DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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INDEPENDENT AUDITORS' REPORT

Supervisory Committee and Board of Directors
Digital Federal Credit Union and Subsidiaries
Marlborough, Massachusetts

We have audited the accompanying consolidated financial statements of Digital Federal Credit Union and Subsidiaries, which comprise the consolidated statements of financial condition as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Digital Federal Credit Union and Subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, Massachusetts
March 6, 2019

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2018 AND 2017
(IN THOUSANDS)

	2018	2017
ASSETS		
Cash and Cash Equivalents	$ 690,707	$ 1,100,810
Deposits in Corporate Federal Credit Union	10,000	28,000
Securities - Trading	181,475	187,111
Securities - Available-for-Sale	119,334	219,719
Other Investments	34,192	38,737
Loans Held-for-Sale	129,078	78,738
Loans, Net	7,141,038	6,417,021
Accrued Interest Receivable	28,627	23,812
Premises and Equipment, Net	73,249	71,186
NCUSIF Deposit	65,735	61,155
Other Assets	54,497	46,089
Total Assets	$ 8,527,932	$ 8,272,378
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' Share and Savings Accounts	$ 7,046,463	$ 6,754,205
Borrowed Funds	535,000	645,400
Accrued Expenses and Other Liabilities	103,160	94,666
Total Liabilities	7,684,623	7,494,271
MEMBERS' EQUITY		
Regular Reserves	100,227	100,227
Undivided Earnings	743,331	678,811
Accumulated Other Comprehensive Loss	(249)	(931)
Total Members' Equity	843,309	778,107
Total Liabilities and Members' Equity	$ 8,527,932	$ 8,272,378

See accompanying Notes to Consolidated Financial Statements.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2018 AND 2017
(IN THOUSANDS)

	2018	2017
INTEREST INCOME		
Loans	$ 306,968	$ 266,392
Securities, Interest Bearing Deposits and Cash Equivalents	25,556	13,729
Total Interest Income	332,524	280,121
INTEREST EXPENSE		
Members' Share and Savings Accounts	49,229	38,386
Borrowed Funds	12,789	14,022
Total Interest Expense	62,018	52,408
NET INTEREST INCOME	270,506	227,713
PROVISION FOR LOAN LOSSES	70,500	41,500
Net Interest Income After Provision for Loan Losses	200,006	186,213
NONINTEREST INCOME		
Service Charges and Fees	23,842	18,678
Interchange Income	42,638	38,213
Other Noninterest Income	12,752	7,800
Net Gain (Loss) on Sale of Loans	2,325	(5,810)
Total Noninterest Income	81,557	58,881
NONINTEREST EXPENSE		
Employee Compensation and Benefits	98,332	79,680
Office Occupancy and Operations	54,309	44,560
Other Operating Expenses	62,948	44,070
Net Loss on Sale of Investments	1,454	605
Total Noninterest Expense	217,043	168,915
NET INCOME	$ 64,520	$ 76,179

See accompanying Notes to Consolidated Financial Statements.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2018 AND 2017
(IN THOUSANDS)

	2018	2017
NET INCOME	$ 64,520	$ 76,179
OTHER COMPREHENSIVE INCOME (LOSS)		
Securities - Available-for-Sale		
Unrealized Holding Gain (Loss) Arising During the Period	682	(748)
Subtotal	682	(748)
Total Other Comprehensive Income (Loss)	682	(748)
TOTAL COMPREHENSIVE INCOME	$ 65,202	$ 75,431

See accompanying Notes to Consolidated Financial Statements.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2018 AND 2017
(IN THOUSANDS)

	Regular Reserves	Undivided Earnings	Accumulated Other Comprehensive Loss	Total
BALANCE - DECEMBER 31, 2016	$ 100,227	$ 602,632	$ (183)	$ 702,676
Net Income	-	76,179	-	76,179
Other Comprehensive Loss	-	-	(748)	(748)
BALANCE - DECEMBER 31, 2017	100,227	678,811	(931)	778,107
Net Income	-	64,520	-	64,520
Other Comprehensive Income	-	-	682	682
BALANCE - DECEMBER 31, 2018	$ 100,227	$ 743,331	$ (249)	$ 843,309

See accompanying Notes to Consolidated Financial Statements.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(IN THOUSANDS)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 64,520	$ 76,179
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	7,361	6,131
Purchases of Investments - Trading	(10,000)	(45,000)
Proceeds from Sales of Investments - Trading	14,182	6,227
Amortization of Security Premiums/Discounts, Net	222	1,045
Provision for Loan Losses	70,500	41,500
Loss (Gain) on Sales of Loans, Net	(2,325)	5,810
Proceeds from Sales of Loans	858,823	1,564,582
Loans Committed for Sale	(906,838)	(1,609,140)
Amortization of Servicing Rights	3,007	2,347
Impairment of Servicing Asset	1,000	-
Cash Surrender Value of Life Insurance	(227)	(498)
Capitalization of Servicing Rights	(5,241)	(8,482)
Amortization of Net Loan Origination Costs	16,332	14,409
Impairment Losses on Foreclosed Assets	-	411
Loss on Sale of Trading Investments, Net	1,454	605
Loss on Disposal of Foreclosed Assets, Net	286	100
Changes in:		
Accrued Interest Receivable	(4,815)	(3,855)
Other Assets	(7,774)	(757)
Accrued Expenses and Other Liabilities	8,494	26,073
Net Cash Provided by Operating Activities	108,961	77,687
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Decrease in Deposits in Other Financial Institutions	18,000	-
Purchases of Investments - Available-for-Sale	(59,155)	(150,927)
Proceeds from Maturity of Investments - Available-for-Sale	160,000	140,000
Net Decrease in Other Investments	4,545	4,067
Net Decrease (Increase) in Loans	(811,673)	18,100
Increase in NCUSIF Deposit	(4,580)	(6,747)
Proceeds from Sales of Foreclosed Assets	1,365	1,550
Expenditures for Premises and Equipment	(9,424)	(22,404)
Net Cash Used by Investing Activities	(700,922)	(16,361)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase in Members' Share and Savings Accounts	292,258	652,167
Advances on Term Borrowings	100,000	400
Repayments on Term Borrowings	(210,400)	(50,000)
Net Cash Provided by Financing Activities	181,858	602,567

See accompanying Notes to Consolidated Financial Statements.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2018 AND 2017
(IN THOUSANDS)

	2018	2017
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ (410,103)	$ 663,893
Cash and Cash Equivalents - Beginning of Year	1,100,810	436,917
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 690,707	$ 1,100,810
SUPPLEMENTAL DISCLOSURE OF NONCASH AND CASH FLOWS INFORMATION		
Borrowed Funds Interest Paid	$ 13,006	$ 14,067
Members' Share and Savings Accounts Interest Paid	$ 49,229	$ 38,386
Transfers of Loans to Foreclosed Assets	$ 824	$ 1,508

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Digital Federal Credit Union (the Credit Union) is a cooperative association holding a federal charter under the provisions of the Federal Credit Union Act.

