Quorum
FEDERAL CREDIT UNION

2017 ANNUAL REPORT

INVESTING IN YOU

Welcome to Quorum.

Quorum

We've been in business for over 80 years—that's over 80 years of listening to and learning from our members, helping them reach their financial goals, and finding opportunities to put their success first. As a Quorum member, you benefit from all that experience, from competitive financial products, to personalized service, to convenient 24/7 access to your funds. At Quorum, we invest in You.

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BOARD OF DIRECTORS

KEVIN HOLLY
Chairman

Retired,
Altria Group, Inc.
Board Member
since 1989

JAN PRICE
Vice Chairperson

Retired,
Kraft Foods Inc.
Board Member
since 1994

STEVEN KLEPFER
Secretary

Retired,
Philips Electronics
Board Member
since 1997

MARK WERNER
Treasurer

Retired,
Altria Group, Inc.
Board Member
since 1998

SANDRA SCHIRMANG
Director

Retired,
Kraft Foods Inc.
Board Member
since 2009

JONATHAN PARKER
Director

Ogilvy
Board Member
since 2013

DAN DeSIO
Director

Retired,
Kraft Foods Inc.
Board Member
since 2014

MARK N. DAJANI
Director

Carlsberg Group
Board Member
since 2015

JEFF FEUERSTEIN
Director

Mastercard
Board Member
since 2017

NOT PICTURED: MICHAEL FIORE — Former Director | Mastercard | Board Member 2014 – 2017

SUPERVISORY COMMITTEE

Dan DeSio, Chairman
Retired, Kraft Foods Inc. (2014 – present)

Joseph P. Vallaro, Retired,
Kraft Foods Inc. (2011 – present)

Bruce L. Fishstein, (2016 – present)

VOFCO BOARD OF MANAGERS

Bruno Sementilli, Chairman

Tavis Briechle, Manager, Treasurer & Secretary

Mark Werner, Manager

Greg Cooper, Manager

Graham Hunt, Manager

VOFCO COMPANY OFFICERS

Todd Fasanella, CEO

Greg Cooper, Chief Investment Officer

John Campbell, General Counsel

Graham Hunt, Chief Credit Officer

SERVICE CENTER LOCATIONS

ILLINOIS:

Champaign* (Kraft Heinz Plant Facility)

Chicago (Chicago Aon area)

Deerfield (Mondelēz International)

NEW JERSEY:

East Hanover (Mondelēz International North America Headquarters)

NEW YORK:

Bronx* (James J. Peters VA Medical Center)

Manhattan (The Ogilvy Group, Inc.)

Suffern* (Good Samaritan Hospital)

*Closed in 2017.

SENIOR MANAGEMENT TEAM

GLENN SHUSTER Vice President of Human Resources	**DIANE SLIFSTEIN** Vice President of Operations & Member Services	**GEORGE CACCHIANI** Vice President of Information Technology	**BRUNO SEMENTILLI** President & CEO	**CARLENE ARMETTA** Vice President of Marketing	**TYSON BLACKBURN** Vice President of Lending	**TAVIS BRIECHLE** Vice President of Finance	**JEFFREY PACHTER** COO/CFO

BRUNO SEMENTILLI
President/CEO

KEVIN HOLLY
Chairman of the Board

YOU INVEST IN US. WE'RE INVESTING IN YOU.

As we mentioned last year, we continue to enhance and invest in our remote services—online and mobile banking, as well as our Call Center—so that we can better serve all of our members, in all 50 states. We are confident that these investments in remote services and technology will ultimately provide more convenience than a physical branch, and are excited to guide you through these offerings and enhancements: from making it even easier to move your money using our transfers options, to over-the-phone loan payments for some of our products (more to follow!), to easy opening of additional accounts online, to dozens of mobile banking enhancements (including making it easier to deposit your check). We also offer Spanish-language support to better serve all of our communities.

One of the biggest investments we're excited to share with you is our new Learning Hub (learn.quorumfcu.org), a repository of timely and relevant financial articles on a variety of topics, as well as "how-to" resources so you can be sure you're maximizing our services. This is just one of the ways we are committed to delivering value to you throughout your membership. Look for much more content in the coming months!

WITH YOU NO MATTER WHAT.

We are proud to have weathered the disruption to the financial sector caused by ridesharing firms Uber and Lyft last year. Despite this disruption, which placed many credit unions with high concentrations in taxi medallion loans into conservatorship, we—who had minimal loans on our books from past participation purchases with partner credit unions—remain well-capitalized. We thank our Board, our regulators, and we are grateful to have a strong internal team in place; together, they reacted swiftly to implement a plan to increase loan portfolio reserves. While we have reserved adequately, we remain prepared to post additional reserves should there be further stress to this small portion of our loan portfolio.

Our commitment is always to you. We stood by our members who were impacted by 2017's devastating hurricanes, from deferring payments and interest, to refunds, to easy access to funds. We hope you and your loved ones are now safe and in a better place.

From the Equifax data breach to "Can you hear me?" telephone scams, identity theft has become a prevalent and detrimental reality, impacting virtually everyone. At Quorum, your security is paramount to us and reflected in each and every action we take, from credit and debit card alerts, to account banking notifications, to free theft protection services offered by our partners at Mastercard® and Balance Financial Fitness.

YOU'RE OUR BOSS. LET US KNOW WHAT YOU WANT, AND HOW WE'RE DOING.
Expect to hear from us more this year. We'll be continuing our surveys throughout 2018 to continue to learn more about your preferences and interests, so that we can use this valuable feedback to better address your needs. Your feedback helps us to prioritize our enhancements roadmap and launch even more robust products and services. You can also reach us throughout the year at quorumfcu.org/contact-us.

Thank you for being a part of Quorum. Now more than ever, we are honored and grateful for your support, and to be your financial services provider. We'd also like to thank our dedicated volunteers on our Board of Directors and Supervisory Committee who ensure your interests remain our top priority.

Sincerely,

BRUNO SEMENTILLI
President/CEO

KEVIN HOLLY
Chairman

"We are confident that investments in remote services and technology will ultimately provide more convenience than a physical branch, and are excited to guide you through these offerings and enhancements."

CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Board of Directors and Supervisory Committee
Quorum Federal Credit Union
Purchase, New York

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Quorum Federal Credit Union, which comprise the consolidated statements of financial condition as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income (loss), 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 Quorum Federal Credit Union as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
March 30, 2018

A member of Nexia International

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

DECEMBER 31, 2017 AND 2016 *(Dollars in Thousands)*

	2017	2016
ASSETS		
Cash and Cash Equivalents	$ 36,953	$ 59,695
Available-for-Sale Securities	62,934	66,445
Other Investments	7,410	5,240
Loans Held-for-Sale	-	-
Loans, Net	701,659	721,827
Accrued Interest Receivable	4,049	4,068
Leasehold Improvements and Equipment, Net	5,455	6,941
Deposit in National Credit Union Share Insurance Fund	6,627	7,055
Other Assets	35,355	30,780
Total Assets	$ 860,442	$ 902,051
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' Share Accounts	$ 758,368	$ 831,566
Borrowed Funds	26,000	2,000
Accrued Expenses and Other Liabilities	12,506	6,801
Total Liabilities	796,874	840,367
MEMBERS' EQUITY		
Retained Earnings, Substantially Restricted	67,305	65,479
Accumulated Other Comprehensive Loss	(3,090)	(3,148)
Total Members' Equity before Noncontrolling Interest	64,215	62,331
Noncontrolling Interest	(647)	(647)
Total Members' Equity	63,568	61,684
Total Liabilities and Members' Equity	$ 860,442	$ 902,051

YEARS ENDED DECEMBER 31, 2017 AND 2016 (Dollars in Thousands)

	2017	2016
INTEREST INCOME		
Loans	$ 39,906	$ 41,057
Available for Sale Securities	909	923
Interest Bearing Deposits and Cash Equivalents	915	542
Total Interest Income	41,730	42,522
INTEREST EXPENSE		
Members' Share and Savings Accounts	5,561	6,135
Borrowed Funds	406	156
Total Interest Expense	5,967	6,291
Net Interest Income	35,763	36,231
PROVISION FOR LOAN LOSSES	14,406	24,533
Net Interest Income After Provision for Loan Losses	21,357	11,698
NON-INTEREST INCOME		
Checking Fees	1,277	1,413
Credit Card Fees	1,969	2,255
Check Card Fees	969	1,028
Late Fees	336	191
Gain on Sales of Loans	3,300	2,314
Gain on Sale of Available-for-Sale Securities	-	827
Net Gain (Loss) on Sales of Assets	9	(85)
Other Fees	2,712	2,574
Total Non-Interest Income	10,572	10,517
NON-INTEREST EXPENSE		
General and Administrative:		
Employee Compensation and Benefits	17,856	15,542
Office Operations	3,270	3,481
Loan Processing	3,968	4,299
Professional Fees and Other Outside Services	2,267	2,682
Office Occupancy	893	883
Marketing and Promotional	501	676
Travel and Conference	151	245
Other Non-Interest Expenses	1,197	1,150
Total Non-Interest Expense	30,103	28,958
NET INCOME (LOSS)	$ 1,826	$ (6,743)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

