CERTIFIED AUDIT REPORT

Scott Credit Union
Banking Simplified.

FINANCIAL STATEMENTS
As of and for the years ended
December 31, 2017 and 2016

INDEPENDENT AUDITOR'S COMMUNICATION
For the year ended December 31, 2017

Nearman
Maynard • Vallez
Certified Public Accountants

Confidential and Proprietary

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INDEPENDENT AUDITOR'S

REPORT

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Supervisory Committee
Scott Credit Union
Edwardsville, Illinois

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Basis for Qualified Opinion

The industry audit guide "Depository and Lending Institutions: Banks and Savings Institutions, Credit Unions, Finance Companies, and Mortgage Companies" issued by the American Institute of Certified Public Accountants indicates that members' deposits should be classified as liabilities in order to conform to generally accepted accounting principles. As further described in Note 1, Scott Credit Union considers members' deposits to be equity as defined in the Federal Credit Union Act and so presented the information. The presentation followed by Scott Credit Union has no effect on the total amount or classification of assets or on the determination of income, expenses or net income.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Scott Credit Union as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Nearman, Maynard, Vallez, CPAs

Nearman, Maynard, Vallez, CPAs
Miami, Florida
February 5, 2018

FINANCIAL

STATEMENTS

SCOTT CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
(DOLLARS IN THOUSANDS)

ASSETS

	December 31, 2017	December 31, 2016
Cash and cash equivalents	$ 13,338	$ 17,139
Investments:		
Available-for-sale	24,743	-
Held-to-maturity	9,731	1,302
Other	70,412	168,558
Federal Home Loan Bank (FHLB) stock	2,030	1,368
Loans held-for-sale	1,451	1,946
Loans receivable, net of allowance for loan losses	923,798	841,623
Accrued interest receivable	2,615	2,209
Premises and equipment, net	28,232	28,852
National Credit Union Share Insurance Fund deposit	9,690	9,290
Other assets	29,597	20,329
Total Assets	$ 1,115,637	$ 1,092,616

LIABILITIES AND MEMBERS' EQUITY

	December 31, 2017	December 31, 2016
Liabilities		
Accrued expenses and other liabilities	$ 18,274	$ 14,824
Interest payable	373	365
Total liabilities	18,647	15,189
Commitments and contingent liabilities		
Members' Equity		
Share and savings accounts	$ 990,199	$ 980,299
Regular reserve	14,229	14,229
Undivided earnings	92,659	82,899
Accumulated other comprehensive loss	(97)	-
Total members' equity	1,096,990	1,077,427
Total Liabilities and Members' Equity	$ 1,115,637	$ 1,092,616

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

SCOTT CREDIT UNION
STATEMENTS OF INCOME
(DOLLARS IN THOUSANDS)

	December 31, 2017	December 31, 2016
Interest Income		
Interest on loans receivable	$ 36,166	$ 33,867
Interest on investments	2,512	1,163
Interest income	38,678	35,030
Interest Expense		
Dividends on members' share and savings accounts	4,904	6,195
Interest on borrowed funds	760	154
Interest expense	5,664	6,349
Net Interest Income	33,014	28,681
Provision for Loan Losses	5,900	10,795
Net Interest Income After Provision for Loan Losses	27,114	17,886
Non-Interest Income		
Fees and service charges	8,935	8,614
Other non-interest income	7,889	8,023
Recovery due to loan defalcation	-	5,737
Non-interest income	16,824	22,374
	43,938	40,260
Non-Interest Expense		
Compensation and employee benefits	16,931	15,481
Operations	10,061	9,204
Loan servicing	2,774	2,407
Occupancy	2,426	2,565
Education and promotion	1,310	1,404
Professional and outside services	660	680
Loss on disposition of assets acquired in liquidation, net	16	30
Non-interest expense	34,178	31,771
Net Income	$ 9,760	$ 8,489

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

SCOTT CREDIT UNION
STATEMENTS OF COMPREHENSIVE INCOME AND MEMBERS' EQUITY
(DOLLARS IN THOUSANDS)

COMPREHENSIVE INCOME

	December 31, 2017	December 31, 2016
Net Income	$ 9,760	$ 8,489
Other Comprehensive Loss		
Net unrealized holding losses on securities arising during the year	(97)	-
	(97)	-
Comprehensive Income	$ 9,663	$ 8,489

MEMBERS' EQUITY

	Share and Savings Accounts	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2015	$ 940,355	$ 14,229	$ 74,410	$ -	$ 1,028,994
Net income	-	-	8,489	-	8,489
Net change in share and savings accounts	39,944	-	-	-	39,944
Balance, December 31, 2016	980,299	14,229	82,899	-	1,077,427
Net income	-	-	9,760	-	9,760
Net change in share and savings accounts	9,900	-	-	-	9,900
Change in unrealized gain/(loss) on securities	-	-	-	(97)	(97)
Balance, December 31, 2017	$ 990,199	$ 14,229	$ 92,659	$ (97)	$ 1,096,990

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

SCOTT CREDIT UNION
STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

	December 31, 2017	December 31, 2016
Cash Flows From Operating Activities		
Net income	$ 9,760	$ 8,489
Adjustments to reconcile net income to net cash:		
Provision for loan losses	5,900	10,795
Depreciation and amortization of premises and equipment	2,125	2,362
Gain on disposition of premises and equipment, net	-	(2)
Loss on sale of assets acquired in liquidation, net	16	32
Amortization of investment premiums/discounts	20	-
Amortization of deferred loan origination fees/costs	2,506	1,750
Changes in operating assets and liabilities:		
Loans held-for-sale	495	275
Accrued interest receivable	(406)	(109)
Other assets	(9,268)	(9,899)
Interest payable	8	(16)
Accrued expenses and other liabilities	3,450	4,392
Net cash provided by operating activities	14,606	18,069
Cash Flows From Investment Activities		
Purchases of:		
Available-for-sale securities	(25,086)	-
Held-to-maturity securities	(8,793)	(1,240)
FHLB stock	(662)	-
Premises and equipment	(1,505)	(616)
Proceeds from:		
Maturities and paydowns of available-for-sale securities	230	-
Maturities and paydowns of held-to-maturity securities	359	143
Sale of premises and equipment	-	59
Sale of mortgage loans	24,516	34,095
Sale of assets acquired in liquidation, net	158	59
Net change in:		
Other investments	98,146	(22,241)
Loans receivable, net of charge-offs	(116,433)	(68,782)
Assets acquired in liquidation	(175)	(32)
NCUSIF deposit	(400)	(276)
Recoveries on loans charged off	1,338	1,167
Net cash used in investing activities	(28,307)	(57,664)

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

SCOTT CREDIT UNION
STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

	December 31, 2017	December 31, 2016
Cash Flows From Financing Activities		
Net change in members' share and savings accounts	9,900	39,944
Net cash provided by financing activities	9,900	39,944
Net Change in Cash and Cash Equivalents	(3,801)	349
Cash and Cash Equivalents at Beginning of Year	17,139	16,790
Cash and Cash Equivalents at End of Year	$ 13,338	$ 17,139
Supplemental Cash Flow Disclosure		
Dividends and interest paid	$ 5,663	$ 6,364

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

SCOTT CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS)

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Organization

Scott Credit Union (the "Credit Union") is a cooperative association organized in accordance with the provisions of the Illinois Credit Union Act for the purposes of promoting thrift among, and creating a source of credit for its members. Participation in the Credit Union is limited to those individuals that qualify for membership. The field of membership is defined in the Credit Union's Charter and Bylaws.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States (U.S. GAAP) requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Specifically, Management has made estimates based on assumptions for fair value of assets and liabilities and the assessment of other than temporary impairment on investments. Actual results could differ from these estimates. Material estimates that are particularly subject to change in the near term include the determination of the allowance for loan losses (ALL), valuation of securities, and the fair value of financial instruments.

