individually evaluated for impairment	$138,903	$7,362,200	$116,859	$7,617,962
Ending balance collectively evaluated for impairment	188,999,524	124,326,154	392,955,834	706,281,512
Total loans	$189,138,427	$131,688,354	$393,072,693	$713,899,474

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses (Continued)

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended December 31, 2016:

	Consumer	Residential Real Estate	Commercial	Total
Allowance for loan losses:				
Beginning allowance	$2,791,079	$1,584,841	$3,165,333	$7,541,253
Charge-offs	(4,217,197)	(15,806)	(363,041)	(4,596,044)
Recoveries	568,568	56,625	1,200	626,393
Provision for loan losses	4,413,558	(185,555)	(1,120,285)	3,107,718
Ending allowance	$3,556,008	$1,440,105	$1,683,207	$6,679,320
Ending balance individually evaluated for impairment	$13,589	$1,318,279	$722,142	$2,054,010
Ending balance collectively evaluated for impairment	3,542,419	121,826	961,065	4,625,310
Ending allowance	$3,556,008	$1,440,105	$1,683,207	$6,679,320

The following table presents a summary of the recorded investment in loans by portfolio segment as of December 31, 2016:

	Consumer	Residential Real Estate	Commercial	Total
Loans:				
Ending balance individually evaluated for impairment	$153,966	$8,547,298	$5,079,949	$13,781,213
Ending balance collectively evaluated for impairment	177,078,806	123,187,680	321,572,298	621,838,784
Total loans	$177,232,772	$131,734,978	$326,652,247	$635,619,997

Note 3 - Loans to Members (Continued)

Impaired Loans

The table below summarizes key information for impaired loans as of and for the year ended December 31, 2017:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:					
Consumer:					
Unsecured	$96,431	$96,431	$7,015	$94,940	$10,871
Automobile	$42,472	$42,473	$824	$51,495	$1,869
Residential Real Estate:					
First mortgage	$6,523,424	$6,523,028	$1,095,374	$7,422,378	$322,873
Second mortgage	$371,696	$371,665	$6	$195,583	$12,987
HELOC	$467,080	$467,040	$5	$336,789	$20,039
Commercial:					
Agency secured	$18,113	$18,113	$12,574	$20,471	$1,228
Real estate	$98,746	$98,582	$108,590	$2,577,933	$107,242
Totals by loan segment:					
Consumer	$138,903	$138,904	$7,839	$146,435	$12,740
Residential Real Estate	7,362,200	7,361,733	1,095,385	7,954,750	355,899
Commercial	116,859	116,695	121,164	2,598,404	108,470
Total	$7,617,962	$7,617,332	$1,224,388	$10,699,589	$477,109

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION

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Note 3 - Loans to Members (Continued)

Impaired Loans (Continued)

The table below summarizes key information for impaired loans as of and for the year ended December 31, 2016:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:					
Consumer:					
Unsecured	$93,448	$93,448	$4,761	$122,367	$12,824
Automobile	$60,518	$60,522	$8,828	$60,773	$2,370
Residential Real Estate:					
First mortgage	$8,321,332	$8,322,439	$1,318,275	$8,019,468	$345,639
Second mortgage	$19,469	$19,469	$1	$63,744	$4,475
HELOC	$206,497	$206,312	$3	$116,972	$5,895
Commercial:					
Agency secured	$22,829	$22,829	$838	$44,067	$2,503
Real estate	$5,057,120	$5,047,341	$721,304	$5,648,930	$257,026
Totals by loan segment:					
Consumer	$153,966	$153,970	$13,589	$183,140	$15,194
Residential Real Estate	8,547,298	8,548,220	1,318,279	8,200,184	356,009
Commercial	5,079,949	5,070,170	722,142	5,692,997	259,529
Total	$13,781,213	$13,772,360	$2,054,010	$14,076,321	$630,732