YEARS ENDED DECEMBER 31,2017 AND 2016 *(Dollars in Thousands)*

	2017	2016
NET INCOME (LOSS)	$ 1,826	$ (6,743)
OTHER COMPREHENSIVE INCOME (LOSS):		
Securities - Available-for-Sale		
Unrealized Holding Gain (Loss) Arising During the Period	(4)	416
Reclassification for (Gains) Losses Included in Net Income/Loss	-	(827)
Subtotal	(4)	(411)
Defined Benefit Pension and Healthcare Plans		
Net Gain Arising During the Period	62	479
Reclassification Adjustment for Amortization of Prior Service Cost and Net Gain Included in Periodic Pension Cost	-	190
Subtotal	62	669
TOTAL OTHER COMPREHENSIVE INCOME	58	258
TOTAL COMPREHENSIVE INCOME (LOSS)	$ 1,884	$ (6,485)

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

YEARS ENDED DECEMBER 31, 2017 AND 2016 *(Dollars in Thousands)*

	Statutory Reserves	Undivided Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
BALANCES AT JANUARY 1, 2016	$ 11,453	$ 60,769	$ (3,406)	$ (647)	$ 68,169
Net Income	-	(6,743)	-	-	(6,743)
Other Comprehensive Income	-	-	258	-	258
BALANCES AT DECEMBER 31, 2016	11,453	54,026	(3,148)	(647)	61,684
Net Loss	-	1,826	-	-	1,826
Other Comprehensive Income	-	-	58	-	58
BALANCES AT DECEMBER 31, 2017	$ 11,453	$ 55,852	$ (3,090)	$ (647)	$ 63,568

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016 *(Dollars in Thousands)*

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	$ 1,826	$ (6,743)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	1,111	1,670
Provision for Loan Losses	14,406	24,533
Equity Method Losses and Impairment	61	544
Amortization of Servicing Rights	413	322
Valuation for Servicing Rights	(69)	(55)
Capitalization of Servicing Rights	(1,174)	(1,169)
Amortization of Net Loan Origination Costs	574	294
Net Amortization of Securities Premiums and Discounts	886	397
Impairment Losses on Foreclosed Assets	(60)	(16)
Proceeds from Sale of Loans	48,620	100,968
Loans Originated for Sale	(45,320)	(98,654)
Gain on Sale of Loans, Net	(3,300)	(2,314)
Gain on Sale of Investments, Net	-	(827)
Loss (Gain) on Disposal of Assets, Net	(9)	85
Changes in:		
Accrued Interest Receivable	19	20
Other Assets	(4,355)	(18,393)
Accrued Expenses and Other Liabilities	5,767	(2,234)
Net Cash Provided (Used) by Operating Activities	19,396	(1,572)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Decrease in Certificates of Deposit	-	100
Purchase of Securities:		
Available-for-Sale	(6,862)	(32,654)
Proceeds from Maturities and Paydowns of Securities - Available-for-Sale	9,483	7,958
Proceeds from Sales of Securities - Available-for-Sale	-	17,390
Net Redemptions (Purchases) of Other Investments	(2,231)	801
Loan (Originations) Net of Principal Collected on Loans to Members	(80,014)	15,178
(Increase) Decrease in NCUSIF Deposit	428	(242)
Proceeds from Sales of Foreclosed Assets	160	554
Proceeds from Sales of Premises and Equipment	445	-
Expenditures for Premises and Equipment	(70)	(549)
Proceeds from Sale of Residential Mortgage Loan Participations	85,721	50,492
Net Cash Provided by Investing Activities	7,060	59,028
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Decrease in Members' Share Accounts	(73,198)	(18,599)
Proceeds from Borrowed Funds	24,000	-
Repayment of Borrowed Funds	-	(25,000)
Net Cash Used by Financing Activities	(49,198)	(43,599)
Increase (Decrease) in Cash and Cash Equivalents	(22,742)	13,857
Cash and Cash Equivalents - Beginning of Year	59,695	45,838
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 36,953	$ 59,695
SUPPLEMENTARY DISCLOSURE OF NONCASH AND CASH FLOW INFORMATION		
Borrowed Funds Interest Paid	$ 406	$ 156
Members' Share and Savings Accounts Interest Paid	$ 5,561	$ 6,135
Transfers of Loans to Foreclosed and Repossessed Assets	$ (3,320)	$ (739)
Transfers of Loans Held-for-Sale to Loans, Net	$ -	$ 110,748

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business and Principles of Consolidation

Quorum Federal Credit Union (the "Credit Union") is chartered under the Federal Credit Union Act and is administratively responsible to the National Credit Union Administration.

The Credit Union provides financial services through its remote services and branch locations. Its primary deposit products are checking, savings, money market and term certificate accounts, and its primary lending products are residential mortgages, credit cards, student loans, and consumer installment loans. A majority of loans are secured by specific items of collateral including consumer assets and residential real estate.

The Credit Union also participates in loan programs through established relationships including vacation ownership companies, universities, and other credit unions.

The consolidated financial statements include Quorum Federal Credit Union and its 79% owned subsidiary, Vacation Ownership Funding Company, LLC, together referred to as "the Credit Union." The Vacation Ownership Funding Company, LLC was formed during 2009 for the purposes of providing consultative services on the Credit Union's behalf to the time share industry in offering financing solutions to vacation ownership companies. Intercompany transactions and balances are eliminated in consolidation.

The Credit Union's field of membership includes not only full-time employees, retirees, immediate family members and households of Kraft Heinz, Inc., Mondelēz International, Altria Group, Inc., MasterCard, Inc., and other subsidiaries (the "Sponsor Companies"), but also other employee groups and associations. The Credit Union provides a full range of financial services to its members from branch locations in New York, Illinois, and New Jersey.

Subsequent Events

The Credit Union has evaluated subsequent events for recognition and disclosure through March 30, 2018 which is the date the consolidated financial statements were available to be issued.

Reclassification of 2016 Data

Data in the 2016 consolidated financial statements has been reclassified to conform with the presentation of the 2017 consolidated financial statements. This reclassification did not have any change on consolidated net income (loss) or members' equity.

Basis of Financial Statement Presentation and Use of Estimates

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and general practices within the credit union industry. In preparing the consolidated financial statements, Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, as of the date of the statement of financial condition and reported amounts of income and expenses for the reporting period. Actual results could differ from those estimates.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Financial Statement Presentation and Use of Estimates (Continued)

Material estimates that are particularly susceptible to significant change in the near term include the valuation of securities and the determination of the allowance for loan losses.

Financial Instruments with Concentrations of Risk

The Credit Union is exposed to credit risk from a regional economic standpoint because significant concentrations of its borrowers work or reside within a geographical region.

At December 31, 2017, the Credit Union has $64.4 million of loans collateralized by taxi medallions. Recently, market disruption has occurred in the taxi industry due to new competition. This competition has negatively impacted the taxi industry, its revenues and has caused the value of taxi medallions to decline over the past year. Further or prolonged market disruption in the taxi industry may increase our delinquencies and nonaccrual loans collateralized by taxi medallions. It is at least reasonably possible that our losses on these loans could increase in the near term due to further or prolonged market disruption impacting the value of taxi medallions.

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 process of collection), federal funds sold (which generally have a one-day maturity) and all highly liquid debt instruments with original maturities of three months or less. Cash flows from loans and members' share accounts are reported net. The Credit Union maintains amounts due from banks and share deposits in corporate credit unions, which at times may exceed insured limits. The Credit Union has not experienced any losses from such concentrations.

Certificates of Deposit

Certificates of deposit are carried at cost. Individual balances may exceed insured limits at times. The Credit Union has not experienced any losses from such concentrations.

Securities

Management determines the appropriate classification of securities at the date individual securities are acquired. Securities classified as "available-for-sale" are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss).

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized using the interest method over the terms of the securities without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated.

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 the sale of securities are recorded on the trade date and are determined using the specific identification method.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Securities (Continued)

Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, Management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Loans Held-for-Sale

Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors or from a third party valuation. Net unrealized losses if any, are recorded as a valuation allowance and charged to earnings. Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of loans are based on the difference between the selling price and the carrying value of the related loan sold.

The fair value of loans held for sale are estimated through discounted cash flow analyses using interest rates currently being offered for loans with similar credit quality and similar credit enhancement provisions.

Membership Capital Stock Investment

Membership Capital Stock Investment consists of Federal Home Loan Bank of New York (FHLB) stock and Central Liquidity Facility (CLF) stock.

The Credit Union is a member of the FHLB. Members are required to own a certain amount of stock based on the level of borrowings and other factors. FHLB Stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Cash dividends are reported in income.

The Credit Union’s membership in the CLF provides access to a federal liquidity source for the primary purpose of emergency liquidity and contingency funding. The facility requires a capital stock subscription equal to ½ of 1% of the Credit Union’s average paid-in and unimpaired capital and surplus. Half of this stock subscription is paid to the facility, and the other half is available on call. Quarterly cash dividends on the facility paid portion of the stock subscription are reported in income.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans, Net

Loans that Management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of the allowance for loan losses, adjusted for net loan origination costs. Interest income on loans is recognized as earned using the simple interest method applied to the outstanding principal balance of the loans. Loan origination fees, net of direct origination costs, are deferred and amortized as an adjustment of loan yield over the contractual life of the loan. The recorded investment in loans includes accrued interest receivable.

Interest income on first and second mortgages and consumer loans is discontinued when the loan is 90 days past due based on contractual terms, pursuant to statutory regulation. Most consumer loans are typically charged off no later than 180 days past due, unless Management has reason to believe the loan is collectible. In all cases, loans are placed on nonaccrual status or charged off at an earlier date if collection of principal or interest is considered doubtful. Loans past 90 days still on accrual include vacation ownership loans that are collectively evaluated for impairment. Subsequent recognition of income occurs only to the extent payment is received subject to Management's assessment of the collectability of the remaining principal and interest.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest income on impaired loans is recognized only to the extent that cash payments are received and may be recorded as a reduction to the principal if collectability of all loan principal is unlikely. A nonaccrual loan is restored to accrual status when it is no longer 90 days delinquent and collectability of interest and principal is no longer in doubt.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses 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.