Basis of Presentation

The Credit Union follows the accounting standards set by the Financial Accounting Standards Board (FASB). The FASB establishes U.S. GAAP that are followed to ensure consistent reporting of the financial condition, results of operations and cash flows of the Credit Union.

Cash and Cash Equivalents

For purposes of the statement of financial condition and the statement of cash flows, cash and cash equivalents includes cash on hand, amounts due from financial institutions, and highly liquid debt instruments classified as cash which were purchased with maturities of three months or less. Amounts due from financial institutions may, at times, exceed federally insured limits.

Investments

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

Available-for-Sale: Investments are classified available-for-sale when Management anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors. These securities are reported at fair value. Unrealized gains and losses on securities available-for-sale are recognized as direct increases or decreases in members' equity and comprehensive income.

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

Other Investments: Investments in this category do not meet the definition of a debt or equity security under U.S. GAAP. Other investments may include certain cash equivalents that Management has elected to classify as investments. Other investments are stated at the lower of cost or market.

Realized gains and losses on disposition, if any, are computed using the specific identification method. The amortization of premiums and the accretion of discounts are recognized over the term of the related investment by a method that approximates the interest method.

Management periodically performs analyses to test for impairment of various assets. A significant impairment analysis relates to the other than temporary declines in the value of securities. Management conducts periodic reviews and evaluations of the securities portfolio to determine if the value of any security has declined below its carrying value and whether such a decline is other than temporary. If such decline is deemed other than temporary, Management would adjust the amount of the security by writing it down to fair market value through a charge to current period operations.

Federal Home Loan Bank (FHLB) Stock
The Credit Union, as a member of the FHLB of Chicago, is required to maintain a minimum stock investment with the FHLB based on a formula developed by the FHLB that considers the Credit Union's total assets and outstanding advances from the FHLB. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment. Because this stock is viewed as a long term investment, impairment is based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Visa Inc. Stock
As part of the restructuring of Visa, Inc., the Credit Union was issued shares of Class B Common Stock in Visa Inc. The shares represented by this issuance are fully paid and non-assessable. The Credit Union received a partial redemption of their Class B Common Stock in Visa Inc. leaving a balance of shares. Currently, there is no readily available fair market value of the stock and therefore, the stock is not reflected in the Credit Union's financial statements. Once a readily available fair market value of the stock is available, the value of the stock will be reflected in the Credit Union's financial statements.

Loans Held for Sale
Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value. Net unrealized losses would be recognized in a valuation allowance by charges to income. All sales are made without recourse.

Loans Receivable
The Credit Union grants mortgage, commercial, and consumer loans to members. The ability of the members to honor their contract is dependent upon the real estate market and general economic conditions.

Loans that the Credit Union has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at principal balance outstanding, net of an allowance for loan losses and net deferred loan origination costs. Interest income on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired or payments are past due ninety days or more. All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Consumer and non real estate secured commercial loans are typically charged off no later than 180 days past due. Residential and commercial real estate loans are evaluated for charge-off on a case-by-case basis and are typically charged-off at the time of foreclosure. Past-due status is based on the contractual terms of the loans. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if the collection of principal and interest is considered doubtful.

Deferred Loan Costs
A portion of loan origination costs are deferred and amortized over the estimated life of the loan using a method that approximates the interest method. Deferred costs are recognized as an adjustment to interest income on loans over the average life of the related loan.

Allowance for Loan Losses
The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the required allowance for loan losses balance using past loan loss experience, known and inherent risks in the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance for loan losses may be made for specific loans, but the entire allowance is available for any loan that, in Management's judgment, should be charged-off. Loan losses are charged against the allowance for loan losses when Management believes the uncollectibility of a loan balance is confirmed.

The allowance for loan losses consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

Due to the nature of uncertainties related to any estimation process, Management’s estimate of loan losses inherent in the loan portfolio may change in the near term. However, the amount of the change that is reasonably possible cannot be estimated. In addition, the Credit Union’s regulator, as an integral part of its examination process, periodically reviews the Credit Union’s allowance for loan losses. The regulator may require the Credit Union to adjust the allowance for loan losses based on their judgments of information available to them at the time of their examination.

A loan is considered impaired when, based on current information and events, full payment under the loan terms is not expected. Impairment is generally evaluated in total for smaller-balance loans of similar nature such as residential mortgage, consumer, and credit card loans, but may be evaluated on an individual loan basis if deemed necessary. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

Premises and Equipment

Land is carried at cost. Building(s), furniture and equipment, and leasehold improvements are carried at cost, less accumulated depreciation and leasehold amortization. Building(s), furniture, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of their estimated useful lives or the term of the respective leases. Maintenance and repairs are expensed, and major improvements and renovations are capitalized. Management reviews premises and equipment for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Gains and losses on disposals are included in current operations.

Servicing Rights

Servicing rights are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Servicing rights resulting from the sale or securitization of loans originated by the Credit Union are initially measured at fair value at the date of transfer. Capitalized servicing assets are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

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.

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

Assets Acquired in Liquidation

Assets acquired in liquidation in lieu of loan foreclosure are initially recorded at the lower of the Credit Union's carrying amount or fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, property held for sale is carried at the lower of the new cost basis or fair value less cost to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized. Valuations are periodically performed by Management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

The Credit Union has no foreclosed residential real estate property held for sale as of December 31, 2017 and 2016, respectively. In addition, the Credit Union has approximately $0 and $231 in loans collateralized by residential real estate in the process of foreclosure as of December 31, 2017 and 2016, respectively.

NCUSIF Deposit and NCUSIF Insurance Premium

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insurable shares, less any reportable impairment. 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.

Being insured by the NCUSIF, the Credit Union is required to pay an annual insurance premium equal to one-twelfth of one percent of its total insured shares, unless the payment is waived or reduced by the NCUA Board.

Share and Savings Accounts

Shares and non-member shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in annual elections of the Board of Directors and on other corporate matters. Shares are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on share and savings accounts, except for interest on certificates of deposit which is set in advance, is based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates on share accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Shares and non-member shares are classified as members’ equity in the statement of financial condition. It is the Credit Union’s position that shares represent an ownership interest and are properly classified as equity. Such classification is not in accordance with generally accepted accounting principles. Generally accepted accounting principles require members’ deposits to be classified as liabilities. This change has no effect on the statement of income.

Regular Reserve

The Credit Union is required by regulation to maintain a statutory reserve, "regular reserve". The regular reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of dividends to members.

Federal and State Tax Exemption

The Credit Union is exempt from most federal, state, and local taxes under the provisions of the Internal Revenue Code and state tax laws. The Income Taxes Topic of the FASB ASC clarifies accounting for uncertainty in income taxes reported in the financial statements. The interpretation provides criteria for assessment of individual tax positions and a process for recognition and measurement of uncertain tax positions. Tax positions are evaluated on whether they meet the “more likely than not” standard for sustainability on examination by tax authorities. As of and for the tax years ended December 31, 2017 and 2016, Management has determined there are no material uncertain tax positions.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the members' equity section of the statements of financial condition.

Advertising Costs

Advertising costs are expensed as incurred.

Fair Value Measurements

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

Level 1 Inputs

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

Level 2 Inputs

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

Level 3 Inputs

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

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

Subsequent Events

In preparing these financial statements, the Credit Union evaluated events and transactions for potential recognition or disclosure through February 5, 2018, the date on which the financial statements were available to be issued.