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of December 31, 2017:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total loans
Consumer:						
Unsecured	$867,062	$339,714	$976,449	$2,183,225	$88,403,012	$90,586,237
Automobile	756,738	361,143	322,560	1,440,441	95,512,383	96,952,824
Other secured	943	—	—	943	1,598,423	1,599,366
Total	1,624,743	700,857	1,299,009	3,624,609	185,513,818	189,138,427
Residential Real Estate:						
First mortgage	1,818,958	840,521	729,416	3,388,895	86,390,931	89,779,826
Second mortgage	116,370	81,210	290,486	488,066	16,865,546	17,353,612
HELOC	210,290	156,816	310,264	677,370	23,877,546	24,554,916
Total	2,145,618	1,078,547	1,330,166	4,554,331	127,134,023	131,688,354
Commercial:						
Agency secured	113,869	12,625	102,636	229,130	204,659,719	204,888,849
Agency unsecured	168,689	103,349	92,874	364,912	43,014,336	43,379,248
Real estate	—	—	98,746	98,746	144,705,850	144,804,596
Total	282,558	115,974	294,256	692,788	392,379,905	393,072,693
Grand Total	$4,052,919	$1,895,378	$2,923,431	$8,871,728	$705,027,746	$713,899,474

Loans on which the accrual of interest has been discontinued or reduced approximated $2,923,000 as of December 31, 2017. There were no loans 90 days or more past due and still accruing interest as of December 31, 2017.

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans (Continued)

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of December 31, 2016:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans
Consumer:						
Unsecured	$1,395,228	$505,701	$965,154	$2,866,083	$89,129,088	$91,995,171
Automobile	596,816	199,821	418,542	1,215,179	82,230,861	83,446,040
Other secured	6,301	—	—	6,301	1,785,260	1,791,561
Total	1,998,345	705,522	1,383,696	4,087,563	173,145,209	177,232,772
Residential Real Estate:						
First mortgage	843,271	1,093,463	1,297,832	3,234,566	88,984,953	92,219,519
Second mortgage	100,614	19,469	—	120,083	14,343,034	14,463,117
HELOC	330,017	206,497	—	536,514	24,515,828	25,052,342
Total	1,273,902	1,319,429	1,297,832	3,891,163	127,843,815	131,734,978
Commercial:						
Agency secured	90,821	63,273	86,427	240,521	183,101,930	183,342,451
Agency unsecured	197,408	26,695	65,270	289,373	23,744,502	24,033,875
Real estate	98,778	—	633,177	731,955	118,543,966	119,275,921
Total	387,007	89,968	784,874	1,261,849	325,390,398	326,652,247
Grand Total	$3,659,254	$2,114,919	$3,466,402	$9,240,575	$626,379,422	$635,619,997

Loans on which the accrual of interest has been discontinued or reduced approximated $3,466,000 as of December 31, 2016. There were no loans 90 days or more past due and still accruing interest as of December 31, 2016.

Note 3 - Loans to Members (Continued)

Troubled Debt Restructurings

The income statement impact of approved TDRs was immaterial for financial statement disclosure for the years ended December 31, 2017 and 2016. Subsequently defaulted is defined as reaching 90 days past due during the first 12 months subsequent to approval.

The following table presents TDR activity by class of loans as of December 31, 2017:

	Number of Contracts	Recorded Investment in TDRs Approved	TDRs Which Subsequently Defaulted
Residential Real Estate:			
First mortgage	1	$166,394	$—
Commercial:			
Agency secured	1	12,900	—
Real estate	1	590,309	—
Total	3	$769,603	$—

The following table presents TDR activity by class of loans as of December 31, 2016:

	Number of Contracts	Recorded Investment in TDRs Approved	TDRs Which Subsequently Defaulted
Consumer:			
Automobile	2	$40,472	$37,872
Residential Real Estate:			
First mortgage	2	457,353	454,097
Commercial:			
Real estate	2	1,004,758	981,495
Total	6	$1,502,583	$1,473,464

Note 3 - Loans to Members (Continued)

Consumer Credit Quality

The Credit Union considers the performance of the consumer loan portfolio and its impact on the allowance for loan losses. The consumer loan portfolio credit quality is evaluated based on the P360, Inc. risk grades as described in Note 1.