A loan is impaired when, based on current information and events, it is probable the Credit Union will be unable to collect all contractual principal and interest payments due in accordance with the terms of the original loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. 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 shortfall in relation to the principal and interest owed.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses

First and second mortgage real estate loans and commercial participations over $20, that are on nonaccrual status, are individually evaluated for impairment. Consumer loans over $20, if secured by collateral, or $10 if not secured by collateral, that are on nonaccrual status are also individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral less estimated selling costs, if the loan is collateral dependent. Large groups of smaller balance homogeneous loans, including vacation ownership, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Credit Union determines the amount of reserve in accordance with accounting policy for the allowance for loan losses.

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, prevailing economic conditions and other factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The general component covers nonimpaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Credit Union over the past two to five years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. 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 in lending Management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified: first and second mortgages, consumer, vacation ownership and commercial.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

The Credit Union has established credit policies applicable to each type of lending activity in which it engages. The Credit Union evaluates the creditworthiness of each member and, in most cases, extends credit of up to a specified percent of the market value of the collateral at the date of the credit extension, depending on the borrower's creditworthiness and the type of collateral. While collateral provides assurance as a secondary source of repayment, the Credit Union ordinarily requires the primary source of repayment to be based on the borrower's ability to generate continuing cash flows. The market value of collateral is monitored on an ongoing basis and additional collateral is obtained when warranted. Specific risk characteristics of the Credit Union's portfolio segments include:

First and Second Mortgages: Real estate is the primary form of collateral for a substantial portion of the Credit Union's loans. For first mortgage real estate loans, the Credit Union's policy for collateral requires that, generally, the amount of the loan may not exceed 80% of the original appraised value of the property however in certain cases loans will be granted up to 100% of the appraised value with private mortgage insurance. For second mortgages, the Credit Union's policy for collateral requires that, generally, the amount of the loan may not exceed 95% of the original appraised value of the property.

Residential participation loans are collateralized by residential real estate property. The Credit Union owns 90% of each loan. These loans can be a combination of fixed rate and adjustable rate mortgages.

The Credit Union's real estate loans are collateralized by real estate located principally in New York and Illinois. Accordingly, the collateral value of a substantial portion of the Credit Union's loan portfolio is susceptible to changes in market conditions within these states.

Consumer: Consumer loans, including credit cards, unsecured loans and student loans, are evaluated based on the borrower's ability to pay.

Vacation Ownership: The Credit Union, beginning in 2009, entered into financing agreements with several vacation ownership companies to provide loans for the purchase of vacation ownership intervals. The loans are purchased at a discount (80% to 90% of loan balance in 2017 and 2016). The discount amount is netted against the loan balances as a hold-back by the Credit Union and paid to the vacation ownership company over the term of the loan, as interest and principal is paid to the Credit Union. This holdback feature minimizes the credit risk on this portfolio.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Commercial: Commercial participation loans are collateralized by commercial real estate property or taxi medallions. The Credit Union owns 90% of each loan. Historically, the Credit Union has not experienced any losses on the commercial loan portfolio.

Taxi participation loans are collateralized by taxi medallions, primarily in the cities of New York and Chicago. The Credit Union owns a percentage of each loan, primarily 90%. The introduction of application-based mobile ride services, such as Uber and Lyft, have generated increased competition in the transportation sector, resulting in a reduction in taxi utilization and, as a result, a reduction in the collateral value and credit quality of taxi medallion loans. This has increased the likelihood that loans secured by taxi medallions may default, or that the borrowers may be unable to repay these loans at maturity, potentially resulting in an increase in past due loans, TDRs, and charge-offs.

Management believes that the allowance for loan losses covers probable incurred losses. While Management uses the best information available to make its evaluation, future adjustments to the allowance for loan losses may be necessary if there are significant changes in economic conditions, particularly in the New York tri-state region and Illinois, or economic matters affecting employment at Kraft Heinz Inc., Mondelēz International and Altria Group, Inc. (See “Nature of Business” section for other information). In addition, the National Credit Union Administration (NCUA), as an integral part of its examination process, periodically reviews the Credit Union’s allowance for loan losses. The NCUA has the authority to require the Credit Union to make adjustments to the allowance or charge-offs based on their judgments about information available to them at the time of their examination.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. 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 transferor does not maintain effective control over the transferred assets through an agreement to purchase them before their maturity.

The Credit Union has purchased loan participations originated by various other credit unions, which are secured by, commercial real estate and tax medallions, to members of other credit unions. These loan participations were purchased without recourse and the originating credit union performs all loan servicing functions on these loans. The total loan participations included in the commercial real estate and tax medallion portfolios above totaled $78.3 million and $89.9 at December 31, 2017 and 2016, respectively.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Servicing Rights

Servicing rights are recognized as separate assets when rights are acquired through purchase or through sale of financial assets.

For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on the fair value of the servicing rights. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. The Credit Union compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to the carrying amount. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type, and investor type. Impairment is recognized through a valuation allowance and charged to other expense, for an individual tranche, to the extent that fair value is less than the capitalized amount of the tranche. If the Credit Union later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to noninterest income. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses. Servicing fee income, which is reported on the consolidated statement of operations as noninterest income, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights, and any related impairment charge, is netted against loan servicing fee income.

Foreclosed and Repossessed Assets

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less cost to sell when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Leasehold Improvements and Equipment

Leasehold improvements and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated lives of the assets, which range from 3-15 years. Leasehold improvements are amortized on the straight-line basis over the shorter of the remaining lease term or the estimated useful lives of the improvements. Gains and losses on dispositions are recognized upon realization. Maintenance and repairs are expensed as incurred and improvements are capitalized. Minimum lease payments for operating leases are charged to expense on the straight-line basis over the expected lease term.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-lived Assets

Long-lived assets, including leasehold improvements and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If impairment is indicated by that review, the asset is written down to its estimated fair value through a charge to noninterest expense.

Deposit in National Credit Union Share Insurance Fund

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 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. Generally, the NCUSIF deposit is noninterest-bearing. However, a special dividend may be paid on the NCUSIF deposit if the NCUSIF maintains a predetermined amount of reserves. In June 2009, the NCUA Board created the Stabilization Fund. The Stabilization Fund has the ability to borrow from the Treasury Department. The NCUSIF is prohibited from paying dividends while the Stabilization Fund has outstanding borrowings from the Treasury. The amount which would normally be paid as a dividend will be distributed to the Stabilization Fund during this period.

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. It was anticipated that the NCUA Board will assess annual premiums to repay these stabilization costs through the year 2021 at its discretion. No CCUSF premium was assessed for the years ended December 31, 2017 and 2016, due to subsequent loss recovery settlements and gains recognized by the Fund in recent years. Effective October 1, 2017, the NCUA closed the CCUSF and incorporated the assets into the NCUSIF.

Insurance Premiums

A Credit Union is required to pay an insurance premium equal to a percent of its total insured shares, unless the payment is waived or reduced by the NCUA Board. In 2017 and 2016, the NCUA Board waived the insurance premium for insured shares outstanding during.2017 and 2016.

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance sheet credit commitments, such as commitments to make loans, available lines of credit and outstanding loan purchase commitments. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Members' Share Accounts

Members' share accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members' share accounts are based on available earnings at the end of an interest period and are not guaranteed by the Credit Union. Dividend rates on members' share accounts are set by Management, based on an evaluation of market conditions.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Members' Equity

The aggregate amount of members' equity arises from the accumulated earnings of the Credit Union, after payment of dividends to members. The Credit Union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of dividends. The board of directors may, from time to time, make additional appropriations from retained earnings, which would also be restricted as to the payment of dividends.

Income Taxes

The Credit Union is exempt, by statute, from federal, state and other income and franchise taxes.

Pension and Post-retirement Benefits

Pension expense is the net of service and interest cost, return on plan assets and amortization of gains and losses not immediately recognized. Employee 401(K) expense is the amount of matching contributions.

Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income (loss). Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and pension liability adjustments, are reported as a separate component of the members' equity section of the consolidated statements of financial condition, such items, along with net income (loss), are components of comprehensive income (loss).

DECEMBER 31, 2017 AND 2016 (Dollars in Thousands)

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The changes in accumulated other comprehensive income (loss) included in members' equity, by component, are as follows:

	Securities - Available-for-Sale	Defined Benefit Plan	Post-Retirement Benefit Plan	Total
BALANCES AT DECEMBER 31, 2015	$ (485)	$ (2,972)	$ 51	$ (3,406)
Other Comprehensive Income (Loss) Before Reclassifications	416	530	(51)	895
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	(827)	190	-	(637)
Net Prior-Period Other Comprehensive Income (Loss)	(411)	720	(51)	258
BALANCES AT DECEMBER 31, 2016	(896)	(2,252)	-	(3,148)
Other Comprehensive (Loss) Before Reclassifications	(4)	62	-	58
Amounts Reclassified from Accumulated Other Comprehensive Income	-	-	-	-
Net Current-Period Other Comprehensive Income (Loss)	(4)	62	-	58
BALANCES AT DECEMBER 31, 2017	$ (900)	$ (2,190)	$ -	$ (3,090)

Reclassifications from accumulated other comprehensive income (loss) for securities – available-for-sale are posted through net gain on sale of available-for-sale securities on the consolidated statements of operations. The components of accumulated other comprehensive income (loss) for defined benefit and post-retirement benefit plans are included in the computation of net periodic pension cost and net periodic post-retirement cost. See pension and post-retirement benefit plan footnotes for additional details.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the consolidated financial statements.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 15. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

DECEMBER 31, 2017 AND 2016 (Dollars in Thousands)

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Split Dollar Life Insurance

The Credit Union has paid funds into life insurance policies and funding accounts connected to the policies on behalf of select executives. The executive owns the policy on the life and related accounts, but the Credit Union holds a first lien on the policy and account as security for repayment of the advanced funds plus compounded interest at the long-term applicable federal rate. The loans are made with recourse which allows management to seek recovery beyond the current cash surrender value of the policies.