Principles of Consolidation

The consolidated financial statements include the accounts of Digital Federal Credit Union and its subsidiaries, Financial Vision LLC, DCU Insurance, LLC, and DCU Realty, LLC (the CUSOs), credit union service organizations that provide software development for the Credit Union, property and casualty insurance to Credit Union members, and brokerage services to Credit Union members. All significant intercompany accounts and transactions have been eliminated in consolidation.

Membership

Participation in this Credit Union is limited to those who qualify for membership as defined in the Credit Union's Charter and Bylaws. This generally consists of employees or former employees of select employers and organizations who have petitioned for membership or those who live, work, worship, or go to school in participating communities in the New England area. In addition to a regularly qualified member, the spouse of a member, the blood or adoptive relatives of either of them and their spouses may be members.

Uses of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term include the valuation of securities, estimates related to mortgage servicing rights, the valuation of derivative financial instruments, and the determination of the adequacy of allowance for loan losses.

Financial Instruments with Concentrations of Risk

Most of the Credit Union's business activity is with its members who reside within the Northeast region of the United States of America. The Credit Union is exposed to credit risk from a regional economic standpoint because significant concentrations of its members work or reside within a geographical field of membership.

However, the loan portfolio is well diversified and the Credit Union does not have any significant concentrations of credit risk except certain loan products which management monitors on an ongoing basis.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the Consolidated Statements of Financial Condition and Consolidated Statements of Cash Flows, Cash and Cash Equivalents includes cash on hand, amounts due from financial institutions, and highly liquid debt instruments classified as cash which were purchased with original maturities of three months or less. Accumulated deposits at correspondent financial institutions, at times, may exceed federally insured limits.

Deposits in Corporate Federal Credit Union

Deposits in corporate federal credit union include certificates of deposit. These are stated at cost. The certificates of deposit all mature within one year.

Securities - Trading

Mutual funds are classified as trading and are carried at fair value with the change in unrealized holding gains and losses included in Other Noninterest Income or Expense. Realized gains and losses on trading securities are included in Noninterest Expense. Gross realized gains on trading securities amounted to $893 and $796 for the years ended December 31, 2018 and 2017. Gross realized losses on trading securities amounted to $2,347 and $1,401 for the years ended December 31, 2018 and 2017.

Securities – Available-for-Sale

Debt securities are classified as available-for-sale and are carried at fair value with unrealized gains and losses reported in Other Comprehensive Income (Loss). Realized gains and losses on securities available-for-sale are included in Noninterest Income and, when applicable, are reported as a reclassification adjustment in Other Comprehensive Income (Loss). Gains and losses on sales of securities are determined using the specific identification method on the trade date. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Declines in the fair value of individual available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The Credit Union monitors the investment security portfolio for impairment on an individual security basis and has a process in place to identify securities that could potentially have a credit impairment that is other than temporary. This process involves analyzing the length of time and the extent to which the fair value has been less than the amortized cost basis, the market liquidity for the security, the financial condition and near-term prospects of the issuer, expected cash flows, and the Credit Union’s intent and ability to hold the investment for a period of time sufficient to recover the temporary loss. The ability to hold is determined by whether it is more likely than not that the Credit Union will be required to sell the security before its anticipated recovery. A decline in value due to a credit event that is considered other than temporary is recorded as a loss in Noninterest Income.

The Credit Union did not record any other than temporary impairment during the years ended December 31, 2018 and 2017.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Investments

Other investments are recorded at cost and evaluated for credit events resulting in other than temporary impairment.

Loans Held-for-Sale

Beginning in 2018, the Credit Union has elected the fair value option on a prospective basis for all types of mortgage loans originated for sale in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 825. Loans originated and intended for sale in the secondary market are carried at fair value. Changes in the fair value of loans held-for-sale are recognized in current period income and are included in Net Gain (Loss) on Sale of Loans on the Consolidated Statements of Income. Gain or losses from the sale of loans held-for-sale are recognized based upon the difference between the selling price and carrying value of the related loans at the time of sale. Loans held for sale as of December 31, 2017 were carried at the lower of aggregate cost or fair value.

Loans held for sale are sold with servicing rights retained. The carrying value of the loan includes the value of the servicing right. All sales are made without recourse.

Derivative Financial Instruments

Beginning in 2018, the Credit Union uses derivative financial instruments as part of its risk management activities. The value of the Credit Union's interest rate lock commitments (IRLCs) is exposed to the risk of adverse changes in interest rates between the time of commitment and the time the Credit Union funds the loan at origination. The Credit Union is also exposed to the risk of adverse changes in value after funding the loan up until the time when the loan is delivered. To offset this exposure, the Credit Union entered into forward sale commitments to deliver mortgage loans to investors at specified prices in the "To Be Announced" market (TBA securities). The TBA securities act as an economic hedge against the risk of changes in the value of both the IRLCs and the funded loans.

All such derivative financial instruments are designated as free-standing derivative instruments and are recognized in Other Assets and Accrued Expenses and Other Liabilities on the Consolidated Statements of Financial Condition at fair value in accordance with ASC 815. Changes in the fair value of these derivatives are reflected on the Credit Union's Consolidated Statements of Income as Gain (Loss) on Sale of Loans.

The fair value of the IRLC is recorded at the time the rate is locked based on the underlying mortgage loan and the probability that the mortgage loan will fund within the terms of the rate lock commitment. To hedge the change in interest rates resulting from its commitments to fund the loans, the Credit Union enters into forward sale commitments of TBAs. The TBAs are typically entered into at the time the interest rate lock commitment is made. The value of the TBA moves in the opposite direction of the value of the interest rate lock commitments and mortgage loans held for sale. Fair values of these mortgage derivatives are estimated based on changes in interest rates from the date of the interest rate lock commitment. The cash flows from these forward sales agreements are classified as operating activities in the Consolidated Statement of Cash Flows.

(IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative Financial Instruments (Continued)

The notional amounts of the Credit Union's derivative instruments at December 31, 2018 are as follows:

	December 31, 2018	December 31, 2017
Interest Rate Lock Commitments	$ 24,866	$ 91,793
TBA Commitments	111,700	N/A

The fair value of interest rate lock commitments and forward loan sale commitments were not considered material at December 31, 2018.

Loans, Net

The Credit Union grants consumer, residential real estate, commercial real estate, and other commercial loans to members. A substantial portion of the loan portfolio is represented by auto and residential real estate loans to members. The ability of the members to honor their contracts is dependent upon the real estate and general economic conditions comprising the Credit Union's field of membership and the borrower's ability to pay.