Reclassifications

Certain 2016 financial statement amounts have been reclassified to conform with classifications adopted in the current year. This reclassification did not have any change on net income or members' equity.

New Accounting Pronouncements

Accounting Standards Update (ASU) 2016-13, "Financial Instruments-Credit Losses", (Topic 326)

This ASU requires an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale (AFS) debt securities and provides a simplified accounting model for purchased financial assets with credit deterioration since their origination.

The ASU requires credit unions to measure impairment on their existing loan portfolios on the basis of the current estimate of contractual cash flows not expected to be collected. The estimate of expected credit losses is based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable supportable forecasts that affect the expected collectability of the assets' remaining contractual cash flows. This new model is called the Current Expected Credit Loss (CECL) model.

The transition to the CECL model will bring with it significantly greater data requirements and demand a more complex methodology to accurately account for expected losses under the new parameters. The transition will also require a significant increase in the allowance for loan and lease losses (ALLL) account balance. FASB has allowed for this one-time increase in the ALLL to come directly from undivided earnings, rather than reflected through the provision for loan losses expense account. The increase, or the adjustment to the ALLL, will reduce net worth, however it does spare a negative impact to the income statement. This ASU applies to all financial assets that are not accounted for at fair value and are exposed to potential credit risk.

The implementation date for "private" companies, which includes credit unions, is for fiscal years beginning after December 15, 2020. Early application of the standard is permitted for fiscal years beginning after December 15, 2018.

ASU No. 2016-2 "Leases," (Topic 842)

The ASU is intended to improve financial reporting about leasing transactions and affects all companies and other organizations. The ASU will require organizations that lease assets (referred to as "lessees") to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases.

While the accounting by the lessor will remain largely unchanged from current GAAP, lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines.

The effective date for credit unions is for fiscal years beginning after December 15, 2019. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented.

(DOLLARS IN THOUSANDS)

ASU No. 2016-01 "Financial Instruments – Overall – Recognition and Measurement of Financial Assets and Financial Liabilities."

The main objective in developing this update is enhancing the reporting model for financial instruments to provide users of financial statements with more decision-useful information.

The update has two areas of interest to credit unions. One is the removal of the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities. The other has a more significant potential impact.

The ASU requires entities to record equity securities at fair value with adjustments to fair value recorded through the income statement. Currently many securities meeting the definition of an equity security are recorded as available-for-sale with fair value adjustments recorded as part of other accumulated comprehensive income. Securities meeting the definition of an equity security include any ownership interest in an entity. Credit unions with investments in mutual funds, stocks, limited partnerships, and trusts could see unacceptable levels of earnings volatility on their income statements.

Removing the disclosure of fair value of financial instruments is available for implementation immediately upon issuance of the ASU. The effective date for the accounting for equity securities for credit unions is for fiscal years beginning after December 15, 2018. Credit Union's may adopt this ASU early with fiscal years beginning after December 15, 2017.

NOTE 2: INVESTMENTS

Available-for-Sale

Investments classified as available-for-sale securities consist of the following:

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Federal agency mortgage backed securities	$ 19,851	$ 7	$ (63)	$ 19,795
Federal agency securities	4,989	-	(41)	4,948
Total	$ 24,840	$ 7	$ (104)	$ 24,743

There were no available-for-sale securities as of December 31, 2016.

The aggregate amortized cost of pledged investment securities was approximately $24,743 on December 31, 2017. The Credit Union has agreed to pledge these securities to secure a line of credit with the Federal Reserve Bank.

(DOLLARS IN THOUSANDS)

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2017, are as follows:

	December 31, 2017			
	Less than 12 months		12 months or greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal agency mortgage backed securities	$ 14,931	$ (63)	$ -	$ -
Federal agency securities	4,948	(41)	-	-
Total	$ 19,879	$ (104)	$ -	$ -

There are a total of five securities with unrealized losses as of December 31, 2017. The unrealized losses associated with these securities are considered temporary as the Credit Union has the ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value.

The amortized cost and estimated fair value of securities by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay certain obligations without call or prepayment penalties.

	December 31, 2017	
	Amortized Cost	Fair Value
1 to 5 years	$ 4,989	$ 4,948
Subtotal	4,989	4,948
Mortgage-backed securities	19,851	19,795
Total	$ 24,840	$ 24,743

Mortgage-backed securities classified as available-for-sale represent participation interest in pools of residential mortgage loans which are guaranteed by the U.S. Government, its agencies or instrumentalities. However, the guarantee of these types of securities relates to the principal and interest payments, and not to the market value of such securities.

Mortgage-backed securities are issued by lenders, such as mortgage bankers, commercial banks, and savings and loan associations. Such securities differ from conventional debt securities, which provide for the periodic payment of interest in fixed amounts (usually semiannually) with principal payments at maturity or on specific dates. Mortgage-backed securities provide periodic payments which are, in effect, a "pass-through" of the interest and principal payments (including any prepayments) made by the individual borrowers on the pooled mortgage loans. A mortgage-backed security will mature when all the mortgages in the pool mature or are prepaid. Mortgage-backed securities do not have a fixed maturity and their expected maturities may vary when interest rates rise or fall.

(DOLLARS IN THOUSANDS)

Held-to-Maturity

Investments classified as held-to-maturity securities consist of the following:

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	$ 7,840	$ -	$ (32)	$ 7,808
Federal agency mortgage backed securities	1,891	-	(11)	1,880
Total	$ 9,731	$ -	$ (43)	$ 9,688

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	$ 1,240	$ -	$ (6)	$ 1,234
Federal agency mortgage backed securities	62	2	-	64
Total	$ 1,302	$ 2	$ (6)	$ 1,298

The aggregate amortized cost of pledged investment securities was approximately $1,891 and $62 on December 31, 2017 and 2016, respectively. The Credit Union has agreed to pledge these securities to secure a line of credit with the Federal Reserve Bank.

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2017 and 2016, are as follows:

	December 31, 2017			
	Less than 12 months		12 months or greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Certificates of deposit	$ 6,572	$ (28)	$ 1,236	$ (4)
Federal agency mortgage backed securities	1,880	(11)	-	-
Total	$ 8,452	$ (39)	$ 1,236	$ (4)

	December 31, 2016			
	Less than 12 months		12 months or greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Certificates of deposit	$ 1,234	$ (6)	$ -	$ -

(DOLLARS IN THOUSANDS)

There are a total of 35 and 5 debt securities with unrealized losses as of December 31, 2017 and 2016, respectively. The unrealized losses associated with these securities are considered temporary as the Credit Union has the ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value.

The amortized cost and estimated fair value of securities by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay certain obligations without call or prepayment penalties.

	December 31, 2017	
	Amortized Cost	Fair Value
Within 1 year	$ 992	$ 989
1 to 5 years	6,848	6,819
Subtotal	7,840	7,808
Mortgage-backed securities	1,891	1,880
Total	$ 9,731	$ 9,688

Other Investments

Other investments consist of the following:

	December 31,	
	2017	2016
Federal Reserve Bank of St. Louis	$ 55,878	$ 158,673
Certificates of deposit	14,384	8,680
Perpetual capital at Alloya Corporate Federal Credit Union	150	150
Money market accounts	-	1,055
Total	$ 70,412	$ 168,558

Perpetual contributed capital is not subject to share insurance covered by the National Credit Union Share Insurance Fund or any other deposit insurer. The perpetual contributed capital is redeemable only at the option of corporate credit union provided regulatory approval is obtained. Perpetual contributed capital cannot be pledged against borrowings, has no scheduled maturity, and offers non-cumulative dividends.