During their life, the executives can draw from the policy cash values to supplement retirement income. Executive draws are strictly limited so that it never puts the policy at risk of lapsing.

At the executive's death, the death proceeds are allocated to (i) pay the Credit Union the outstanding loan balance plus accrued interest, and (ii) all or 75% of the funds available after full payment of the executive loan provide a death benefit for the executive's beneficiaries, with any remainder paid to the Credit Union.

The total unpaid principal balance, including interest, of the loans was $16,727 and $16,343 at December 31, 2017 and 2016, respectively.

Noncontrolling Interests

The Credit Union reports the noncontrolling (that is, minority) interest in its subsidiary as members' equity in the consolidated financial statements and they account for transactions between the entity and all noncontrolling owners as equity transactions.

NOTE 2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at December 31, 2017 and 2016:

	2017	2016
Cash on Hand	$ 1,106	$ 2,498
Demand Deposits at Banks	30,618	54,120
Cash at Corporate Credit Unions	5,229	3,077
Total Cash and Cash Equivalents	$ 36,953	$ 59,695

The Credit Union is required to maintain reserves against its respective transaction accounts and nonpersonal time deposits. The Credit Union was required to have cash and liquid assets of $6,780 and $5,838 to meet these requirements at December 31, 2017 and 2016, respectively.

DECEMBER 31, 2017 AND 2016 (Dollars in Thousands)

NOTE 3 SECURITIES AND OTHER INVESTMENTS

A summary of the amortized cost, gross unrealized gains and losses, and fair value of available for sale securities at December 31, 2017 and 2016 follows:

2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Carrying Value)
Mutual Fund - Investment in Deferred Compensation 457(b) Plan	$ 226	$ -	$ -	$ 226
Government Sponsored Entities - Home Equity Conversion Mortgages	9,364	5	(69)	9,300
Government Sponsored Entities - Mortgage-Backed Securities Residential	14,230	-	(139)	14,091
Government Sponsored Entities - Collateralized Mortgage Obligations	6,354	1	(29)	6,326
Government Sponsored Entities - Federal Agency Securities	22,999	-	(614)	22,385
Municipal Bonds	10,661	-	(55)	10,606
Total	$ 63,834	$ 6	$ (906)	$ 62,934

2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Carrying Value)
Mutual Fund - Investment in Deferred Compensation 457(b) Plan	$ 167	$ 1	$ -	$ 168
Mutual or Exchange Traded Funds - Investment in Total Benefit Pre-Funding Program	15	6	-	21
Government Sponsored Entities - Home Equity Conversion Mortgages	9,242	-	(113)	9,129
Government Sponsored Entities - Mortgage-Backed Securities Residential	19,619	2	(137)	19,484
Government Sponsored Entities - Collateralized Mortgage Obligations	1,953	6	(16)	1,943
Government Sponsored Entities - Federal Agency Securities	23,148	-	(616)	22,532
Municipal Bonds	11,700	5	(42)	11,663
Bank CDs & Notes	1,497	8	-	1,505
Total	$ 67,341	$ 28	$ (924)	$ 66,445

DECEMBER 31, 2017 AND 2016 (Dollars in Thousands)

NOTE 3 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

The following table presents the Credit Union available for sale securities, gross unrealized losses, and fair value, aggregated by the length of time the individual securities have been in a continuous unrealized loss position:

	2017			
	Less Than Twelve Months		Greater Than Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Government Sponsored Entities - Home Equity Conversion Mortgages	$ -	$ -	$ (69)	$ 7,651
Government Sponsored Entities - Mortgage-Backed Securities Residential	-	-	(139)	14,091
Government Sponsored Entities - Collateralized Mortgage Obligations	(29)	6,159	-	-
Government Sponsored Entities - Federal Agency Securities	-	-	(614)	22,385
Municipal Bonds	(55)	10,606	-	-
Total Available-for-Sale	$ (84)	$ 16,765	$ (822)	$ 44,127

	2016			
	Less Than Twelve Months		Greater Than Twelve Months	
December 31, 2016	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Government Sponsored Entities - Home Equity Conversion Mortgages	$ (113)	$ 9,129	$ -	$ -
Government Sponsored Entities - Mortgage-Backed Securities Residential	(16)	2,755	(121)	16,632
Government Sponsored Entities - Collateralized Mortgage Obligations	(16)	1,499		
Government Sponsored Entities - Federal Agency Securities	(616)	22,532	-	-
Municipal Bonds	(42)	6,479		
Total Available-for-Sale	$ (803)	$ 42,394	$ (121)	$ 16,632

At December 31, 2017, the 25 securities with unrealized losses have depreciated 1.47% from the Credit Union's amortized cost basis. All of these securities are either guaranteed by federal insurance, the U.S. Government, and/or secured by mortgage loans. These unrealized losses relate principally to changes in 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.

NOTE 3 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

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.

There were no sales of securities in 2017. Proceeds from sales of securities in 2016 were $17,390 with gross gains of $992 and gross losses of $165.

The mutual fund and equities investments are primarily made up of assets normally impermissible to the Credit Union, but allowable if the investments are specifically earmarked for the purpose of pre-funding future employee benefit obligations, with the proceeds offsetting general employee benefits expense. The investment objective is to be invested in 40% equity securities (common and preferred stock and real estate investment trusts) and 60% in corporate bonds (high yield and investment grade bonds). The Credit Union terminated the Benefit Pre-funding program during 2016.

U.S. Government agencies include Federal Home Loan Bank, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation bonds. Mortgage-backed securities and collateralized mortgage obligations are residential loans pools issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Government National Mortgage Association. Home equity conversion mortgages are residential pools of reverse mortgages issued and guaranteed by the Government National Mortgage Association. Unrealized losses on these securities have not been recognized into income because the issues are of high credit quality, Management does not intend to sell, it is not more likely than not that Management would be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to change in interest rates. The fair value is expected to recover as the securities approach maturity.

The mutual and exchange traded funds held on December 31, 2017 and 2016 are mostly made up of short duration, investment grade corporate bonds. Unrealized losses on these funds have not been recognized into income because the issues are of high credit quality, Management does not intend to sell, it is not more likely than not that Management would be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to change in interest rates.

DECEMBER 31, 2017 AND 2016 (Dollars in Thousands)

NOTE 3 AVAILABLE FOR SALE SECURITIES (CONTINUED)

The amortized cost and estimated fair value of securities, at 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.

	Amortized Cost	Fair Value (Carrying Value)
Government Sponsored Entities -		
Federal Agency Securities and Municipal Bonds:		
Less Than One Year	$ 3,482	$ 3,481
One to Five Years	30,178	29,510
	33,660	32,991
Government Sponsored Entities -		
Home Equity Conversion Mortgages	9,364	9,300
Mortgage-Backed Securities Residential and Collateralized Mortgage Obligations	20,584	20,417
Mutual Fund - Investment in Deferred Compensation 457(b) Plan	226	226
Total	$ 63,834	$ 62,934

OTHER INVESTMENTS:

Other investments are summarized as follows:

	2017	2016
Perpetual Contributed Capital Accounts	$ 1,500	$ 217
FHLB Stock	1,633	774
Central Liquidity Facility Stock	2,250	2,149
Investments in CUSOs	2,027	2,100
Total	$ 7,410	$ 5,240

Perpetual Contributed Capital Accounts

The Credit Union maintains perpetual contributed capital accounts with Alloya Corporate Federal Credit Union that are uninsured and contain significant withdrawal restrictions.

These uninsured deposits are part of the corporate credit union's regulatory capital and are subject to impairment or loss in the event the corporate credit union is required to merge, is placed into conservatorship, incurs significant losses, or is liquidated.

FHLB Stock

The Credit Union has an investment in Federal Home Loan Bank of New York (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.

NOTE 3 AVAILABLE FOR SALE SECURITIES (CONTINUED)

Central Liquidity Facility Stock

The Credit Union is a member of the NCUA Central Liquidity Facility (Facility), which was formed to assist member credit unions in meeting their short-term liquidity needs. Membership is obtained through investment in shares of the Facility as determined by a statutory formula. As of December 31, 2017 and 2016, the Credit Union had not borrowed from the Facility.

Investments in CUSOs

The Credit Union's ownership interest in Payment Systems for Credit Unions, Inc. (PSCU) is stated at cost plus undistributed allocated equities, and totals $1,004 and $1,027 as of December 31, 2017 and 2016, respectively. PSCU operates as a cooperative, providing transaction card services on a service-at-cost basis for the mutual benefit of its patrons (credit union owners). PSCU distributes patronage dividends to its members in the form of cash and revolving fund certificates.

The Credit Union also has minor ownership interests in other CUSOs providing services to the credit union market that are carried as cost and an ownership interest in Ongoing Operations, LLC, which is accounted for using the equity method.