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

The accrual of interest on a loan is discontinued at the time the loan is 90 days delinquent, except for credit card and student loans. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. 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 principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using methods approximating the interest method over the estimated life of the loans. The Credit Union does not charge commitment fees.

Allowance for Loan Losses

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review 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.

The Credit Union's allowance for loan losses is that amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. Such evaluations consider prior loss experience, the risk rating distribution of the portfolios, the impact of current internal and external influences on credit loss, and the levels of nonperforming loans. Specific allowances for loan losses are established for impaired loans on an individual basis. The specific allowances established for these loans are based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flow, the loan's estimated market value, or the estimated fair value of the underlying collateral. General allowances are established for loans that can be grouped into pools based on similar characteristics. In this process, general allowance factors are based on an analysis of historical charge-off experience (one and five years). These factors are developed and applied to the portfolio in terms of loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment. These factors include the credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging data.

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect all 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.

Under certain circumstances, the Credit Union will provide borrowers relief through loan restructurings. A restructuring of debt constitutes a troubled debt restructuring (TDR) if the Credit Union for economic or legal reasons related to the borrower's financial difficulties grants a concession to the borrower that it would not otherwise consider. TDR concessions can include reduction of interest rates, extension of maturity dates, forgiveness of principal and/or interest due, or acceptance of other assets in full or partial satisfaction of the debt. The Credit Union considers all aspects of the restructuring to determine whether it has granted a concession to the borrower. An insignificant delay in payment resulting from a restructuring is not deemed to be a concession and would not be considered to be a TDR.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

The Credit Union maintains a separate general valuation allowance for homogeneous portfolio segments. These portfolio segments and their risk characteristics are described as follows:

Consumer: The consumer loan portfolio is usually comprised of a large number of small balance loans. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

Residential Real Estate: The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate, and the borrower's ability to repay. These loans generally possess a lower inherent risk of loss than commercial real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

The portfolio segments that are risk rated and their risk characteristics are described as follows:

Commercial Real Estate: Commercial real estate loans generally possess a higher inherent risk of loss than residential real estate portfolio segments. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations.

Commercial Other: Commercial other loans are generally underwritten to existing cash flows or inventories of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

The Credit Union assigns a risk rating to commercial loans and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by the Credit Union's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into the following major categories, defined as follows:

Pass (1-6): Loans classified as Pass are loans with no existing or known potential weaknesses deserving of management's close attention.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Watch (7): Loans classified as Watch Assets have a potential weakness that deserves management's close attention. Potential weaknesses might include a weakening financial condition, an unrealistic repayment program, inadequate sources or lack of adequate collateral, credit information, or documentation. While the asset is currently protected, it is potentially weak. No loss of principal or interest is envisioned.

Substandard (8): Loans classified as Substandard are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as Substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Asset is inadequately protected by current sound net worth and paying capacity of the obligor or pledged collateral. Well defined weaknesses include a borrower's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. They are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected.

Doubtful (9): Loans classified as Doubtful have all the weaknesses inherent in those classified as Substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss: Loans classified as Loss are considered uncollectable and anticipated to be charged off.

Transfers of Financial Assets and Participating Interests

Transfers of an entire financial asset or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Credit Union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The transfer of a participating interest in an entire financial asset must also meet the definition of a participating interest. A participating interest in a financial asset has all of the following characteristics: (1) from the date of transfer, it must represent a proportionate (pro rata) ownership interest in the financial asset, (2) from the date of transfer, all cash flows received, except any cash flows allocated as any compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Servicing Rights

Servicing assets are recognized separately when servicing rights are acquired through purchase or through sale of financial assets. Servicing rights resulting from the sale or securitization of loans originated by the Credit Union are initially measured at fair value at the date of transfer. The Credit Union subsequently measures each class of servicing asset using the amortization method. Under the amortization method, mortgage servicing rights are amortized into Noninterest Income in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment based upon the fair value at each reporting date.

Fair value is based on market prices for comparable servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, and default rates and losses. These variables change from quarter to quarter as the market conditions and projected interest rates change, and may have an adverse impact on the value of the servicing right and may result in reduction to Noninterest Income.

Each class of separately recognized servicing assets subsequently measured using the amortization method is evaluated and measured for impairment. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type, and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the carrying amount of the servicing assets for that tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment after the initial measurement of impairment. Changes in valuation allowances are reported with Noninterest Income on the Consolidated Statements of Income.

Off-Consolidated Statement of Financial Condition Credit Related Financial Instruments

In the ordinary course of business, the Credit Union has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

Foreclosed and Repossessed Assets

Assets acquired through, or in lieu of, loan repossession or foreclosure are held-for-sale and are initially recorded at fair value less estimated costs to sell at the date of repossession or foreclosure, establishing a new cost basis. Subsequent to repossession or foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Foreclosed and repossessed assets were included in Other Assets on the Consolidated Statements of Financial Condition at December 31, 2018 and 2017. Revenue and expenses from operations and changes in the valuation allowance are included in Noninterest Expense.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Premises and Equipment, Net

Land is carried at cost. Buildings, leasehold improvements, furniture, fixtures, and equipment are carried at cost, less accumulated depreciation and amortization. Buildings and furniture, fixtures, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases or estimated useful life, whichever is less.

NCUSIF Deposit and NCUSIF and CCUSF Premium Assessments

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

Legislation was passed by Congress to permit NCUA to create a temporary Corporate Credit Union Stabilization Fund (CCUSF) to absorb costs and borrowings incurred by the Fund related to the corporate credit union collapse. Effective October 1, 2017, the NCUA closed the CCUSF and incorporated the assets into the NCUSIF. At its February 15, 2018 open meeting, the NCUA Board unanimously approved a NCUSIF equity distribution to all eligible financial institutions. The distribution was reported within Other Noninterest Income.

Members' Share and Savings Accounts

Members' accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends and interest on members' share and savings accounts, except for interest on certificates of deposit which are set in advance, are based on available earnings at the end of a dividend period. Interest rates on members' share and savings accounts are set by the Asset and Liability Management Team and ratified by the board of directors, based on an evaluation of current and future market conditions.

Members' Equity

The Credit Union is required by regulation to maintain a statutory (regular) reserve. This reserve, which represents a regulatory restriction of retained earnings, is established for the purpose of absorbing losses that exceed undivided earnings and other appropriations of undivided earnings. The statutory reserve is not available for the payment of interest.

The Credit Union is subject to various regulatory net worth requirements administered by the NCUA.

Comprehensive income (loss) consists of net income and other comprehensive income (loss). Accumulated other comprehensive loss, also recognized as a separate component of members' equity, includes valuation adjustments for available-for-sale securities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

As a federal instrumentality, the Credit Union is exempt from federal and state income taxes.