(DOLLARS IN THOUSANDS)

NOTE 3: LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans Receivable

Loans receivable consist of the following:

	December 31, 2017	December 31, 2016
Residential first mortgage real estate	$ 160,261	$ 108,373
Residential second mortgage real estate	21,287	20,666
Consumer secured	700,280	673,971
Consumer unsecured	37,757	35,471
Commercial real estate	8,872	12,310
Other commercial	6,328	3,295
	934,785	854,086
Allowance for loan losses	(10,987)	(12,463)
Loans receivable, net	$ 923,798	$ 841,623

Included in the amounts above are approximately $2,593 and $2,357 of deferred loan origination fees/costs as of December 31, 2017 and 2016, respectively.

Allowance for Loan Losses Account

The following summarizes the activity in the allowance for loan losses account:

For the year ending December 31, 2017	Commercial	Residential Real Estate	Consumer	Total
Allowance for loan losses:				
Beginning balance	$ 2,810	$ 103	$ 9,550	$ 12,463
Provision for loan losses	(1,763)	470	7,193	5,900
Recoveries on previous loan losses	529	1	808	1,338
Loans receivable charged off	(1,275)	(217)	(7,222)	(8,714)
Ending balance	$ 301	$ 357	$ 10,329	$ 10,987
Allowance for loan losses:				
Individually evaluated for impairment	$ 301	$ -	$ -	$ 301
Collectively evaluated for impairment	-	357	10,329	10,686
Total allowance for loan losses	$ 301	$ 357	$ 10,329	$ 10,987
Loans receivables:				
Individually evaluated for impairment	$ 15,200	$ -	$ -	$ 15,200
Collectively evaluated for impairment	-	181,548	738,037	919,585
Total loans receivables	$ 15,200	$ 181,548	$ 738,037	$ 934,785

(DOLLARS IN THOUSANDS)

	For the year ending December 31, 2016			
	Commercial	Residential Real Estate	Consumer	Total
Allowance for loan losses:				
Beginning balance	$ 4,201	$ 203	$ 8,426	$ 12,830
Provision for loan losses	1,943	(29)	8,881	10,795
Recoveries on previous loan losses	29	-	1,137	1,166
Loans receivable charged off	(3,363)	(71)	(8,894)	(12,328)
Ending balance	$ 2,810	$ 103	$ 9,550	$ 12,463
Allowance for loan losses:				
Individually evaluated for impairment	$ 2,810	$ 55	$ -	$ 2,865
Collectively evaluated for impairment	-	48	9,550	9,598
Total allowance for loan losses	$ 2,810	$ 103	$ 9,550	$ 12,463
Loans receivables:				
Individually evaluated for impairment	$ 15,605	$ 354	$ -	$ 15,959
Collectively evaluated for impairment	-	128,685	709,442	838,127
Total loans receivables	$ 15,605	$ 129,039	$ 709,442	$ 854,086

Impaired Loans

The Credit Union considers a loan to be impaired when, based on current information and events, it is determined the collection of all amounts due according to the loan contract, including scheduled interest payments, is unlikely. Determination of impairment is treated the same across all classes of loans. When a loan is identified as impaired, impairment is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases, impairment is based on the current fair value of the collateral, less estimated selling costs when foreclosure is probable, instead of discounted cash flows. If the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), an impairment is recognized through an allowance estimate or a charge-off to the allowance for loan losses account.

(DOLLARS IN THOUSANDS)

The following table includes the unpaid principal balances for impaired financing receivables with the associated allowance amount, if applicable. Allowance reserves have been determined based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the remaining source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral less selling costs was used to determine the specific allowance recorded. Also presented is the average ending principal balance of the impaired loans and the related allowance recognized during the time the loans were impaired.

	As of December 31, 2017		
	Unpaid Principal Balance	**Related Allowance**	**Average Ending Principal Balance**
With a related allowance recorded:			
Residential first mortgage real estate	$ -	$ -	$ -
Residential second mortgage real estate	-	-	-
Consumer secured	-	-	-
Consumer unsecured	-	-	-
Commercial real estate	-	-	-
Other commercial	120	18	120
With no related allowance recorded:			
Residential first mortgage real estate	-	-	-
Residential second mortgage real estate	-	-	-
Consumer secured	4,132	-	11
Consumer unsecured	10	-	3
Commercial real estate	-	-	-
Other commercial	-	-	-
Total:			
Residential real estate	$ -	$ -	$ -
Consumer	$ 4,142	$ -	$ 11
Commercial	$ 120	$ 18	$ 120

(DOLLARS IN THOUSANDS)

	As of December 31, 2016		
	Unpaid Principal Balance	Related Allowance	Average Ending Principal Balance
With a related allowance recorded:			
Residential first mortgage real estate	$ 295	$ 38	$ 74
Residential second mortgage real estate	59	17	59
Consumer secured	-	-	-
Consumer unsecured	-	-	-
Commercial real estate	4,580	2,540	1,527
Other commercial	-	-	-
With no related allowance recorded:			
Residential first mortgage real estate	-	-	-
Residential second mortgage real estate	-	-	-
Consumer secured	3,515	-	11
Consumer unsecured	220	-	6
Commercial real estate	-	-	-
Other commercial	-	-	-
Total:			
Residential real estate	$ 354	$ 55	$ 133
Consumer	$ 3,735	$ -	$ 17
Commercial	$ 4,580	$ 2,540	$ 1,527

Past Due Loans by Class

The following tables present the aging of the recorded investment in past due loans by class of loans. Also included are loans that are ninety days or more past due by loan class.

	As of December 31, 2017			
	Current	60-89 Days Past Due	90 Days or > Past Due	Total
Residential first mortgage real estate	$ 160,164	$ 96	$ 1	$ 160,261
Residential second mortgage real estate	21,287	-	-	21,287
Consumer secured	692,720	3,426	4,134	700,280
Consumer unsecured	37,209	424	124	37,757
Commercial real estate	8,457	415	-	8,872
Other commercial	6,150	58	120	6,328
Total	$ 925,987	$ 4,419	$ 4,379	$ 934,785

(DOLLARS IN THOUSANDS)

	As of December 31, 2016			
	Current	60-89 Days Past Due	90 Days or > Past Due	Total
Residential first mortgage real estate	$ 108,034	$ 44	$ 295	$ 108,373
Residential second mortgage real estate	20,607	-	59	20,666
Consumer secured	667,116	3,340	3,515	673,971
Consumer unsecured	35,049	202	220	35,471
Commercial real estate	12,002	308	-	12,310
Other commercial	3,292	3	-	3,295
Total	$ 846,100	$ 3,897	$ 4,089	$ 854,086

The accrual of interest income on loans, is discontinued at the time the loan is ninety days past due or when the collection of interest or principal becomes uncertain, unless the credit is well-secured and in the process of collection. Loans on which the accrual of interest has been discontinued approximated $4,379 and $4,089 as of December 31, 2017 and 2016, respectively. There were no loans ninety days or more past due and still accruing interest as of December 31, 2017 or 2016.

Loans are assessed for credit quality based on the contractual aging status of the loan and payment activity. Such assessment is completed at the end of each audit period.