The following tables present the recorded investment for consumer loans based on credit quality as of December 31, 2017 and 2016:

	2017			
Risk Grade	Automobile	Unsecured	Other secured	Total
V1	$93,684,756	$49,827,819	$—	$143,512,575
V2	1,580,595	21,723,913	—	23,304,508
V3	511,167	8,213,215	—	8,724,382
V4	333,894	4,660,257	—	4,994,151
V5	169,300	1,704,180	—	1,873,480
V6	167,381	616,392	—	783,773
V7	86,499	578,415	—	664,914
V8	175,950	159,751	—	335,701
V9	243,282	1,222,521	—	1,465,803
No risk grade	—	1,879,774	1,599,366	3,479,140
	$96,952,824	$90,586,237	$1,599,366	$189,138,427

	2016			
Risk Grade	Automobile	Unsecured	Other secured	Total
V1	$80,238,885	$55,325,096	$—	$135,563,981
V2	1,487,580	19,819,650	—	21,307,230
V3	762,890	7,880,582	—	8,643,472
V4	241,277	4,157,872	—	4,399,149
V5	100,042	1,661,155	—	1,761,197
V6	85,690	723,479	—	809,169
V7	47,833	455,653	—	503,486
V8	141,352	318,077	—	459,429
V9	340,491	1,166,755	—	1,507,246
No risk grade	—	486,852	1,791,561	2,278,413
	$83,446,040	$91,995,171	$1,791,561	$177,232,772

Note 3 - Loans to Members (Continued)

Residential Real Estate Credit Quality

The Credit Union considers the performance of the real estate loan portfolio and its impact on the allowance for loan losses. Residential real estate loan portfolio credit quality is evaluated based on the P360, Inc. risk grades as described in Note 1.

The following tables present the recorded investment for residential real estate loans based on credit quality as of December 31, 2017 and 2016:

	2017			
Risk Grade	First mortgage	Second mortgage	HELOC	Total
V1	$85,750,655	$16,640,482	$23,768,940	$126,160,077
V2	1,213,929	409,070	169,345	1,792,344
V3	1,165,922	41,834	314,224	1,521,980
V4	138,528	163,381	157,395	459,304
V5	147,025	—	—	147,025
V6	88,090	59,495	—	147,585
V7	—	21,271	—	21,271
V8	—	18,079	145,012	163,091
V9	—	—	—	—
No risk grade	1,275,677	—	—	1,275,677
	$89,779,826	$17,353,612	$24,554,916	$131,688,354

	2016			
Risk Grade	First mortgage	Second mortgage	HELOC	Total
V1	$88,546,629	$13,541,147	$24,351,025	$126,438,801
V2	1,538,860	255,711	366,899	2,161,470
V3	368,037	412,889	24,070	804,996
V4	1,050,285	64,736	173,977	1,288,998
V5	89,338	94,324	136,371	320,033
V6	—	24,759	—	24,759
V7	—	47,215	—	47,215
V8	522,755	22,336	—	545,091
V9	—	—	—	—
No risk grade	103,615	—	—	103,615
	$92,219,519	$14,463,117	$25,052,342	$131,734,978

Note 3 - Loans to Members (Continued)

Commercial Credit Quality

The Credit Union considers the performance of the commercial loan portfolio and its impact on the allowance for loan losses. Commercial loan portfolio credit quality is evaluated based on the P360, Inc. risk grades as described in Note 1.