The income from the CUSOs, organized as LLCs, flows through to the Credit Union, and therefore is not subject to federal and state income taxes.

Retirement Plans

401(k) Plan – The Credit Union provides a 401(k) plan, which covers substantially all of the Credit Union's employees who are eligible as to age and length of service. A participant may elect to make contributions of up to the applicable Internal Revenue Service (IRS) limitations of the participant's annual compensation. The Credit Union makes discretionary matching contributions and/or a profit sharing contribution as approved by the Trustees of the Plan. The Credit Union's contributions to the plan approximated $4,516 and $2,796 for the years ended December 31, 2018 and 2017, respectively.

Deferred Compensation Plan – The Credit Union has a nonqualified deferred compensation plan for senior management. Under the terms of the plan, the participants are entitled to a specified amount if they remain employed by the Credit Union until a predetermined time. If these employees become fully disabled as defined in the agreement, accrued benefits are immediately payable. The benefits are subject to forfeiture if employment is terminated for cause as defined in the agreements. The estimated liability under the agreements is being accrued as defined in the plans over the remaining years of service.

Split Dollar Life Insurance

The Credit Union has made loans for life insurance premium payments to senior management. The loans are collateralized by the assignment of the policy death benefits and cash values, of each respective life insurance policy. The policies are owned by senior management and they have the right to name the beneficiaries for amounts not secured by the assignments. The loans are considered non-recourse and as such, the Credit Union has recorded the balance as the lower of the outstanding loan balance, plus accrued interest, or the cash surrender value of the life insurance policies. The difference represents the costs to the Credit Union associated with entering into this arrangement.

Advertising Costs

Advertising and promotion costs which totaled approximately $9,283 and $8,211 for the years ending December 31, 2018 and 2017, respectively, are expensed as incurred.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

The Credit Union categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, the Credit Union may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Credit Union adopted the policy to value certain financial instruments at fair value. The Credit Union has elected to measure loans held-for-sale at fair value during the year ended December 31, 2018. The Credit Union may elect to measure newly acquired financial instruments at fair value in the future.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

In May 2014, the FASB approved ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The standard will be effective for the Credit Union for annual reporting periods beginning after December 15, 2018. Early adoption is permitted. The Credit Union is currently evaluating the impact of ASU 2014-09 on the consolidated financial statements.

In February 2016, the FASB approved ASU 2016-02, *Leases (Topic 842)*. The ASU is designed to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the Consolidated Statement of Financial Condition and disclosing key information about leasing arrangements. The ASU is effective for the Credit Union for the fiscal year beginning after December 15, 2019, and interim periods within the fiscal year beginning after December 15, 2020. Early adoption is permitted. The Credit Union is currently evaluating the impact of ASU 2016-02 on the consolidated financial statements.

In June 2016, the FASB approved ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. In November 2018, the FASB approved ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses.* The main objective of the ASUs is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in the ASUs replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The ASUs are effective for the Credit Union for the fiscal year beginning after December 15, 2021, including interim periods within this fiscal year. Early adoption is permitted for the fiscal year beginning after December 15, 2018, including interim periods within this fiscal year. The Credit Union is currently evaluating the impact of ASU 2016-13 and ASU 2018-19 on the consolidated financial statements.

In March 2017, the FASB approved ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization and Purchased Callable Debt Securities*. The guidance requires the Credit Union to shorten the amortization period for certain purchased callable debt securities held at a premium to the earliest call date. The standard will be effective for the Credit Union for annual reporting periods beginning after December 15, 2019. Early adoption is permitted. The Credit Union is currently evaluating the impact of ASU 2017-08 on the consolidated financial statements.

(IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these consolidated financial statements, the Credit Union has evaluated events and transactions for potential recognition or disclosure through March 6, 2019, the date the consolidated financial statements were available to be issued.

NOTE 2 SECURITIES AND OTHER INVESTMENTS

AVAILABLE-FOR-SALE

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Carrying Value)
December 31, 2018				
U.S. Government Obligations and Federal Agency Securities	$ 89,783	$ -	$ (220)	$ 89,563
U.S. Treasury Notes	29,800	-	(29)	29,771
Total	$ 119,583	$ -	$ (249)	$ 119,334
December 31, 2017				
U.S. Government Obligations and Federal Agency Securities	$ 220,650	$ -	$ (931)	$ 219,719
Total	$ 220,650	$ -	$ (931)	$ 219,719

There were no sales of securities available-for-sale during the years ended December 31, 2018 and 2017.

(IN THOUSANDS)

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

AVAILABLE-FOR-SALE (CONTINUED)

The amortized cost and fair value of securities, at December 31, 2018, 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. Mutual funds have no contractual maturity date.

	Available-for-Sale	
	Amortized Cost	Fair Value (Carrying Value)
U.S. Government Obligations and Federal Agency Securities and U.S. Treasury Notes:		
Less Than One Year	$ 119,583	$ 119,334
Total	$ 119,583	$ 119,334

Temporarily Impaired Securities

Information pertaining to securities available-for-sale with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Greater Than Twelve Months	
December 31, 2018	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Government Obligations and Federal Agency Securities	$ 32	$ 29,672	$ 188	$ 59,891
U.S. Treasury Notes	29	29,771	-	-
Total	$ 61	$ 59,443	$ 188	$ 59,891
December 31, 2017				
U.S. Government Obligations and Federal Agency Securities	$ (573)	$ 139,762	$ (358)	$ 79,957
Total	$ (573)	$ 139,762	$ (358)	$ 79,957

(IN THOUSANDS)

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

AVAILABLE-FOR-SALE (CONTINUED)

Temporarily Impaired Securities (Continued)

At December 31, 2018, the 12 securities with unrealized losses have depreciated 0.21% from the Credit Union's amortized cost basis. All of these securities are either guaranteed by federal insurance and/or the U.S. Government. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold securities until maturity or for the foreseeable future for those classified as available-for-sale, no declines are deemed to be other than temporary.

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that, changes in the values of the investments will occur in the near term and that such changes could be material.

OTHER INVESTMENTS

Other investments are summarized as follows:

	December 31,	
	2018	2017
Perpetual Paid-In Capital Account	$ 1,575	$ 1,575
FHLB Stock	28,745	35,185
Investments in CUSOs	3,872	1,977
Total	$ 34,192	$ 38,737

Perpetual Paid-In Capital Account

The Credit Union maintains a perpetual paid-in capital account with Eastern Corporate Federal Credit Union (EasCorp) that is uninsured and can only be paid back to the Credit Union at the discretion of EasCorp.

This uninsured deposit is part of the corporate credit union's regulatory capital and is subject to impairment.

FHLB Stock

The Credit Union has an investment in Federal Home Loan Bank of Boston (FHLB) stock that allows the Credit Union access to other FHLB financial services. The stock qualifies as a restricted stock and as such is not subject to investment security accounting treatment and is therefore reported at cost, subject to impairment.