DECEMBER 31, 2017 AND 2016 (Dollars in Thousands)

NOTE 4 LOANS RECEIVABLE

The composition of loans receivable at December 31, 2017 and 2016 is as follows:

	2017	2016
Consumer:		
Credit Card	$ 45,828	$ 53,875
Automobile	665	1,127
Unsecured	2,216	2,586
Secured	245	286
Private Student Loans	78,450	84,024
Medical	31,361	18,909
Subtotal	158,765	160,807
Residential Real Estate:		
First Mortgage	232,980	228,638
Home Secured	864	1,331
RealtyLine	132,897	106,436
Subtotal	366,741	336,405
Vacation Ownership	130,488	160,518
Commercial:		
Taxi Participation	64,453	72,649
Commercial Real Estate Participation	13,873	17,204
Subtotal	78,326	89,853
Net Deferred Loan Origination Costs (Fees)	1,489	2,064
Total Loans	735,809	749,647
Allowance for Loan Losses	(34,150)	(27,820)
Loans, Net	$ 701,659	$ 721,827

As a result of these deliberations, the Credit Union reported none of their vacation ownership loans as held-for-sale at December 31, 2017 and 2016.

DECEMBER 31, 2017 AND 2016 (Dollars in Thousands)

NOTE 4 LOANS RECEIVABLE (CONTINUED)

The following tables present the activity in the allowance for loan losses by portfolio segment for the years ending December 31, 2017 and 2016:

	2017					
	Consumer	Residential Real Estate	Vacation Ownership	Commercial Real Estate	Taxi Participation	Total
Allowance for Loan Losses:						
Balance at Beginning of Year	$ 6,698	$ 1,525	$ -	$ 9	$ 19,588	$ 27,820
Provision (Credit) for Loan Losses	5,839	447	-	17	8,103	14,406
Loans Charged-Off	(6,539)	(426)	-	-	(2,030)	(8,995)
Recoveries of Loans	-	-	-	-	-	-
Previously Charged-Off	767	113	-	-	39	919
Balance at End of Year	$ 6,765	$ 1,659	$ -	$ 26	$ 25,700	$ 34,150
Ending Balance: Individually Evaluated for Impairment	$ 1,842	$ 1,249	$ -	$ -	$ 25,223	$ 28,314
Ending Balance: Collectively Evaluated for Impairment	$ 4,923	$ 410	$ -	$ 26	$ 477	$ 5,836
Total Allowance for Loan Losses	$ 6,765	$ 1,659	$ -	$ 26	$ 25,700	$ 34,150
Loans:						
Ending Balance: Individually Evaluated for Impairment	$ 2,555	$ 10,460	$ -	$ -	$ 51,364	$ 64,379
Ending Balance: Collectively Evaluated for Impairment	$ 156,722	$ 357,470	$ 130,299	$ 13,873	$ 13,066	$ 671,430
Total Loans	$ 159,277	$ 367,930	$ 130,299	$ 13,873	$ 64,430	$ 735,809

DECEMBER 31, 2017 AND 2016 (Dollars in Thousands)

NOTE 4 LOANS RECEIVABLE (CONTINUED)

	2016					
	Consumer	Residential Real Estate	Vacation Ownership	Commercial Real Estate	Taxi Participation	Total
Allowance for Loan Losses:						
Balance at Beginning of Year	$ 5,424	$ 1,474	$ -	$ 9	$ 833	$ 7,740
Provision (Credit) for Loan Losses	5,311	131	-	-	19,091	24,533
Loans Charged-Off	(5,048)	(114)	-	-	(336)	(5,498)
Recoveries of Loans	-	-	-	-	-	-
Previously Charged-Off	1,011	34	-	-	-	1,045
Balance at End of Year	$ 6,698	$ 1,525	$ -	$ 9	$ 19,588	$ 27,820
Ending Balance: Individually Evaluated for Impairment	$ 2,181	$ 921	$ -	$ -	$ 19,246	$ 22,348
Ending Balance: Collectively Evaluated for Impairment	$ 4,517	$ 604	$ -	$ 9	$ 342	$ 5,472
Total Allowance for Loan Losses	$ 6,698	$ 1,525	$ -	$ 9	$ 19,588	$ 27,820
Loans:						
Ending Balance: Individually Evaluated for Impairment	$ 2,713	$ 9,481	$ -	$ -	$ 45,464	$ 57,658
Ending Balance: Collectively Evaluated for Impairment	$ 159,219	$ 328,187	$ 160,219	$ 17,204	$ 27,160	$ 691,989
Total Loans	$ 161,932	$ 337,668	$ 160,219	$ 294	$ 72,624	$ 749,647

To estimate the $25,223 in taxi participation loan specific reserves included in the commercial category at December 31, 2017, the Credit Union utilizes a third-party valuation specialist to value the underlying collateral of taxi medallions which is used in determining the specific reserves on impaired loans. The valuation methodology employed by the specialist includes a weighted average of sales transactions, broker price quotes, discounted cash flow, and a capitalization model. Based on the third-party specialist valuation, the fair value of a taxi medallion is $365 in New York City and $93 in Chicago, which represent the major geographic regions within the taxi medallion loan portfolio.

Loans delinquent by 30 days or more totaled $42,742 and $22,871 as of December 31, 2017 and December 31, 2016 respectively. Scheduled maturities for the taxi medallion loan portfolio as of December 31, 2017 are as follows: 2018 - $47,278; 2019 - $13,217; 2020 - $1,804; 2021 and after - $2,131.

DECEMBER 31, 2017 AND 2016 (Dollars in Thousands)

NOTE 4 LOANS RECEIVABLE (CONTINUED)

The Credit union has provided for estimated losses through December 31, 2017 in the allowance; however, further deterioration in the value of medallions may result in higher delinquencies and losses beyond that provided in the allowance for loan losses. At December 31, 2017, the allowance associated with taxi medallion loans was $25,700 which consisted of specific reserves of $25,223 and a general reserve of $477. At December 31, 2016, the allowance associated with taxi medallion loans was $19,588 which consisted of specific reserves of $19,246 and general reserve of $342.

The following table's present information related to loans individually evaluated for impairment by class of loans as of December 31, 2017 and 2016:

	2017				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With No Related Allowance:					
Credit Card	$ -	$ -	$ -	$ 2,836	$ 26
Private Student Loans	290	290	-	233	21
Medical	-	-	-	8	-
First Mortgage	1,989	1,989	-	-	-
Home Secured	-	-	-	91	-
RealtyLine	1,497	1,497	-	1,015	3
Taxi Participation	2,222	2,222	-	3,346	17
Subtotal	5,998	5,998	-	7,529	67
With An Allowance Recorded:					
Credit Card	1,221	1,221	1,163	1,206	86
Automobile	7	7	5	71	-
Unsecured	139	139	65	110	-
Private Student Loans	670	670	429	781	19
Medical	228	228	180	160	3
First Mortgage	6,645	6,645	1,117	5,860	26
Home Secured	-	-	-	29	-
RealtyLine	329	329	132	207	14
Taxi Participation	49,142	49,142	25,223	45,069	335
Subtotal	58,381	58,381	28,314	53,493	483
Total Impaired Loans:					
Consumer	$ 2,555	$ 2,555	$ 1,842	$ 5,405	$ 155
Residential Real Estate	$ 10,460	$ 10,460	$ 1,249	$ 7,202	$ 43
Commercial	$ 51,364	$ 51,364	$ 25,223	$ 48,415	$ 352

DECEMBER 31, 2017 AND 2016 (Dollars in Thousands)

NOTE 4 LOANS RECEIVABLE (CONTINUED)

	2016				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With No Related Allowance:					
Credit Card	$ -	$ -	$ -	$ 6	$ -
Unsecured	-	-	-	4	-
Private Student Loans	176	176		88	2
Medical	15	15		8	1
First Mortgage	3,683	3,683	-	4,235	24
Home Secured	182	182	-	182	2
RealtyLine	533	533	-	406	6
Taxi Participation	4,469	4,469	-	6,473	6
Subtotal	9,058	9,058	-	11,402	41
With An Allowance Recorded:					
Credit Card	1,192	1,192	1,143	749	28
Automobile	135	135	126	92	1
Unsecured	212	212	108	221	3
Private Student Loans	891	891	712	525	5
Medical	92	92	92	46	2
First Mortgage	4,942	4,942	821	5,261	41
Home Secured	57	57	-	83	1
RealtyLine	84	84	100	78	1
Taxi Participation	40,995	40,995	19,246	24,758	182
Subtotal	48,600	48,600	22,348	31,813	264
Total Impaired Loans:					
Consumer	$ 2,713	$ 2,713	$ 2,181	$ 1,739	$ 42
Residential Real Estate	$ 9,481	$ 9,481	$ 921	$ 10,245	$ 75
Commercial	$ 45,464	$ 45,464	$ 19,246	$ 31,231	$ 188

The cash basis income on impaired loans was not materially different for 2017 and 2016. The recorded investment includes loan origination fees and excludes accrued interest receivable.