The following is a summary of loans based on credit quality:

	As of December 31, 2017		
	Performing	Nonperforming	Total
Residential first mortgage real estate	$ 160,260	$ 1	$ 160,261
Residential second mortgage real estate	21,287	-	21,287
Consumer secured	696,146	4,134	700,280
Consumer unsecured	37,633	124	37,757
Commercial real estate	8,872	-	8,872
Other commercial	6,208	120	6,328
Total	$ 930,406	$ 4,379	$ 934,785

	As of December 31, 2016		
	Performing	Nonperforming	Total
Residential first mortgage real estate	$ 108,078	$ 295	$ 108,373
Residential second mortgage real estate	20,607	59	20,666
Consumer secured	670,456	3,515	673,971
Consumer unsecured	35,251	220	35,471
Commercial real estate	12,310	-	12,310
Other commercial	3,295	-	3,295
Total	$ 849,997	$ 4,089	$ 854,086

(DOLLARS IN THOUSANDS)

Internally assigned loan grades are defined as follows:

Performing - A performing loan's primary source of loan repayment is satisfactory, with secondary sources very likely to be realized if necessary.

Nonperforming - A loan classified as nonperforming is considered potentially uncollectible with a likelihood of charge-off. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it means that charge-off is likely in the near future.

Troubled Debt Restructurings (TDR)

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

The following is a summary of information pertaining to troubled debt restructurings that occurred during the audit periods:

	For the year ending December 31, 2017		
Troubled debt restructurings:	**# of Loans**	**Pre-Modification Recorded Investment**	**Post-Modification Recorded Investment**
Residential real estate	0	$ -	$ -
Consumer	51	$ 697	$ 697
Commercial	0	$ -	$ -

Troubled debt restructurings that subsequently defaulted:	**# of Loans**	**Balance**
Residential real estate	0	$ -
Consumer	2	$ 17
Commercial	0	$ -

	For the year ending December 31, 2016		
Troubled debt restructurings:	**# of Loans**	**Pre-Modification Recorded Investment**	**Post-Modification Recorded Investment**
Residential real estate	0	$ -	$ -
Consumer	62	$ 692	$ 692
Commercial	0	$ -	$ -

(DOLLARS IN THOUSANDS)

Troubled debt restructurings that subsequently defaulted:	**# of Loans**	**Balance**
Residential real estate	0	$ -
Consumer	2	$ 5
Commercial	0	$ -

NOTE 4: SERVICING RIGHTS

Loans serviced for others are not included in the accompanying financial statements of financial condition. The unpaid principal balances of these loans are approximately $51,276 and $54,360 as of December 31, 2017 and 2016, respectively.

Capitalized servicing rights are included in other assets on the balance sheet. Activity for capitalized servicing rights are as follows:

	December 31,	
	2017	**2016**
Balance, beginning of year	$ 384	$ 384
Additions	17	-
Amortization of servicing rights	(49)	-
Valuation allowance	-	-
Balance, end of year	$ 352	$ 384

NOTE 5: PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

	December 31,	
	2017	**2016**
Land	$ 7,509	$ 7,509
Building(s)	27,669	27,633
Furniture and equipment	13,611	13,068
Construction in process	809	23
Leasehold improvements	658	658
	50,256	48,891
Less accumulated depreciation and amortization	(22,024)	(20,039)
Premises and equipment, net	$ 28,232	$ 28,852

(DOLLARS IN THOUSANDS)

NOTE 6: SHARE AND SAVINGS ACCOUNTS

Share and savings accounts consist of the following:

	December 31, 2017	December 31, 2016
Share draft accounts	$ 245,170	$ 241,141
Money market accounts	95,473	94,821
Share accounts	476,198	436,994
Non-member shares	-	4,510
Certificate accounts	173,358	202,833
Total	$ 990,199	$ 980,299

The aggregate amount of certificate accounts in denominations of $250 or more were approximately $7,636 and $8,823 as of December 31, 2017 and 2016, respectively.

The aggregate amount of members' share and saving accounts maintaining a negative balance that were reclassed to loans receivable were approximately $363 and $280 as of December 31, 2017 and 2016, respectively.

As of December 31, 2017, scheduled maturities of certificate accounts are as follows:

Year Ending December 31,	Amount
2018	$ 87,069
2019	32,720
2020	25,500
2021	13,490
2022	14,579
Total	$ 173,358

The National Credit Union Share Insurance Fund insures members' shares up to $250. This includes all account types, such as savings, checking, money market, and certificates of deposit. Individual Retirement Account coverage is an additional $250.

NOTE 7: EMPLOYEE BENEFITS

401(k) Plan

The Credit Union has a defined contribution 401(k) plan covering substantially all employees. Employees may make salary contributions up to the Federal limit. For every 1% of employee contribution, the Credit Union will make 0.25% match, up to a maximum of 1% of employer contributions to 4% employee contribution. The match must be approved by the Board of Directors on an annual basis. The Credit Union’s contribution charged to expense was $107 and $98 for the years ended December 31, 2017 and 2016, respectively.

The 401(k) plan has a profit sharing plan feature which allows for annual employer contributions. The non-discretionary contribution is 3% of eligible wages and the discretionary contribution is approved by the Board of Directors on an annual basis. The discretionary contribution approved for 2017 and 2016 was 1%. The Credit Union's contribution charged to expense was $504 and $472, for the years ended December 31, 2017 and 2016, respectively.

Deferred Compensation 457(b) Plan

The Credit Union also maintains an unqualified Section 457(b) deferred compensation plan for management level employees. Contributions charged to expense was $19 and $27 for the years ended December 31, 2017 and 2016, respectively.

SERP Plan

The Credit Union initiated a Supplemental Executive Retirement Plan (SERP). The Credit Union's expense for the plan years 2017 and 2016 were $336 and $307, respectively.

Split Dollar Life Insurance

During the 2017 audit year, the Credit Union provided certain individuals with a Supplemental Retirement Plan (SERP). The SERP is being funded via life insurance policies and split dollar loan agreements have been entered into with the participants of the executives covered under the SERP. As part of the split dollar loan agreements, the executives have assigned the policies to the Credit Union as collateral. This assignment secures repayment of any advances and accrued interest for the policy premiums and any other advances under any agreement. The loans have a fixed interest rate, with interest accrued monthly and capitalized as part of the total loan balance annually. Total split dollar loans and accrued interest outstanding at December 31, 2017 was $6,173 included in other assets in the accompanying consolidated balance sheets.

NOTE 8: COMMITMENTS AND CONTINGENT LIABILITIES

Legal contingencies

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

Off-Balance-Sheet Risk

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

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

(DOLLARS IN THOUSANDS)

Unfunded loan commitments under lines-of-credit are summarized as follows:

	December 31, 2017	December 31, 2016
Credit card	$ 49,848	$ 48,129
Home equity	17,937	16,103
Overdraft protection	13,740	14,047
Construction	2,442	-
Other consumer	1,172	1,165
Commercial	378	960
Total	$ 85,517	$ 80,404

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's credit worthiness on a case-by-case basis. The amount of collateral obtained to secure borrowing on the lines of credit is based on Management's credit evaluation of the member.

Unfunded commitments under lines-of-credit and revolving credit lines are commitments for possible future extensions of credit to existing members. These lines-of-credit are uncollateralized with the exception of home-equity loans and usually do not contain a specified maturity date and ultimately may not be drawn upon to the total extent to which the Credit Union is committed.

Concentrations of Credit Risk

The Credit Union may be exposed to credit risk from a regional economic standpoint, since a significant concentration of its borrowers work or reside in Southwestern Illinois and St. Louis County, Missouri. However, the loan portfolio is well diversified and the Credit Union does not have any significant concentrations of credit risk except unsecured loans, which by their nature increase the risk of loss compared to those loans that are collateralized. The Credit Union's policy for repossessing collateral is that when all other collection efforts have been exhausted, the Credit Union enforces its first lien holder status and repossesses the collateral. The Credit Union has full and complete access to repossessed collateral. Repossessed collateral normally consists of vehicles and residential real estate.