Investments in CUSOs

The Credit Union has minor ownership interests in other CUSOs providing services to the credit union market. These investments are carried at cost and are subject to impairment.

(IN THOUSANDS)

NOTE 3 LOANS, NET

The composition of loans is as follows:

	December 31,	
	2018	2017
Consumer:		
Auto	$ 2,676,457	$ 2,385,059
Credit Cards	589,867	530,272
Student Loans	165,625	156,580
Other	597,203	299,814
Subtotal	4,029,152	3,371,725
Residential Real Estate:		
First Mortgages	1,459,574	1,518,627
Second Mortgages	882,690	756,987
Subtotal	2,342,264	2,275,614
Commercial:		
Commercial Real Estate	776,383	754,403
Commercial Other	54,365	46,041
Subtotal	830,748	800,444
	7,202,164	6,447,783
Net Deferred Loan Origination Costs	26,191	32,709
Allowance for Loan Losses	(87,317)	(63,471)
Total	$ 7,141,038	$ 6,417,021

The Credit Union has sold loan participations to various other financial institutions, which are secured by commercial property of the Credit Union’s members. These loan participations were sold without recourse and the Credit Union performs all loan servicing functions on these loans. Loan participations sold and excluded from the commercial real estate loan segments above totaled $379,474 and $276,931 at December 31, 2018 and 2017, respectively.

The Credit Union has sold participating interest in automobile loans. These loan participations were sold without recourse and the Credit Union performs all loan servicing functions on these loans. Loan participations sold and excluded from the automobile segment above totaled $663,336 and $839,007 at December 31, 2018 and 2017, respectively.

The Credit Union offers nontraditional mortgage loans to its members. These loans include hybrid loans that consist of loans that are fixed for an initial period of three, five, seven, or ten years. After this period, the mortgages are converted to variable rates using an indexed rate, which can result in significant payment shock to the borrower.

(IN THOUSANDS)

NOTE 3 LOANS, NET (CONTINUED)

Nontraditional mortgage loans may have significantly different credit risk characteristics than traditional fixed and variable rate mortgages. However, the Credit Union believes it has established prudent underwriting standards as well as adequate risk management functions to monitor the additional risk. Nontraditional mortgage loans, which are included in the residential real estate and commercial loan captions above, totaled approximately $973,982 and $992,874 at December 31, 2018 and 2017, respectively.

The allowance for loan losses and recorded investment in loans is as follows:

December 31, 2018	Consumer	Residential Real Estate	Commercial	Total
Allowance for Loan Losses:				
Balance - Beginning of Year	$ 55,102	$ 8,144	$ 225	$ 63,471
Provision (Credit) for Loan Losses	71,164	(932)	268	70,500
Loans Charged-Off	(49,034)	(1,016)	(209)	(50,259)
Recoveries of Loans Previously Charged-Off	2,863	677	65	3,605
Balance - End of Year	$ 80,095	$ 6,873	$ 349	$ 87,317
Ending Balance: Individually Evaluated for Impairment	$ 26,874	$ 4,640	$ 143	$ 31,657
Ending Balance: Collectively Evaluated for Impairment	$ 53,221	$ 2,233	$ 206	$ 55,660
Total Allowance for Loan Losses	$ 80,095	$ 6,873	$ 349	$ 87,317
Loans:				
Ending Balance: Individually Evaluated for Impairment	$ 71,373	$ 48,068	$ 6,144	$ 125,585
Ending Balance: Collectively Evaluated for Impairment	$ 3,957,779	$ 2,294,196	$ 824,604	$ 7,076,579
Total Loans	$ 4,029,152	$ 2,342,264	$ 830,748	$ 7,202,164

(IN THOUSANDS)

NOTE 3 LOANS, NET (CONTINUED)

The allowance for loan losses and recorded investment in loans is as follows:

December 31, 2017	Consumer	Residential Real Estate	Commercial	Total
Allowance for Loan Losses:				
Balance - Beginning of Year	$ 36,933	$ 10,958	$ 1,207	$ 49,098
Provision (Credit) for Loan Losses	45,891	(2,873)	(1,518)	41,500
Loans Charged-Off	(30,491)	(1,047)	(4)	(31,542)
Recoveries of Loans Previously Charged-Off	2,769	1,106	540	4,415
Balance - End of Year	$ 55,102	$ 8,144	$ 225	$ 63,471
Ending Balance: Individually Evaluated for Impairment	$ 19,781	$ 5,654	$ 137	$ 25,572
Ending Balance: Collectively Evaluated for Impairment	$ 35,321	$ 2,490	$ 88	$ 37,899
Total Allowance for Loan Losses	$ 55,102	$ 8,144	$ 225	$ 63,471
Loans:				
Ending Balance: Individually Evaluated for Impairment	$ 43,655	$ 55,506	$ 11,032	$ 110,193
Ending Balance: Collectively Evaluated for Impairment	$ 3,328,070	$ 2,220,108	$ 789,412	$ 6,337,590
Total Loans	$ 3,371,725	$ 2,275,614	$ 800,444	$ 6,447,783

The following table shows the commercial loan portfolio segments allocated by management's internal risk ratings:

	Commercial Credit Risk Profile by Risk Rating		
December 31, 2018	Commercial	Commercial	
Risk Rating:	Real Estate	Other	Total
Pass - 1 Through 6	$ 769,512	$ 53,546	$ 823,058
Watch - 7	3,945	819	4,764
Substandard - 8	2,926	-	2,926
Doubtful - 9	-	-	-
Total	$ 776,383	$ 54,365	$ 830,748

(IN THOUSANDS)

NOTE 3 LOANS, NET (CONTINUED)

The following table shows the commercial loan portfolio segments allocated by management's internal risk ratings:

	Commercial Credit Risk Profile by Risk Rating		
December 31, 2017	Commercial	Commercial	
Risk Rating:	Real Estate	Other	Total
Pass - 1 Through 6	$ 743,943	$ 45,751	$ 789,694
Watch - 7	8,133	240	8,373
Substandard - 8	2,139	50	2,189
Doubtful - 9	188	-	188
Total	$ 754,403	$ 46,041	$ 800,444

The following tables show the classes within the homogeneous loan portfolio segments allocated by payment activity. Loans are deemed performing if they are less than 90 days delinquent and still accruing interest.