DECEMBER 31, 2017 AND 2016 (Dollars in Thousands)

NOTE 4 LOANS RECEIVABLE (CONTINUED)

The following tables present the aging of the recorded investment in past due loans by class of loans as of December 31, 2017 and 2016:

	2017				
	Accruing Interest				
	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual 90 Days or More Past Due	Total Loans
Consumer:					
Credit Card	$ 43,657	$ 1,169	$ -	$ 1,192	$ 46,018
Automobile	641	24	-	-	665
Unsecured	2,182	31	-	3	2,216
Secured	245	-	-	-	245
Private Student Loans	76,446	2,160	-	328	78,934
Medical	30,153	848	-	198	31,199
Residential Real Estate:					
First Mortgage	227,078	2,626	-	3,799	233,503
Home Secured	607	10	-	247	864
RealtyLine	130,207	2,780	-	575	133,562
Vacation Ownership	122,891	4,427	2,982	-	130,300
Commercial:					
Taxi Participation	21,688	3,571	-	39,171	64,430
Commercial Participation	13,873	-	-	-	13,873
Total	$ 669,668	$ 17,646	$ 2,982	$ 45,513	$ 735,809

	2016				
	Accruing Interest				
	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual 90 Days or More Past Due	Total Loans
Consumer:					
Credit Card	$ 51,903	$ 1,143	$ -	$ 1,164	$ 54,210
Automobile	972	27	-	128	1,127
Unsecured	2,549	32	-	5	2,586
Secured	286	-	-	-	286
Private Student Loans	82,732	1,174	-	629	84,535
Medical	18,550	509	-	129	19,188
Residential Real Estate:					
First Mortgage	223,571	1,670	-	3,689	228,930
Home Secured	1,082	-	-	249	1,331
RealtyLine	106,324	543	-	540	107,407
Vacation Ownership	151,809	4,898	3,512	-	160,219
Commercial:					
Taxi Participation	49,753	1,976	-	20,895	72,624
Commercial Participation	17,204	-	-	-	17,204
Total	$ 706,735	$ 11,972	$ 3,512	$ 27,428	$ 749,647

Interest income foregone on nonaccrual loans was immaterial for the years ended December 31, 2017 and 2016.

DECEMBER 31, 2017 AND 2016 (Dollars in Thousands)

NOTE 4 LOANS RECEIVABLE (CONTINUED)

The following tables present loans by class modified as troubled debt restructurings that occurred during the year ending December 31, 2017 and 2016:

	2017			
	Troubled Debt Restructurings		Troubled Debt Restructurings That Subsequently Defaulted	
	Number of Loans	Post-modification Outstanding Balance	Number of Loans	Post-modification Outstanding Balance
First Mortgage	2	$ 1,440	1	$ 615
Private Student Loans	1	67	-	-
Taxi Participation	3	409	-	-
Total	6	$ 1,916	1	$ 615

	2016			
	Troubled Debt Restructurings		Troubled Debt Restructurings That Subsequently Defaulted	
	Number of Loans	Post-modification Outstanding Balance	Number of Loans	Post-modification Outstanding Balance
Taxi Participation	21	$ 18,495	1	$ 394

The following tables show the types of modifications made during the years ended December 31, 2017 and 2016:

	2017						
	Interest Rate Adjustment	Extended Maturities	Maturity and Interest Rate Adjustment	Principal Forgiveness	Bankruptcy	Other	Total
First Mortgage	$ -	$ -	$ 1,440	$ -	$ -	$ -	$ 1,440
Private Student Loans	-	-	67	-	-	-	67
Taxi Participation	-	-	409	-	-	-	409
Total	$ -	$ -	$ 1,916	$ -	$ -	$ -	$ 1,916

	2016						
	Interest Rate Adjustment	Extended Maturities	Maturity and Interest Rate Adjustment	Principal Forgiveness	Bankruptcy	Other	Total
Taxi Participation	$ -	$ -	$ 18,495	$ -	$ -	$ -	$ 18,495

Troubled debt restructurings described above increased the allowance for loan losses by $115 and $6,458 and resulted in $1,336 and $220 in net charge-offs during the years ended December 31, 2017 and 2016, respectively.

The Credit Union has loans of $24,566 and $29,593 and has allocated $7,407 and $10,611 of specific reserves to members whose loan terms have been modified in troubled debt restructurings as of December 31, 2017 and 2016, respectively. The Credit Union has no commitments to lend additional amounts to members with outstanding loans that are classified as troubled debt restructurings.

DECEMBER 31, 2017 AND 2016 (Dollars in Thousands)

NOTE 4 LOANS RECEIVABLE (CONTINUED)

A loan is considered to be in payment default once it is 30 days past due under the modified terms.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Credit Union's internal underwriting policy.

The Credit Union considers the performance of the loan portfolio and its impact on the allowance for loan losses. For all loan classes, the Credit Union also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following tables present the recorded investment (inclusive of deferred costs) in all loan classes based on payment activity:

	2017		
	Payment Activity		
	Performing	Non-Performing	Total
Consumer:			
Credit Card	$ 44,826	$ 1,192	$ 46,018
Automobile	665	-	665
Unsecured	2,213	3	2,216
Secured	245	-	245
Private Student Loans	78,606	328	78,934
Medical	31,001	198	31,199
Residential Real Estate:			
First Mortgage	229,704	3,799	233,503
Home Secured	617	247	864
RealtyLine	132,987	575	133,562
Vacation Ownership	130,300	-	130,300
Commercial:			
Taxi Participation	25,259	39,171	64,430
Commercial Participation	13,873	-	13,873
Total	$ 690,296	$ 45,513	$ 735,809

DECEMBER 31, 2017 AND 2016 (Dollars in Thousands)

NOTE 4 LOANS RECEIVABLE (CONTINUED)

	2016		
	Payment Activity		
	Performing	Non-Performing	Total
Consumer:			
Credit Card	$ 53,046	$ 1,164	$ 54,210
Automobile	999	128	1,127
Unsecured	2,581	5	2,586
Secured	286	-	286
Private Student Loans	83,906	629	84,535
Medical	19,059	129	19,188
Residential Real Estate:			
First Mortgage	225,241	3,689	228,930
Home Secured	1,082	249	1,331
RealtyLine	106,867	540	107,407
Vacation Ownership	160,219	-	160,219
Commercial:			
Taxi Participation	51,729	20,895	72,624
Commercial Participation	17,204	-	17,204
Total	$ 722,219	$ 27,428	$ 749,647

The delinquent vacation ownership loans are considered performing due to the credit enhancement feature. At December 31, 2017 and 2016, there were $130,300 and $160,219 respectively, in vacation ownership loans.

In addition to loans that are on nonaccrual, the Credit Union considers loans less than 90 days delinquent for which there is reasonable doubt of collecting the scheduled principal and interest payments as nonperforming loans.

There were $3,380 (net of $103 valuation allowance) and $611 (net of $0 valuation allowance) in repossessed assets at December 31, 2017 and 2016. At December 31, 2017 and 2016, there were $435 (net of $42 valuation allowance) and $128 (net of $0 valuation allowance), respectively, in other real estate owned, which are reported in other assets.

NOTE 5 LOAN SERVICING

Loans serviced for others are not included in the accompanying consolidated statements of financial condition.

The unpaid principal balance of these loans serviced for others was $369,262 and $284,935 at December 31, 2017 and 2016, respectively.

Servicing fees totaled $476 and $252 for the years ended December 31, 2017 and 2016, respectively.

DECEMBER 31, 2017 AND 2016 (Dollars in Thousands)

NOTE 5 LOAN SERVICING (CONTINUED)

The following summarizes the activity pertaining to mortgage servicing rights and the related valuation allowance:

	2017	2016
Servicing Rights:		
Balance at Beginning of Year	$ 2,352	$ 1,450
Additions	1,174	1,169
Change in Valuation Allowance	69	55
Amortization of Mortgage Servicing Rights	(413)	(322)
Balance at End of Year	$ 3,182	$ 2,352
Valuation Allowances:		
Balance at Beginning of Year	$ 69	$ 124
Additions	-	-
Reductions	(69)	(55)
Balance at End of Year	$ -	$ 69

The fair value of servicing rights was $3,182 and $2,352 at December 31, 2017 and 2016, respectively. Mortgage servicing rights are reported in other assets in the accompanying consolidated statement of financial condition. The fair value of servicing rights at year-end 2017 was determined using a weighted-average discount rate of 10.78% and a weighted-average prepayment speed of 9.64 conditional prepayment rate (CPR). The fair value of servicing rights at year-end 2016 was determined using a weighted-average discount rate of 10.33% and a weighted-average prepayment speed of 9.17 CPR.

NOTE 6 LEASEHOLD IMPROVEMENTS AND EQUIPMENT

Leasehold improvements and equipment as of December 31, 2017 and 2016 are summarized as followings:

	2017	2016
Computer Equipment and Software	$ 3,835	$ 7,291
Furniture and Equipment	2,092	2,493
Leasehold Improvements	2,888	4,560
Equipment Not Yet Placed in Service	-	275
	8,815	14,619
Less: Accumulated Depreciation and Amortization	3,360	7,678
Total	$ 5,455	$ 6,941

Depreciation and amortization expense was $1,111 and $1,670 for the years ended December 31, 2017 and 2016, respectively.

DECEMBER 31, 2017 AND 2016 (Dollars in Thousands)

NOTE 7 MEMBERS' SHARE ACCOUNTS AND DIVIDENDS

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

	2017	2016
Share Drafts	$ 77,621	$ 86,422
Regular Shares	332,519	386,222
Money Management Accounts	88,841	102,381
IRA Share Accounts	5,533	5,520
Share and IRA Certificates	234,827	238,277
Brokered Share Certificates	19,027	12,744
Total	$ 758,368	$ 831,566

The aggregate amounts of members' share and share certificate accounts over $250 were $86,143 and $70,555 at December 31, 2017 and 2016, respectively.