NOTE 9: BORROWED FUNDS

Corporate Line-of-Credit

As of December 31, 2017 and 2016, the Credit Union had an unused line-of-credit with Alloya Corporate Federal Credit Union. The terms of the agreement require the pledging of all present and future loans and equipment as security for obligations under this line-of-credit agreement. The interest rate terms under this line-of-credit agreement are variable. The total line-of-credit was $7,500 as of December 31, 2017 and 2016. There were no outstanding borrowings as of these dates.

(DOLLARS IN THOUSANDS)

Federal Reserve Bank

The Credit Union participates in the Borrower-In-Custody program with the Federal Reserve. The Borrower-In-Custody program allows the Credit Union to pledge automobile loans as collateral for borrowing at rates determined by the lender at the time of borrowing. The collateral is valued monthly by the Federal Reserve based on the terms of the pledged loans. As of December 31, 2017 and 2016, the balance of loans pledged was approximately $92,479 and $66,976, respectively. The collateral value as of December 31, 2017 and 2016 was approximately $75,410 and $49,574, respectively.

Federal Home Loan Bank

As a member of the Federal Home Loan Bank (FHLB), and in accordance with an agreement with them, the Credit Union is required to maintain qualified collateral for advances. Qualified collateral, as defined in the FHLB Statement of Credit Policy, is free and clear of liens, pledges, and encumbrances. The Federal Home Loan Bank of Chicago has established a Credit Availability of approximately $129,046 and $80,903 as of December 31, 2017 and 2016, respectively. There were no advances outstanding as of December 31, 2017.

NOTE 10: CAPITAL REQUIREMENTS

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under accounting standards generally accepted in the United States of America. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth to total assets. Furthermore, credit unions over $50,000 in assets are also required to determine if they meet the definition of a "complex" credit union as defined by regulation. The minimum risk-based net worth ratio to be considered complex under the regulatory framework is 6.00%. If the Credit Union falls under the "complex" category, an additional Risk-Based Net Worth (RBNW) requirement may be imposed that could result in capital requirements in excess of minimum levels established for non-complex credit unions.

Key aspects of the Credit Union's minimum capital amounts and ratios are summarized as follows:

	Risk Based Net Worth Ratio	
	December 31, 2017	**December 31, 2016**
Risk Based Net Worth Ratio	4.84%	4.29%
Credit Union considered complex?	No	No

(DOLLARS IN THOUSANDS)

	General Capital Requirements			
	December 31, 2017		December 31, 2016	
	Amount	Requirement /Ratio	Amount	Requirement /Ratio
Amount needed to be classified as "well capitalized"	$ 78,095	7.00%	$ 76,483	7.00%
Regulatory net worth	$ 106,888	9.58%	$ 97,128	8.89%

NOTE 11: RELATED PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends credit to Directors, Supervisory Committee members and executive officers. The aggregate loans to related parties as of December 31, 2017 and 2016, were approximately $1,528 and $1,760, respectively. Shares from related parties as of December 31, 2017 and 2016, amounted to approximately $1,696 and $1,748, respectively.

NOTE 12: FAIR VALUE MEASUREMENTS

Recurring Basis

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

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Available-for-sale investments	$ 24,743	$ -	$ 24,743	$ -

Nonrecurring Basis

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

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Servicing rights	$ 352	$ -	$ -	$ 352

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Servicing rights	$ 384	$ -	$ -	$ 384

Available-for-Sale Securities: Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments, or on discounted cash flow models based on the expected payment characteristics of the underlying instruments.

Servicing Rights: Servicing rights do not trade in an active, open market with readily observable prices. While sales of servicing rights do occur, the precise terms and conditions typically are not readily available. Accordingly, the Credit Union estimates the fair value of servicing rights using discounted cash flows models incorporating numerous assumptions from the perspective of market participants including servicing income, servicing costs, market discounts rates, prepayment speeds, and default rates.

NOTE 13: SUBSEQUENT EVENT

Subsequent to the audit date, the NCUA Board declared a $735,700 distribution for the year ended December 31, 2017 in the form of a pro-rata dividend to eligible credit unions. The distribution approximates $665, and should be recorded as income and a receivable on the March 31, 2018, Call Report filed with the NCUA.

The funds available for distribution resulted from the closure of the Temporary Corporate Credit Union Stabilization Fund (TCCUSF). When the Board voted in September 2017 to close the TCCUSF, the remaining funds in the TCCUSF were required to be transferred to the National Credit Union Share Insurance Fund (NCUSIF).

The transfer of TCCUSF funds caused the NCUSIF to exceed a “normal operating level.” The Board is legally required to declare distributions to reduce the NCUSIF to a “normal operating level.”

☆☆☆☆☆

INDEPENDENT AUDITOR'S COMMUNICATION

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Edwardsville, Illinois

COMMUNICATING MATTERS RELATED TO A CREDIT UNION'S INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of Scott Credit Union (the "Credit Union") as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Credit Union's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Scott Credit Union's internal control. Accordingly, we do not express an opinion on the effectiveness of Scott Credit Union's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow Management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Credit Union's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be a material weakness. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of Management, the Board of Directors, Supervisory Committee and the Regulators, and is not intended to be, and should not be, used by anyone other than these specific parties.

The accounting principles and auditing standards referred to throughout this report and used to conduct our audit are those principles and standards generally accepted in the United States of America and promulgated by the American Institute of Certified Public Accountants.

Nearman, Maynard, Vallez, CPAs

Nearman, Maynard, Vallez, CPAs
Miami, Florida
February 5, 2018

-For Internal Use Only-

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Christopher J. Vallez, CPA, MBA
Jennifer N. Hoskins, CPA, MPA
Ellen E. Vargo, CPA, CFE, FCPA

Supervisory Committee
Scott Credit Union
Edwardsville, Illinois

MATTERS REQUIRED TO BE COMMUNICATED TO THE SUPERVISORY COMMITTEE

As part of our responsibility under accounting pronouncements, certain matters are required to be communicated by the CPA Firm to those charged with governance. We are responsible for communicating significant matters related to the financial statement audit that are, in the auditor's professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. In addition, we are responsible for determining the overall audit strategy and the audit plan including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence. The following summarizes those matters required to be communicated to the Supervisory Committee.

Our Responsibility under U. S. Generally Accepted Auditing Standards
As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements prepared by Management are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit we considered the internal controls of the Credit Union. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal controls.

Independence
Generally accepted auditing standards require independence for all audits. Relevant matters to consider in reaching a conclusion about independence include circumstances or relationships that create threats to auditor independence and the related safeguards that have been applied to eliminate those threats or reduce them to an acceptable level.

It is the policy of our firm that all Associates be familiar with and adhere to the independence, integrity, and objectivity policies of the firm. In this regard, any transaction, financial interest, event, circumstance, or action that would impair the firm's independence is prohibited. We are familiar with the AICPA's Code of Professional Conduct and subsequent auditing standards, and their interpretations and rulings which require that we are independent in fact and in appearance. All of our Associates are required to sign an Independence Representation Form when hired and annually thereafter. In addition, we inform all Associates on an ongoing basis whenever a new client engages our services in order that our Associates can review their independence with the new client at that time. Any conflicts must be reported to the Quality Control Director. For the period covered by the attached audited financial statements, all of our Associates involved in this engagement are independent of your Credit Union.