	Payment Activity		
December 31, 2018	Performing	Nonperforming	Total
Consumer:			
Auto	$ 2,650,630	$ 25,827	$ 2,676,457
Credit Cards	581,029	8,838	589,867
Student Loans	163,652	1,973	165,625
Other	592,413	4,790	597,203
Residential Real Estate:			
First Mortgages	1,456,810	2,764	1,459,574
Second Mortgages	881,112	1,578	882,690
Total	$ 6,325,646	$ 45,770	$ 6,371,416
December 31, 2017			
Consumer:			
Auto	$ 2,368,850	$ 16,209	$ 2,385,059
Credit Cards	521,863	8,409	530,272
Student Loans	154,860	1,720	156,580
Other	297,124	2,690	299,814
Residential Real Estate:			
First Mortgages	1,515,333	3,294	1,518,627
Second Mortgages	754,944	2,043	756,987
Total	$ 5,612,974	$ 34,365	$ 5,647,339

(IN THOUSANDS)

NOTE 3 LOANS, NET (CONTINUED)

The following tables show an aging analysis of the loan portfolio by time past due:

	Accruing Interest				
December 31, 2018	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual 90 Days or More Past Due	Total Loans
Auto	$ 2,621,098	$ 29,532	$ -	$ 25,827	$ 2,676,457
Credit Cards	573,305	7,724	8,838	-	589,867
Student Loans	161,261	2,391	1,973	-	165,625
Other	584,359	8,054	-	4,790	597,203
First Mortgages	1,445,897	10,913	-	2,764	1,459,574
Second Mortgages	877,431	3,681	-	1,578	882,690
Commercial Real Estate	772,578	2,899	-	906	776,383
Commercial Other	53,916	321	-	128	54,365
Total	$ 7,089,845	$ 65,515	$ 10,811	$ 35,993	$ 7,202,164
December 31, 2017					
Auto	$ 2,342,034	$ 26,816	$ -	$ 16,209	$ 2,385,059
Credit Cards	514,033	7,830	8,409	-	530,272
Student Loans	151,540	3,320	1,720	-	156,580
Other	292,573	4,551	-	2,690	299,814
First Mortgages	1,502,825	12,508	-	3,294	1,518,627
Second Mortgages	750,709	4,235	-	2,043	756,987
Commercial Real Estate	753,740	656	-	7	754,403
Commercial Other	45,548	331	-	162	46,041
Total	$ 6,353,002	$ 60,247	$ 10,129	$ 24,405	$ 6,447,783

Interest income foregone on nonaccrual loans was immaterial for the years ended December 31, 2018 and 2017, respectively.

(IN THOUSANDS)

NOTE 3 LOANS, NET (CONTINUED)

The following tables present information related to impaired loans:

December 31, 2018	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With No Related Allowance:				
Residential Real Estate	$ 15,970	$ 15,970	$ -	$ 10,619
Commercial	$ 5,232	$ 8,235	$ -	$ 5,756
With An Allowance Recorded:				
Consumer	$ 71,373	$ 71,373	$ 26,874	$ 57,514
Residential Real Estate	$ 32,098	$ 32,098	$ 4,640	$ 41,169
Commercial	$ 912	$ 1,934	$ 143	$ 2,832
Total Impaired Loans:				
Consumer	$ 71,373	$ 71,373	$ 26,874	$ 57,514
Residential Real Estate	$ 48,068	$ 36,700	$ 4,640	$ 51,788
Commercial	$ 6,144	$ 10,169	$ 143	$ 8,588
December 31, 2017				
With No Related Allowance:				
Residential Real Estate	$ 5,266	$ 5,266	$ -	$ 5,931
Commercial	$ 6,280	$ 10,343	$ -	$ 5,516
With An Allowance Recorded:				
Consumer	$ 43,655	$ 43,655	$ 19,781	$ 35,362
Residential Real Estate	$ 50,240	$ 50,240	$ 5,654	$ 54,390
Commercial	$ 4,752	$ 5,854	$ 137	$ 6,465
Total Impaired Loans:				
Consumer	$ 43,655	$ 43,655	$ 19,781	$ 35,362
Residential Real Estate	$ 55,506	$ 55,506	$ 5,654	$ 60,321
Commercial	$ 11,032	$ 16,197	$ 137	$ 11,981

The Credit Union does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings or whose loans are in nonaccrual.

(IN THOUSANDS)

NOTE 3 LOANS, NET (CONTINUED)

Summaries of loans modified in troubled debt restructurings and those related restructurings for which there was a payment default (90 days) during the years ended December 31, 2018 and 2017 are as follows. Post-modification balances approximate pre-modification balances. The aggregate amount of charge-offs as a result of a restructuring are not significant.

	During the Year Ended December 31, 2018			
	Troubled Debt Restructurings		Troubled Debt Restructurings That Subsequently Defaulted	
	Number of Loans	Post-Modification Outstanding Balance	Number of Loans	Post-Modification Outstanding Balance
Student Loans	36	$ 1,414	1	$ 39
First Mortgages	8	2,162	-	-
Second Mortgages	3	283	-	-
Total	47	$ 3,859	1	$ 39

	During the Year Ended December 31, 2017			
	Troubled Debt Restructurings		Troubled Debt Restructurings That Subsequently Defaulted	
	Number of Loans	Post-Modification Outstanding Balance	Number of Loans	Post-Modification Outstanding Balance
Student Loans	76	$ 3,097	2	$ 241
First Mortgages	15	2,819	-	-
Second Mortgages	13	674	-	-
Commercial Real Estate	2	2,148	-	-
Total	106	$ 8,738	2	$ 241

(IN THOUSANDS)

NOTE 3 LOANS, NET (CONTINUED)

The following table shows the types of modifications made during the years ended December 31, 2018 and 2017:

	During the Year Ended December 31, 2018					
	Interest Rate Adjustment	Maturity and Interest Rate Adjustment	Principal Deferral	Extended Maturity	Other	Total
Student Loans	$ -	$ -	$ 1,414	$ -	$ -	$ 1,414
First Mortgages	331	672	-	612	547	2,162
Second Mortgages	-	283	-	-	-	283
Total	$ 331	$ 955	$ 1,414	$ 612	$ 547	$ 3,859

	During the Year Ended December 31, 2017					
	Interest Rate Adjustment	Maturity and Interest Rate Adjustment	Principal Deferral	Other and Bankruptcy	Other	Total
Student Loans	$ -	$ -	$ 3,097	$ -	$ -	$ 3,097
First Mortgages	-	931	-	-	1,888	2,819
Second Mortgages	55	276	-	-	343	674
Commercial Real Estate	-	-	-	2,148	-	2,148
Total	$ 55	$ 1,207	$ 3,097	$ 2,148	$ 2,231	$ 8,738

NOTE 4 LOAN SERVICING

Loans serviced for others are not included in the accompanying Consolidated Statements of Financial Condition. The unpaid principal balances of mortgage and other loans serviced for others were $3,156,533 and $3,003,090 at December 31, 2018 and 2017, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing were $7,315 and $6,584 at December 31, 2018 and 2017, respectively.