Scheduled maturities of share, IRA, and brokered certificates at December 31, 2017 are as follows:

Year Ending December 31,	Amount
2018	$ 207,538
2019	39,598
2020	3,398
2021	1,634
2022	1,686
Total	$ 253,854

Dividend expense on members' share accounts for the years ended December 31, 2017 and 2016 is summarized as follows:

	2017	2016
Share Drafts	$ 163	$ 177
Regular Shares	2,283	2,799
Money Management Accounts	358	430
IRA Share Accounts	15	21
Share and IRA Certificates	2,566	2,596
Brokered Share Certificates	176	112
Total	$ 5,561	$ 6,135

DECEMBER 31, 2017 AND 2016 (Dollars in Thousands)

NOTE 8 LINES OF CREDIT

The Credit Union has a line of credit agreement with Alloya Corporate Federal Credit Union, which provides for maximum borrowings of $75,000 and $10,850 for the years 2017 and 2016, respectively. The line of credit agreement has no scheduled maturity date and has a variable interest rate, which was 2.31% at December 31, 2017. Borrowings under the line of credit are secured by all unpledged assets at the time of borrowing. There was no balance outstanding at year-end 2017 and 2016. The Credit Union also has a line of credit with a correspondent bank which provides for maximum borrowings of $10,000 in 2017 and 2016. This line of credit has no scheduled maturity date and has a variable interest rate. Borrowings under the line are secured by investments pledged at time of borrowing. There was no amount outstanding at year-end 2017 and 2016, respectively.

NOTE 9 FEDERAL HOME LOAN BANK OF NEW YORK BORROWINGS AND STOCK

The Credit Union is a member of the FHLB. At December 31, 2017, the Credit Union has the capacity to borrow up to a certain percentage of the value of its qualified collateral, as defined in the FHLB Statement of Credit Policy. In accordance with an agreement with the FHLB, the qualified collateral must be free and clear of liens, pledges, and encumbrances.

At December 31, 2017, outstanding advances from the FHLB aggregated $26,000 at fixed interest rates ranging from 1.53% to 4.89%, averaging 3.21%. At December 31, 2016, outstanding advances from the FHLB aggregated $2,000 at fixed interest rates ranging from 4.79% to 4.89%, averaging 4.84%. Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collaterized by $31,721 and $31,042 of first mortgage loans under a lien arrangement at year-end 2017 and 2016, respectively. Based on this collateral and the Credit Union’s holdings of FHLB stock, the Credit Union is eligible to borrow an additional $5,679 and $28,929 at year-end 2017 and 2016, respectively.

Borrowed funds consisted of the following:

	2017	2016
Term Note from FHLB at interest rate of 4.890%, maturing April 23, 2018	$ 1,000	$ 1,000
Term Note from FHLB at interest rate of 4.790%, maturing April 23, 2018	1,000	1,000
Term Note from FHLB at interest rate of 1.530%, maturing January 5, 2018	24,000	-
Total	$ 26,000	$ 2,000

The maturities of borrowed funds are as follows:

Year Ending December 31,	Amount
2018	$ 26,000

DECEMBER 31, 2017 AND 2016 (Dollars in Thousands)

NOTE 9 FEDERAL HOME LOAN BANK OF NEW YORK BORROWINGS AND STOCK (CONTINUED)

The Credit Union is required to maintain an investment in capital stock of the FHLB in an amount equal to a fixed amount, plus a percentage, of its outstanding mortgage related assets. The Credit Union is also required to maintain an investment in capital stock of Alloya Corporate Federal Credit Union also based on the borrowing base.

NOTE 10 RELATED PARTY TRANSACTIONS

The Credit Union entered into lease agreements with Kraft Heinz Inc. for office space for certain service center locations. Rent expense included in office operations related to these leases was $12 and $27 for the years ended December 31, 2017 and 2016, respectively.

Loans to directors, committee members, and executive officers amounted to approximately $19,375 and $19,158 as of December 31, 2017 and 2016, respectively. Share accounts of directors, committee members, and executive officers totaled approximately $1,682 and $2,210 as of December 31, 2017 and 2016, respectively.

The Credit Union has an investment in a CUSO named Ongoing Operations that provides information technology services to other credit unions. The Credit Union entered into a contract with the CUSO to provide managed outsourced information technology services in the amount of $1.8 million covering an 18-month period.

NOTE 11 COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Credit Union is obligated under operating leases on property used for its administrative office, service centers, and certain office equipment. The total minimum rental commitments for noncancelable operating leases as of December 31, 2017 are as follows:

Year Ending December 31,	Amount
2018	$ 536
2019	514
2020	523
2021	514
2022	525
Thereafter	3,978
Total	$ 6,590

Rental expense included in office occupancy costs was $663 and $690 for the years ended December 31, 2017 and 2016, respectively.

Rental expense included in office operations was $44 and $43 for the years ended December 31, 2017 and 2016, respectively.

DECEMBER 31, 2017 AND 2016 (Dollars in Thousands)

NOTE 12 FINANCIAL INSTRUMENTS WITH OFF-STATEMENT OF FINANCIAL CONDITION RISK AND CONCENTRATIONS OF CREDIT RISK

The Credit Union is party to financial instruments with off-statement of financial condition risk in the normal course of business to meet the financing needs of its members. These financial instruments include commitments to extend credit, home equity and overdraft lines of credit, and credit card. They involve, to varying degrees, elements of credit risk in excess of the amount recognized in the statement of financial condition. The Credit Union's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, home equity and overdraft lines of credit, and credit card commitments is represented by the contractual amount of those instruments, should the contract be fully drawn upon, the member default, and the value of any existing collateral become worthless. The Credit Union uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Management believes that the Credit Union controls the credit risk of these financial instruments through credit approvals, credit limits, monitoring procedures and the receipt of collateral as deemed necessary.

Commitments to extend credit and lines of 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 some of the commitments may 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 party. Collateral held is generally residential real estate and automobiles. Credit card commitments and personal and overdraft protection lines of credit are generally unsecured.

A summary the Credit Union's credit commitments at December 31, 2017 and 2016 is as follows:

	2017	2016
Commitments to Grant Collateralized Loans		
First Mortgages	$ 1,678	$ 2,906
Home Equity Lines of Credit	15,295	14,872
Unfunded Commitments Under Lines of Credit		
Home Equity Lines of Credit	$ 103,496	$ 85,086
Commercial Real Estate	151	76
Overdraft Protection	11,728	11,703
Lines of Credit	8,685	8,917
Credit Card Commitments	183,746	226,702
Other Commitments	15,604	20,825
Total	$ 340,383	$ 371,087

NOTE 12 FINANCIAL INSTRUMENTS WITH OFF-STATEMENT OF FINANCIAL CONDITION RISK AND CONCENTRATIONS OF CREDIT RISK (CONTINUED)

Concentration by Geographic Location

The Credit Union has a significant concentration of loans to members residing in New York and Illinois. Although the Credit Union has a diversified loan portfolio, a substantial portion of its members' abilities to honor their contracts is dependent upon the effect of these local economies on the Credit Union's field of membership. See also Note 4 for concentration by loan type.

Vacation Ownership Interests

The Credit Union finances vacation ownership interests through its relationship with several vacation ownership companies. The concentration of the vacation ownership interests with each vacation ownership company are as follows at December 31, 2017: 30% with Tradewinds, 20% with Hyatt, 13% with Diamond, 13% with Great Destinations, 12% with Bluegreen, 5% with Studio Homes Savannah, and the remaining 8% among smaller vacation ownership companies.

NOTE 13 PENSION PLANS

Defined Contribution Plan

The Credit Union sponsors a 401(k) savings plan that covers substantially all employees who have completed one month of service. Under the terms of the plan, participants can contribute a percentage of their compensation, subject to federal limitations. In 2017 and 2016, the Credit Union made matching contributions of 50% up to 6% of participant compensation after one year of employee service. Participants are immediately vested in their contributions and the earnings thereon and become fully vested in Credit Union contributions and the earnings thereon after completing three years of service. The Credit Union contributed $278 and $195 for the years ended December 31, 2017 and 2016, respectively.

Deferred Compensation Plan

The Credit Union maintains a noncontributory deferred compensation 457(b) plan to cover all executive officers. Under the plan, participants may voluntarily defer a portion of their salary. The Credit Union pays each participant, or their beneficiary, the amount of salary deferred plus earnings, beginning with the individual's termination of service. A liability is accrued for the obligation under this plan. At December 31, 2017 and 2016, deferrals and the associated liability under the plan was $227 and $167.

Deferred Bonus Plan

The Credit Union maintains a noncash deferred compensation 457(f). Under the plan, an amount equal to 66% of certain executive officers' incentive payment is deferred. The total amount is vested in three years. The amount will be forfeited if the officer leaves the Credit Union prior to the vesting date. A liability is accrued for the obligation under this plan. The balance as of December 31, 2017 was $920 and the balance as of December 31, 2016 was $961. The expense for 2017 and 2016 was $384 and $526, respectfully.

DECEMBER 31, 2017 AND 2016 (Dollars in Thousands)

NOTE 13 PENSION PLANS (CONTINUED)

Defined Benefit Pension Plan

Prior to June 15, 2016, the Credit Union sponsored a noncontributory defined benefit pension plan covering certain full-time employees. Effective June 15, 2016, the Credit Union froze the plan's benefit accruals and participants. Participants became eligible for the plan after completing one-half year of service. Participants became 100% vested after three years of service. Benefits were based upon years of service and level of compensation during specified years of employment.

The following table sets forth the plan's funded status and amounts recognized in the Credit Union's statement of financial condition as of December 31, 2017 and 2016 using a measurement date of December 31, 2017 and 2016:

	2017	2016
Projected Benefit Obligation	$ (6,250)	$ (6,055)
Fair Value of Plan Assets	7,287	6,908
Funded Status of Plan at Year End	$ 1,037	$ 853
Accumulated Benefit Obligation	$ (6,250)	$ (6,055)

The amount recognized in accumulated other comprehensive loss consisted of the following components at December 31, 2017 and 2016:

	2017	2016
Net Unrecognized Loss	$ 2,190	$ 2,252
Prior Service Cost	-	-
Total	$ 2,190	$ 2,252

The estimated net loss and prior service cost that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year is $132 and $124.