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In accordance with our professional standards for this engagement, it is required that ***all*** Associates of Nearman, Maynard, Vallez, CPAs who were involved in this engagement, are ***independent*** and no conflict of interest exists between our Associates and the Credit Union, its staff, and any of its representatives, and we have not assumed any management responsibilities. All Associates of Nearman, Maynard, Vallez, CPAs were independent in fact and appearance with this engagement and no conflict of interest exists.

It is the responsibility of Management to make all management decisions and perform all management functions with the information provided to them as a result of this engagement and designate a competent individual to oversee the services preferably within senior management, who possesses suitable skill, knowledge, and/or experience to oversee any financial statement preparation services, bookkeeping services, tax services, or other services Nearman, Maynard, Vallez, CPAs provides. Management should assess and be satisfied that such an individual understands the services to be performed, the scope, risk, and frequencies of activities which is sufficient to oversee them. These management decisions and functions include, but are not limited to, accepting responsibility for the implementation of and/or the decision to implement the results of the services performed and to evaluate the adequacy of procedures performed and the findings resulting from the performance of those procedures. They also conduct ongoing monitoring activities. It is also part of Management's responsibility for designing, implementing, and maintaining the process of internal controls and to monitor those internal controls to assess the quality of their performance over time. Monitoring activities are procedures performed to assess whether components of internal control are present and functioning. Monitoring can be accomplished through ongoing evaluations, or separate evaluations, or some combination of the two. Ongoing evaluations are generally defined, routine operations built into the Credit Union's business processes and performed on a real-time basis. Ongoing evaluations, including managerial activities and everyday supervision of employees, monitor the presence and functioning of the components of internal control in the ordinary course of managing the business.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we have advised Management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Credit Union are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the audit year. We noted no transactions entered into by the Credit Union during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by Management and are based on Management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We have evaluated and considered Management's judgments and accounting estimates as part of our audit procedures.

Significant Audit Adjustments

For purposes of this letter, the professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Credit Union that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Credit Union's financial reporting process.

Uncorrected Misstatements
Our audit procedures are designed to accumulate all known and likely misstatements identified during the audit. There is a possibility that immaterial misstatements, considered to us to be trivial, may have been identified during the audit. Any such immaterial misstatements would have been discussed with Management at the conclusion of the audit.

Disagreements with Management
For purposes of this letter, professional standards define a disagreement with Management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants
In some cases, Management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Credit Union's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with Management each year prior to retention as the Credit Union's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit
Serious difficulties encountered in dealing with Management that relate to the performance of the audit are required to be brought to the attention of the Supervisory Committee. We encountered no difficulties in dealing with Management in performing our audit.

We appreciate this opportunity to be of service to Scott Credit Union and wish to express our appreciation for the cooperation and assistance we received from Management and the entire Credit Union staff during our audit. If we can be of any further assistance, please contact us.

Nearman, Maynard, Vallez, CPAs

Nearman, Maynard, Vallez, CPAs
Miami, Florida
February 5, 2018

GRAPHICAL ANALYSIS

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Certified Public Accountants

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Supervisory Committee
Scott Credit Union
Edwardsville, Illinois

INDEPENDENT AUDITOR'S REPORT ON THE GRAPHICAL ANALYSIS

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The graphical analysis (beginning on page D-2) are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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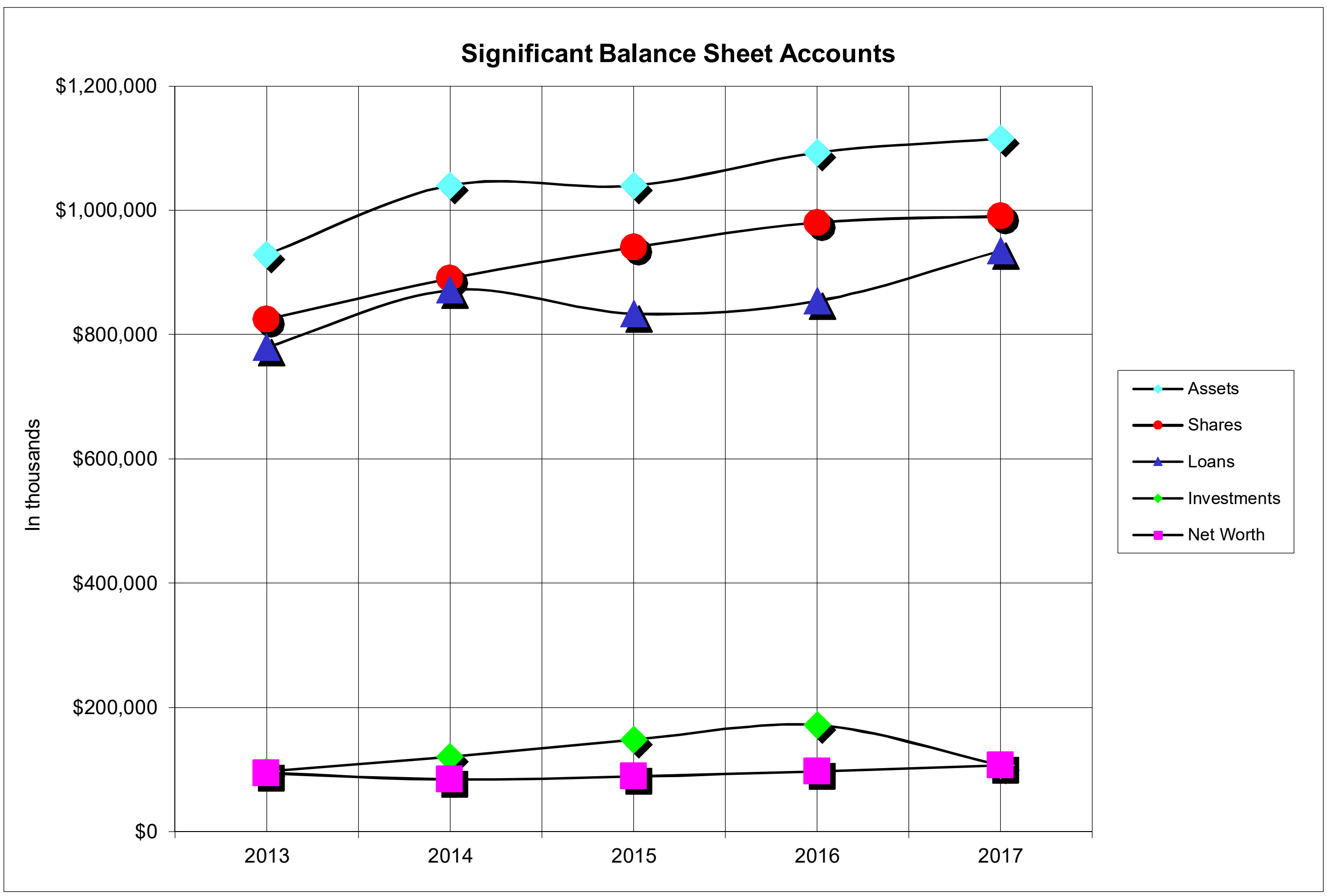
Scott Credit Union
December 31, 2017
Financial Analysis