The balance of capitalized servicing rights, net of valuation allowances, is included in Other Assets and totaled $17,790 and $16,556 at December 31, 2018 and 2017, respectively. The fair values of these rights were $26,471 and $20,353 at December 31, 2018 and 2017, respectively. The fair value of servicing rights was determined using discount rates ranging from 10.09% to 13.64% and prepayment speeds ranging from 3% to 31%, depending upon the stratification of the specific right, and a weighted average coupon rate of 3.87%.

(IN THOUSANDS)

NOTE 4 LOAN SERVICING (CONTINUED)

The following summarizes the activity pertaining to servicing rights capitalized and amortized, along with the aggregate activity in related valuation allowances:

	Years Ended December 31, 2018	Years Ended December 31, 2017
Servicing Rights:		
Balance - Beginning of Year	$ 19,495	$ 13,360
Servicing Rights Capitalized	5,241	8,482
Servicing Rights Amortized	(3,007)	(2,347)
Balance - End of Year	$ 21,729	$ 19,495
Valuation Allowances:		
Balance - Beginning of Year	$ 2,939	$ 2,939
Additions	1,000	-
Balance - End of Year	$ 3,939	$ 2,939

NOTE 5 PREMISES AND EQUIPMENT, NET

The Credit Union's premises and equipment are summarized as follows:

	December 31, 2018	December 31, 2017
Land	$ 10,440	$ 10,147
Building	62,847	50,034
Furniture and Equipment	33,810	23,966
Leasehold Improvements	4,243	3,997
Construction in Progress	664	14,437
Subtotal	112,004	102,581
Less: Accumulated Depreciation and Amortization	(38,755)	(31,395)
Total	$ 73,249	$ 71,186

(IN THOUSANDS)

NOTE 5 PREMISES AND EQUIPMENT, NET (CONTINUED)

Lease Commitments

The Credit Union is obligated under noncancelable operating leases for office space in Massachusetts and New Hampshire. Some of the leases contain renewal options for periods from three to five years at their fair rental value at the time of renewal. Net rent expense under operating leases, included in Office Occupancy and Operations Expenses, was approximately $4,315 and $4,144 for the years ended December 31, 2018 and 2017, respectively.

The required minimum rental payments under the terms of these noncancelable leases at December 31, 2018 are as follows:

Year Ending December 31,	Amount
2019	$ 3,307
2020	3,127
2021	2,873
2022	2,495
2023	2,013
Thereafter	6,494
Total	$ 20,309

NOTE 6 MEMBERS' SHARE AND SAVINGS ACCOUNTS

Members' share and savings accounts are as follows:

	December 31, 2018	December 31, 2017
Share Savings	$ 2,030,534	$ 1,713,071
Share Drafts	2,033,557	1,913,333
Money Market	2,236,697	2,314,059
IRA Deposits	57,348	58,693
Share and IRA Certificates	688,327	755,049
Total	$ 7,046,463	$ 6,754,205

The aggregate amounts of certificates of deposit in denominations of $250 or more was approximately $48,613 and $57,020 at December 31, 2018 and 2017, respectively.

Overdrawn share accounts reclassified to unsecured loans to members totaled $1,939 and $2,865 at December 31, 2018 and 2017, respectively.

(IN THOUSANDS)

NOTE 6 MEMBERS' SHARE AND SAVINGS ACCOUNTS (CONTINUED)

As of December 31, 2018, scheduled maturities of share and IRA certificates are as follows:

Year Ending December 31,	Amount
2019	$ 354,171
2020	131,923
2021	103,152
2022	56,518
2023	42,555
Thereafter	8
Total	$ 688,327

Member accounts are insured to at least $250 by the NCUSIF. The NCUSIF is a federal insurance fund backed by the full faith and credit of the U.S. Government.

NOTE 7 BORROWED FUNDS

At December 31, 2018 and 2017, the Credit Union had an available line of credit of $50,000 with Eastern Corporate Federal Credit Union. The interest rates applied on any borrowing are determined on that borrowing date. Certificates of deposit and auto loans are pledged as collateral on the line of credit. The line has no expiration date, but is subject to review and change by the issuing institution. There were no balances outstanding on this line at December 31, 2018 and 2017.

The Credit Union has entered into an Advances, Pledge, and Security Agreement with the FHLB of Boston whereby specific mortgage loans of the Credit Unions with advance equivalents of approximately $1,359,766 and $1,559,626 at December 31, 2018 and 2017, respectively, were pledged to the FHLB as collateral in the event the Credit Union requests any advances on the line.

The Credit Union has access to an Ideal Way line of credit with the FHLB. The agreement provides for a credit limit of $1,000 with interest charged at a rate determined by the lender on a periodic basis. There were no balances outstanding under this agreement at December 31, 2018 and 2017.

The Credit Union has been approved to borrow through the Federal Reserve Bank's Discount Window. The terms of this agreement call for the pledging of certain investments and indirect auto loans as security for any and all obligations taken by the Credit Union under this agreement. At December 31, 2018 and 2017, the Credit Union had a credit limit of $417,022 and $571,743, respectively. The line has no expiration date, but is subject to review and change by the issuing institution. There were no balances outstanding under this agreement at December 31, 2018 and 2017.

(IN THOUSANDS)

NOTE 7 BORROWED FUNDS (CONTINUED)

Borrowed funds consisted of the following:

	December 31, 2018	December 31, 2017
Term Note from FHLB at interest rate of 1.89%, maturing July 2, 2018	$ -	$ 80,000
Term Note from FHLB at interest rate of 1.53%, maturing September 27, 2018	-	400
Term Note from FHLB at interest rate of 1.25%, maturing November 30, 2018	-	80,000
Term Note from FHLB at interest rate of 2.68%, maturing January 2, 2019	50,000	-
Term Note from FHLB at interest rate of 2.63%, maturing September 13, 2019	75,000	75,000
Term Note from FHLB at interest rate of 1.50%, maturing September 30, 2019	55,000	55,000
Term Note from FHLB at interest rate of 2.09%, maturing December 26, 2019	30,000	30,000
Term Note from FHLB at interest rate of 1.75%, maturing April 13, 2020	50,000	50,000
Term Note from FHLB at interest rate of 2.45%, maturing September 21, 2020	60,000	60,000
Term Note from FHLB at interest rate of 2.62%, maturing March 18, 2021	75,000	75,000
Term Note from FHLB at interest rate of 2.50%, maturing December 9, 2021	40,000	40,000
Term Note from FHLB at interest rate of 2.27%, maturing January 12, 2022	40,000	40,000
Term Note from FHLB at interest rate of 2.15%, maturing April 18, 2022	60,000	60,000
Total	$ 535,000	$ 645,400

(IN THOUSANDS)

NOTE 7 BORROWED FUNDS (CONTINUED)

As of December 31, 2018, the maturities of borrowed funds are as follows:

Year Ending December 31,	Amount
2019	$ 210,000
2020	110,000
2021	115,000
2022	100,000
Total	$ 535,000

NOTE 8 REGULATORY NET WORTH REQUIREMENTS

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's consolidated financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-Consolidated Statement of Financial Condition items as calculated under U.S. generally accepted accounting principles. The Credit Union's capital amounts and net worth classifications 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 ratios (set forth in the table following) of net worth to total assets (as defined by the regulation). 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 ratio as of December 31, 2018, the most recent quarterly regulatory filing date, was 4.65%. The minimum ratio to be considered complex under the regulatory framework is 6.00%. Management believes, as of December 31, 2018, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2018, the most recent Call reporting period, the NCUA categorized the Credit Union initially as "well capitalized" under the regulatory frame work 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 institution's category.