Other information for the Credit Union's defined benefit pension plan is as follows for the years ended December 31, 2017 and 2016:

	2017	2016
Employer Contributions	$ -	$ 1,448
Benefits Paid	584	69
Net Pension Cost	123	21

Weighted-average assumptions used by the Credit Union to determine the pension benefit obligations consisted of the following as of December 31, 2017 and 2016:

	2017	2016
Weighted Average Discount Rate	3.75%	4.25%
Rate of Future Compensation Increase	N/A	N/A

DECEMBER 31, 2017 AND 2016 (Dollars in Thousands)

NOTE 13 PENSION PLANS (CONTINUED)

Weighted-average assumptions used by the Credit Union to determine the net benefit cost consisted of the following as of December 31, 2017 and 2016:

	2017	2016
Weighted Average Discount Rate	3.75%	4.25%
Expected Long-Term Return on Plan Assets	7.50%	7.50%
Rate of Compensation Increase	N/A	N/A

Future Benefit Payments and Contributions

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year Ending December 31,	Amount
2018	$ -
2019	215
2020	276
2021	210
2022	176
2023-2027	2,160

Asset Allocation and Investment Goals

The Credit Union's pension plan weighted average asset allocations at December 31, 2017 and 2016, by asset category are as follows:

	2017	2016
Collective Investment Fund	100 %	100 %

As of December 31, 2017 and 2016, plan assets are 100% invested in a collective investment trust fund managed by CUNA Mutual Group. The appropriate strategic asset allocation is governed by the Trustee Plan Portfolio Investment Policy Statement.

The investment objective is to provide a moderate return over a full market cycle with commensurate risk. The fund investments primarily in professional managed mutual funds and collective investment trusts, which in turn invest in equity and fixed income securities.
The investment goal is to achieve investment results that minimize contributions as a percentage of payroll by providing a total return over a five-year period equal to the actuarially assumed target, which was 8%. This is to be achieved at the lowest possible portfolio risk level.

The long-term rate of return on assets assumption was determined by applying historical average investment returns from published indexes relating to the current allocation of assets in the portfolio. When these overall return expectations are applied to the plan's target allocation, the expected rate of return is determined to be 7.50%.

DECEMBER 31, 2017 AND 2016 (Dollars in Thousands)

NOTE 13 PENSION PLANS (CONTINUED)

Asset Allocation and Investment Goals (Continued)

The plan is prohibited from investing in the following investments: precious metals, venture capital, short sales, purchases of letter, stock, private placements, or direct payments, leveraged transactions, commodities transactions, puts, calls, straddles, or other option strategies or purchases or real estate, with the exception of REITS.

Fair Value of Plan Assets

Fair value is the exchange price that would be received for an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. A fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Credit Union used the following valuation methods and assumptions to estimate the fair value of assets held by the plan:

Collective trusts: Fair values of units of participation in collective trusts are based upon the net asset values of the funds reported by the fund managers as of the plan's financial statement dates and recent transaction prices. Each collective trust provides for daily redemptions by the plan with no advance notice requirements.

The fair value of plan assets at December 31, 2017 and 2016 by asset class is as follows:

	2017			
	Level 1	Level 2	Level 3	Total
Defined Benefit Plan Assets:				
Collective Investment Fund	$ -	$ 7,287	$ -	$ 7,287
Total Assets	$ -	$ 7,287	$ -	$ 7,287

	2016			
	Level 1	Level 2	Level 3	Total
Defined Benefit Plan Assets:				
Collective Investment Fund	$ -	$ 6,908	$ -	$ 6,908
Total Assets	$ -	$ 6,908	$ -	$ 6,908

Split-Dollar Life Insurance

Quorum and members of Quorum's executive team entered into a Split-Dollar Insurance Agreement and Promissory Note. The loans to the executives are full recourse loans. The loan balance is $16,727 and $16,343 as of December 31, 2017 and 2016, respectively.

DECEMBER 31, 2017 AND 2016 (Dollars in Thousands)

NOTE 14 CAPITAL REQUIREMENTS

The Credit Union is subject to various regulatory capital requirements administered by the National Credit Union Administration (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 following table) of net worth (as defined) to total assets (as defined). Credit Unions are also required to calculate a risk-based net worth requirement (RBNWR) that establishes whether the Credit Union will not be considered "complex" under the regulatory framework. The Credit Union's RBNW ratio as December 31, 2017 was 4.90%. The minimum ratio to be considered complex under the regulatory framework is 6.00%, therefore the Credit Union is not considered complex at December 31, 2017. Management believes, as of December 31, 2017, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2017 and 2016, the most recent notification from the NCUA categorized the Credit Union as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized" the Credit Union must maintain a minimum net worth ratio of 7% of assets or the Credit Union's RBNW ratio, if greater. There are no conditions or events since that notification that Management believes have changed the institution's category.

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

	2017					
	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
Net Worth	$ 67,305	7.82%	$ 51,627	6.00%	$ 60,231	7.00%
Risk-Based Net Worth Requirement	$ 42,162	4.90%	N/A	N/A	N/A	N/A
	2016					
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net Worth	$ 65,479	7.26%	$ 54,123	6.00%	$ 63,144	7.00%
Risk-Based Net Worth Requirement	$ 43,930	4.87%	N/A	N/A	N/A	N/A

In performing its calculation of total assets, the Credit Union used the quarter-end balances option, as permitted by regulation.

NOTE 15 FAIR VALUE

Fair value is the exchange price that would be recorded for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Credit Union used the following methods and significant assumptions to estimate fair value:

Available for Sale Securities: The fair values for available for sale securities are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Loan Servicing Rights: On an annual basis, loan servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. If the carrying amount exceeds fair value, impairment is recorded so that the servicing asset is carried at fair value. The fair value of servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income. The Credit Union is able to compare the valuation model inputs and results to widely available published industry data for reasonableness (Level 2 inputs).

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. Non real estate and commercial collateral may be valued using an appraisal, adjusted or discounted based on Management's historical knowledge and changes in market conditions from the time of the valuation, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a monthly basis for additional impairment and adjusted accordingly.

DECEMBER 31, 2017 AND 2016 (Dollars in Thousands)

NOTE 15 FAIR VALUE (CONTINUED)

Impaired Loans (Continued): Appraisals for collateral-dependent loans are performed by certified residential appraisers whose qualifications and licenses have been reviewed and verified by the Credit Union. On an annual basis, the Credit Union compares the actual selling price of the collateral that has been sold to the most recent appraised value to determine what additional adjustments should be made to the appraised value to arrive at the fair value. The most recent analysis performed indicate that a discount of 20% should be applied to properties.

Foreclosed and Repossessed Assets: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly. For taxi medallions acquired through foreclosure the Credit Union utilizes a third-party valuation specialist to value the underlying collateral. The valuation methodology employed by the specialist includes a weighted average of sales transactions, broker price quotes, discounted cash flow, and a capitalization model.

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Mutual Fund - Investment in Deferred Compensation 457(b) Plan	$ 226	$ -	$ -	$ 226
Government Sponsored Entities - Home Equity Conversion Mortgages	-	9,300	-	9,300
Government Sponsored Entities - Mortgage-Backed Securities Residential	-	14,091	-	14,091
Government Sponsored Entities - Collateralized Mortgage Obligations	-	6,326	-	6,326
Government Sponsored Entities - Federal Agency Securities	-	22,385	-	22,385
Municipal Bonds	-	10,606	-	10,606
Total	$ 226	$ 62,708	$ -	$ 62,934

DECEMBER 31, 2017 AND 2016 (Dollars in Thousands)

NOTE 15 FAIR VALUE (CONTINUED)

	2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Mutual Fund - Investment in Deferred Compensation 457(b) Plan	$ 168	$ -	$ -	$ 168
Mutual or Exchange Traded Funds - Investment in Total Benefit Pre-Funding Program	21	-	-	21
Government Sponsored Entities - Home Equity Conversion Mortgages	-	9,129	-	9,129
Government Sponsored Entities - Mortgage-Backed Securities Residential	-	19,484	-	19,484
Government Sponsored Entities - Collateralized Mortgage Obligations		1,943		1,943
Government Sponsored Entities - Federal Agency Securities	-	22,532	-	22,532
Municipal Bonds	-	11,663	-	11,663
Bank CDs & Notes	-	1,505	-	1,505
Total	$ 189	$ 66,256	$ -	$ 66,445

Assets and liabilities measured at fair value on a nonrecurring basis are summarized below:

	2017			
	Level 1	Level 2	Level 3	Impairment Losses
Impaired Loans	$ -	$ -	$ 30,067	$ 28,314
Foreclosed and Repossessed Assets	-	-	3,815	145

	2016			
	Level 1	Level 2	Level 3	Impairment Losses
Impaired Loans	$ -	$ -	$ 26,252	$ 22,348
Foreclosed and Repossessed Assets	-	-	739	47

DECEMBER 31, 2017 AND 2016 (Dollars in Thousands)

NOTE 15 FAIR VALUE (CONTINUED)

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis at December 31, 2017 and 2016:

	2017			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 30,067	Sales Comparison Approach	Adjustment for differences between comparable sales	0% - 25%
Foreclosed and Repossessed Assets	3,815	Sales Comparison Approach	Adjustment for differences between comparable sales	0% - 45%

	2016			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 26,252	Sales Comparison Approach	Adjustment for differences between comparable sales	0% - 25%
Foreclosed and Repossessed Assets	739	Sales Comparison Approach	Adjustment for differences between comparable sales	0% - 45%

Quorum
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