The following tables present the recorded investment for commercial loans based on risk rating as of December 31, 2017 and 2016:

	2017			
Risk Grade	Agency secured	Agency unsecured	Real estate	Total
V1	$—	$26,630,347	$86,358,491	$112,988,838
V2	—	8,280,910	44,249,721	52,530,631
V3	—	5,206,007	8,786,477	13,992,484
V4	—	1,997,527	4,376,063	6,373,590
V5	—	453,378	1,033,844	1,487,222
V6	—	413,293	—	413,293
V7	—	245,704	—	245,704
V8	—	—	—	—
V9	—	152,082	—	152,082
No risk grade	204,888,849	—	—	204,888,849
	$204,888,849	$43,379,248	$144,804,596	$393,072,693

	2016			
Risk Grade	Agency secured	Agency unsecured	Real Estate	Total
V1	$—	$11,361,104	$62,182,813	$73,543,917
V2	—	6,146,977	35,351,487	41,498,464
V3	—	3,807,726	14,386,038	18,193,764
V4	—	1,332,173	4,565,439	5,897,612
V5	—	796,917	2,156,967	2,953,884
V6	—	354,012	—	354,012
V7	—	143,001	344,634	487,635
V8	—	—	—	—
V9	—	91,965	288,543	380,508
No risk grade	183,342,451	—	—	183,342,451
	$183,342,451	$24,033,875	$119,275,921	$326,652,247

Note 4 - Property and Equipment

Property and equipment is carried at cost, less accumulated depreciation and amortization, and are summarized as of December 31, 2017 and 2016 by major classification as follows:

	2017	2016
Furniture and equipment	$14,339,786	$13,764,770
Leasehold improvements	2,447,780	2,314,391
	16,787,566	16,079,161
Less accumulated depreciation and amortization	(13,233,507)	(12,266,457)
	$3,554,059	$3,812,704

Note 5 - Members' Shares and Savings Accounts

Members' shares and savings accounts are summarized as follows as of December 31, 2017 and 2016:

	2017	2016
Share accounts	$129,668,333	$118,921,225
Share draft accounts	129,630,146	120,285,032
Money market accounts	209,535,856	224,030,865
Individual retirement accounts	28,585,899	32,530,774
Share and IRA certificates	143,255,333	104,505,211
	$640,675,567	$600,273,107

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

	2017
Within one year	$60,356,578
1 to 2 years	20,860,543
2 to 3 years	33,937,335
3 to 4 years	13,217,201
4 to 5 years	14,883,676
	$143,255,333

Note 5 - Members' Shares and Savings Accounts (Continued)

The aggregate amount of members' time deposit accounts in denominations of $250,000 or more was approximately $23,284,000 as of December 31, 2017.

Included in Share and IRA certificates above are non-member time deposits of approximately $34,015,000 as of December 31, 2017. There were no non-member deposits as of December 31, 2016.

Note 6 - Borrowings

Lines of Credit

As of December 31, 2017 and 2016, the Credit Union maintained an unused line of credit with CCFCU. The terms of the agreement require the pledging of all presently owned and later acquired unencumbered assets as security for obligations under the line-of-credit agreement. The total unused line of credit under this agreement approximated $18,000,000 as of December 31, 2017 and 2016, respectively.

The Credit Union has entered into a credit availability agreement with UBS Bank USA which allows the Credit Union to borrow against its securities held in safekeeping. The total unused line of credit under this agreement was approximately $2,805,000 and $7,742,000 as of December 31, 2017 and 2016, respectively.

The Credit Union maintains a credit availability agreement with the Federal Reserve Bank of San Francisco to comply with NCUA regulations Part 741.12: Maintaining Access to Emergency Liquidity. This credit availability agreement allows the Credit Union to borrow against its vehicle loan portfolio. The Credit Union is able to borrow according to the percentages published in the current "Federal Reserve Discount Window and Payment System Risk Collateral Margins Table" which is available on the Federal Reserve Bank's website. The total unused line of credit under this agreement was approximately $60,914,000 and $57,817,000 as of December 31, 2017 and 2016, respectively.