(IN THOUSANDS)

NOTE 8 REGULATORY NET WORTH REQUIREMENTS (CONTINUED)

The Credit Union's actual capital amounts and ratios are also presented in the table following.

	Actual		To be Adequately Capitalized Under Prompt Corrective Action Provision		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2018						
Net Worth	$ 843,558	9.89%	$ 511,676	6.00%	$ 596,955	7.00%
Risk-Based Net Worth Requirement	$ 396,549	4.65%	N/A	N/A	N/A	N/A
December 31, 2017						
Net Worth	$ 779,038	9.42%	$ 496,343	6.00%	$ 579,066	7.00%
Risk-Based Net Worth Requirement	$ 388,802	4.70%	N/A	N/A	N/A	N/A

Because RBNWR at December 31, 2018 is less than the regulatory net worth ratio, the Credit Union retains its original assigned category. Further, in performing its calculation of total assets, the Credit Union used the quarter-end balance option.

NOTE 9 RELATED PARTY TRANSACTIONS

Included in Loans, Net at December 31, 2018 and 2017, are loans to the Credit Union's board of directors, committee members, and senior executive staff of approximately $4,519 and $3,844, respectively. The aggregate principal advances and principal repayments are not significant.

Deposits from the Credit Union's board of directors, committee members, and senior executive staff held by the Credit Union at December 31, 2018 and 2017 are approximately $2,811 and $2,134, respectively.

(IN THOUSANDS)

NOTE 10 COMMITMENTS AND CONTINGENT LIABILITIES

Off-Consolidated Statement of Financial Condition Activities

The Credit Union is a party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the consolidated financial statements.

The Credit Union's exposure to credit loss is represented by the contractual notional amount of these instruments. The Credit Union uses the same credit policies in making commitments as it does for those loans recorded in the consolidated financial statements.

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

	December 31,	
	2018	2017
Commitments to Grant Collateralized Loans		
First Mortgages	$ 10,894	$ 20,796
Home Equity	11,540	19,326
Commercial Real Estate	33,462	31,607
Unfunded Secured Commitments Under Lines of Credit		
Home Equity	803,643	720,814
Commercial Real Estate	120,160	71,742
Unfunded Unsecured Commitments Under Lines of Credit		
Credit Card	1,999,074	1,860,125
Commercial	9,901	10,068
Student Loans	50,197	48,934
Other Consumer	21,462	20,556
Total	$ 3,060,333	$ 2,803,968

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Credit Union upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but may include consumer assets, residential real estate, and member share balances.

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

(IN THOUSANDS)

NOTE 10 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Legal Contingencies

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

NOTE 11 FAIR VALUE

Recurring Basis

The Credit Union uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Credit Union measures fair value refer to Note 1 – Summary of Significant Accounting Policies. The following table presents the balances of the assets and liabilities measured at fair value on a recurring basis:

December 31, 2018	Level 1	Level 2	Level 3	Total
Assets:				
Trading Securities:				
Mutual Funds of U.S. Government Securities	$ 181,475	$ -	$ -	$ 181,475
Available-for-Sale Securities:				
U.S. Government Obligations and Federal Agency Securities	-	89,563	-	89,563
U.S. Government Treasury Notes	-	29,771	-	29,771
Loans Held-for-Sale	-	129,078	-	129,078
Total Assets	$ 181,475	$ 248,412	$ -	$ 429,887

December 31, 2017	Level 1	Level 2	Level 3	Total
Assets:				
Trading Securities:				
Mutual Funds of U.S. Government Securities	$ 187,111	$ -	$ -	$ 187,111
Available-for-Sale Securities:				
U.S. Government Obligations and Federal Agency Securities	-	219,719	-	219,719
Total Assets	$ 187,111	$ 219,719	$ -	$ 406,830

(IN THOUSANDS)

NOTE 11 FAIR VALUE (CONTINUED)

Recurring Basis (Continued)

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investment Securities

When available, the Credit Union uses quoted market prices to determine the fair value of securities; such items are classified in Level 1 of the fair value hierarchy. For the Credit Union's securities where quoted prices are not available for identical securities in an active market, the Credit Union determines fair value utilizing vendors who apply matrix pricing for similar bonds where no price is observable or may compile prices from various sources. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace. Fair values from these models are verified, where possible, against quoted market prices for recent trading activity of assets with similar characteristics to the security being valued. Such methods are generally classified as Level 2. However, when prices from independent sources vary, cannot be obtained, or cannot be corroborated, a security is generally classified as Level 3.

Loans Held-for-Sale

Loans held-for-sale are marked to market on a monthly basis. The Credit Union obtains quotes or bids on these loans directly from purchasing financial institutions.

Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as there is evidence of impairment or a change in the amount of previously recognized impairment.

Net impairment losses related to nonrecurring fair value measurements of certain assets for the years ended December 31, 2018 and 2017 consisted of the following:

	Fair Value at December 31, 2018			
	Level 1	Level 2	Level 3	Impairment Losses
Impaired Loans	$ -	$ -	$ 667	$ 334

	Fair Value at December 31, 2017			
	Level 1	Level 2	Level 3	Impairment Losses
Impaired Loans	$ -	$ -	$ 2,769	$ 630

NOTE 11 FAIR VALUE (CONTINUED)

Nonrecurring Basis (Continued)

The following tables present additional quantitative information about assets measured at fair value on a nonrecurring basis for which the Credit Union has utilized Level 3 inputs to determine fair value:

	December 31, 2018			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 667	Evaluation of Collateral	Estimation of Value	Not Meaningful

	December 31, 2017			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 2,769	Evaluation of Collateral	Estimation of Value	Not Meaningful

Impaired Loans

In accordance with the provisions of the loan impairment guidance, impairment was measured for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement.

The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, or discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans.

Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. Collateral values are estimated using Level 3 inputs based on customized discounting criteria. Impairment amounts on impaired loans represent specific valuation allowance and write-downs during the period presented on impaired loans that were individually evaluated for impairment based on the estimated fair value of the collateral less estimated selling costs, excluding impaired loans fully charged off.