As a member of the FHLB, the Credit Union has access to a pre-approved secured line of credit with the capacity to borrow up to a certain percentage of the value of its eligible collateral, as defined in the FHLB Statement of Credit Policy. The agreement requires the pledging of eligible collateral for borrowing capacity. Based on the collateral pledged, the maximum available line of credit as of December 31, 2017 and 2016 was approximately $104,573,000 and $53,121,000, respectively, of which approximately $71,648,000 and $47,583,000 was available, respectively.

Note 6 - Borrowings (Continued)

The advances outstanding are as follows as of December 31, 2017 and 2016:

Lender	Interest Type	Interest Rate	Final Maturity Date	Payment Type	2017	2016
FHLB	Fixed	1.45%	August 11, 2021	Amortizing	$5,349,765	$5,537,894
FHLB	Fixed	2.20%	March 29, 2022	Amortizing	13,224,843	—
FHLB	Fixed	1.99%	August 18, 2022	Interest Only	3,150,000	—
FHLB	Fixed	2.14%	September 29, 2022	Interest Only	5,500,000	—
FHLB	Fixed	2.45%	September 30, 2024	Interest Only	3,600,000	—
FHLB	Fixed	2.83%	September 29, 2027	Interest Only	2,100,000	—
					$32,924,608	$5,537,894

Note 7 - Employee Benefits

Retirement Plans

Credit Union management and staff are employed by the Credit Union's sponsor, Farmers and leased to the Credit Union. As such, Credit Union employees participate in Farmers pension plans and the Credit Union reimburses Farmers for pension plan expenses associated with the leased employees. On January 1, 2009, the Credit Union's defined benefit pension plan was modified and only vested employees who were age 40 and over, or who had 10 years of service as of December 31, 2008, were grandfathered into the existing pension plan. All remaining and new employees became participants of the Cash Balance Program. Farmers makes quarterly contributions to the employees' cash balance account, which is based on a percentage of the employees' salaries. Also, the Credit Union has a 401(k) plan through Farmers, which allows employees to defer a portion of their salary into the 401(k) plan up to certain limits established by the Internal Revenue Service. The Credit Union makes discretionary matching contributions each payroll period, with quarterly adjustments as needed. Participants are always 100% vested in all their voluntary contributions. The Credit Union's matching contributions become fully vested at the completion of three years of service.

Retirement plan costs are accrued and funded on a current basis. Total retirement plan costs paid by the Credit Union to Farmers for the years ended December 31, 2017 and 2016 amounted to approximately $1,731,000 and $1,714,000, respectively.

Note 8 - Commitments and Contingent Liabilities

Lease Commitments

The Credit Union leases several branch locations. The minimum non-cancellable lease obligations approximate the following as of December 31, 2017:

Year ending December 31,	Amount
2018	$965,000
2019	880,000
2020	186,000
2021	127,000
2022	116,000
Thereafter	579,000
	$2,853,000

Net rent expense under operating leases, included in expenses, was approximately $1,328,000 and $1,290,000 for the years ended December 31, 2017 and 2016, respectively.

Off Balance-Sheet Risk

The Credit Union is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the statements of financial condition.

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. Since many of the commitments may expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. As of December 31, 2017, the total unfunded commitments under such lines of credit was approximately $191,243,000. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the member.

Note 9 - Regulatory Capital

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's 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 practices. 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 *NCUA Regulations*) to total assets (as defined in *NCUA Regulations*). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR as of December 31, 2017 and 2016 was 7.49% and 7.03%, respectively. The minimum requirement to be considered complex under the regulatory framework is 6.00%. Management believes, as of December 31, 2017 and 2016, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2017, the most recent call reporting period, the NCUA categorized the Credit Union as *"well capitalized"* under the regulatory framework for prompt corrective action. To be categorized as *"well capitalized"* the Credit Union must maintain a minimum net worth ratio of 7.00% of assets. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

The Credit Union's actual and required net worth amounts and ratios are as follows:

	As of December 31, 2017		As of December 31, 2016	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Actual net worth	$104,392,126	13.25%	$99,958,769	14.03%
Amount needed to meet the minimum RBNW requirement	$58,999,164	7.49%	$50,081,751	7.03%
Amount needed to be classified as "well capitalized"	$55,139,406	7.00%	$49,868,030	7.00%
Amount needed to be classified as "adequately capitalized"	$47,262,348	6.00%	$42,744,026	6.00%

Note 9 - Regulatory Capital (Continued)

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

Note 10 - Fair Value Measurement

Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

<u>Basis of Fair Value Measurements</u>

Level 1 - Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Valuation is based on inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on 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 asset or liability.

Level 3 - Valuation is generated from model-based techniques use at least one significant assumption not observable in the market. Level 3 assets and liabilities include financial instruments whose value is determined by using pricing models, discounted cash flow methodologies, or similar techniques.

Note 10 - Fair Value Measurement (Continued)

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized as follows:

	Assets at Fair Value as of December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale:				
Mortgage-backed securities	$—	$1,108,893	$—	$1,108,893
NCUA guaranteed notes	—	5,422,752	—	5,422,752
Collateralized mortgage obligations	—	13,597	—	13,597
	$—	$6,545,242	$—	$6,545,242

	Assets at Fair Value as of December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale:				
Mortgage-backed securities	$—	$1,397,209	$—	$1,397,209
NCUA guaranteed notes	—	8,148,451	—	8,148,451
Collateralized mortgage obligations	—	18,416	—	18,416
	$—	$9,564,076	$—	$9,564,076

Assets Measured at Fair Value on a Non-Recurring Basis

Impaired Loans

Loans for which the Credit Union has measured impairment are generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of the recorded investment less the valuation allowance and/or charge-offs.

Note 10 - Fair Value Measurement (Continued)

Assets measured at fair value on a non-recurring basis:

	Assets at Fair Value as of December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Impaired loans	$—	$—	$6,393,574	$6,393,574

	Assets at Fair Value as of December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Impaired loans	$—	$—	$11,727,203	$11,727,203

Note 11 - Related Party Transactions

Loans

In the ordinary course of business, the Credit Union grants loans to certain directors and executive officers. Such loans aggregated approximately $1,882,000 and $2,455,000 as of December 31, 2017 and 2016, respectively.

Deposits

Deposits of Credit Union directors and executive officers were approximately $2,050,000 and $2,556,000 as of December 31, 2017 and 2016, respectively.

* * * End of Notes * * *

Investing In Cutting Edge Resources And Service

Our business is complex, and your Credit Union remains focused on providing the best in financial services. Through the years we have invested in Credit Union Service Organizations (CUSOs) to provide the level of service our members expect —with access to the expertise we couldn't afford to provide on our own. This year we added one more CUSO to our mix.

- **Community Mortgage Funding** [cmfloan.com] is a turnkey, home purchase company offering diverse services including first trust deeds for both conforming and non-conforming loans, FHA, VA and reverse mortgages, and access to experienced real-estate agents. Our members benefit from a stress-free, home-buying experience, access to discounted services and rebates, and a dedicated team "holding their hands" through every step of the process.

- **Extensia** [extensiafinancial.com] is a full-service, business lending CUSO, offering a customized approach to commercial real estate and business lending services to our members. This personalized, planned approach gives our agent-members services tailored precisely to their business model, and access to capital on the best terms.

NEW **Constellation** [constellationfs.com] is a leading-edge banking software company that develops digital and mobile technologies to deliver the very best in online banking convenience and services. We will benefit from best-in-class systems for greater efficiency— our members will enjoy technologically advanced services that can be customized to their circumstances and needs.