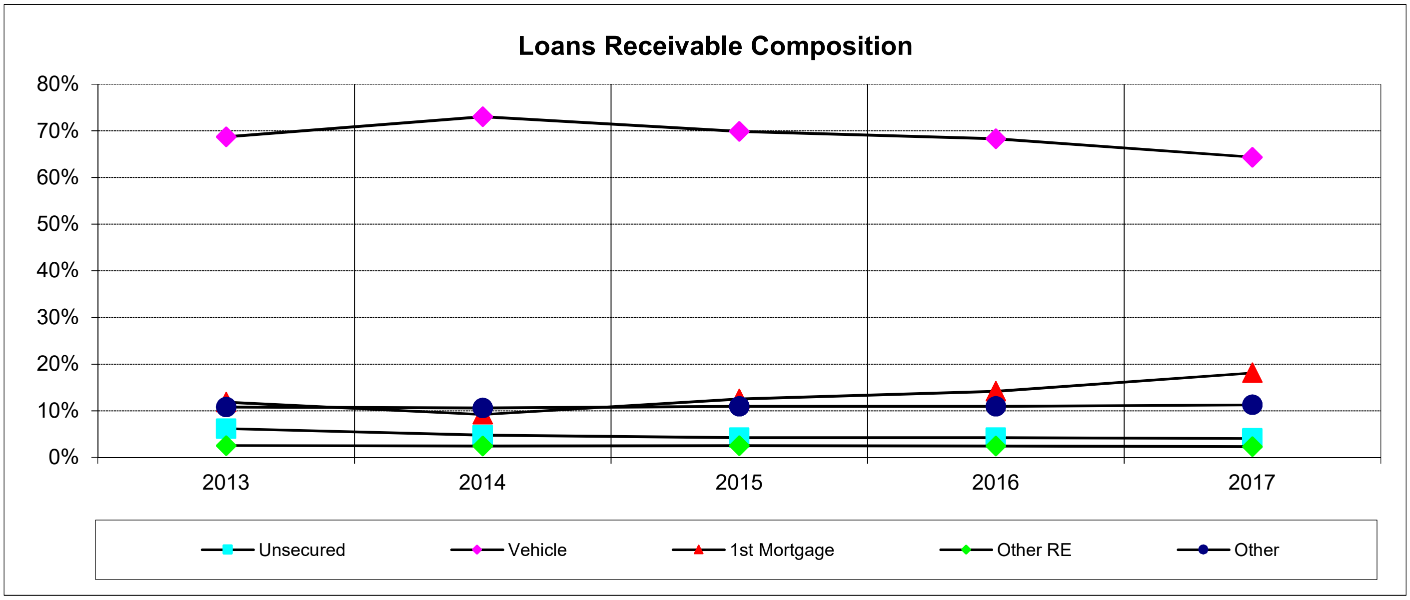
Peer Group = **Asset Range 1b - 5b** and **Region National**

Changes	December 31, 2016 Dollar Change	Percentage Change	December 31, 2017 Dollar Change	Percentage Change	Peer Group Average
Assets	$ 52,810,210	5.1%	$ 23,021,047	2.1%	7.8%
Loans Receivable	$ 20,608,780	2.5%	$ 80,698,593	9.4%	11.8%
Investments	$ 23,337,632	15.8%	$ (64,312,905)	(37.6%)	(3.3%)
Shares	$ 39,944,325	4.2%	$ 9,899,570	1.0%	7.4%
Net Worth	$ 8,489,065	9.6%	$ 9,759,876	10.0%	8.4%

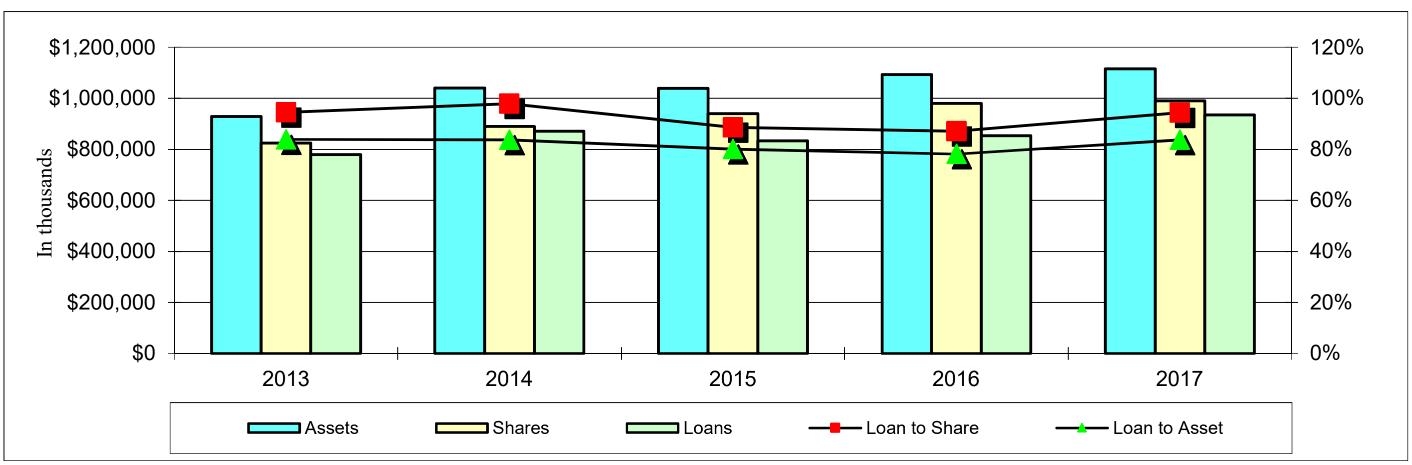


Unaudited, this information is for discussion purposes only.

Loans Receivable Mix	December 31, 2016 Balance	Percentage of Total	December 31, 2017 Balance	Percentage of Total	Peer Group Average
Unsecured	$ 35,712,998	4%	$ 37,906,637	4%	8%
Vehicle	583,534,126	68%	601,383,327	64%	36%
1st Mortgage (Real Estate)	120,634,043	15%	169,106,049	18%	41%
Other Real Estate	20,714,414	2%	21,313,277	2%	10%
Other Collateral	93,490,462	11%	105,075,346	12%	5%
Total	$ 854,086,043	100%	$ 934,784,636	100%	100%



Other Loan Ratios	December 31, 2016	December 31, 2017	Peer Group Average
Loan to Share	87.1%	94.4%	85.2%
Loan to Asset	78.2%	83.8%	72.3%



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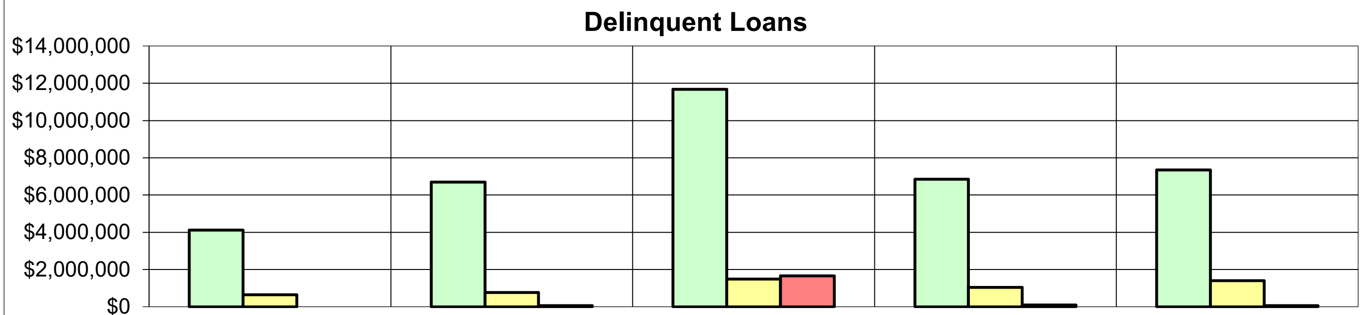
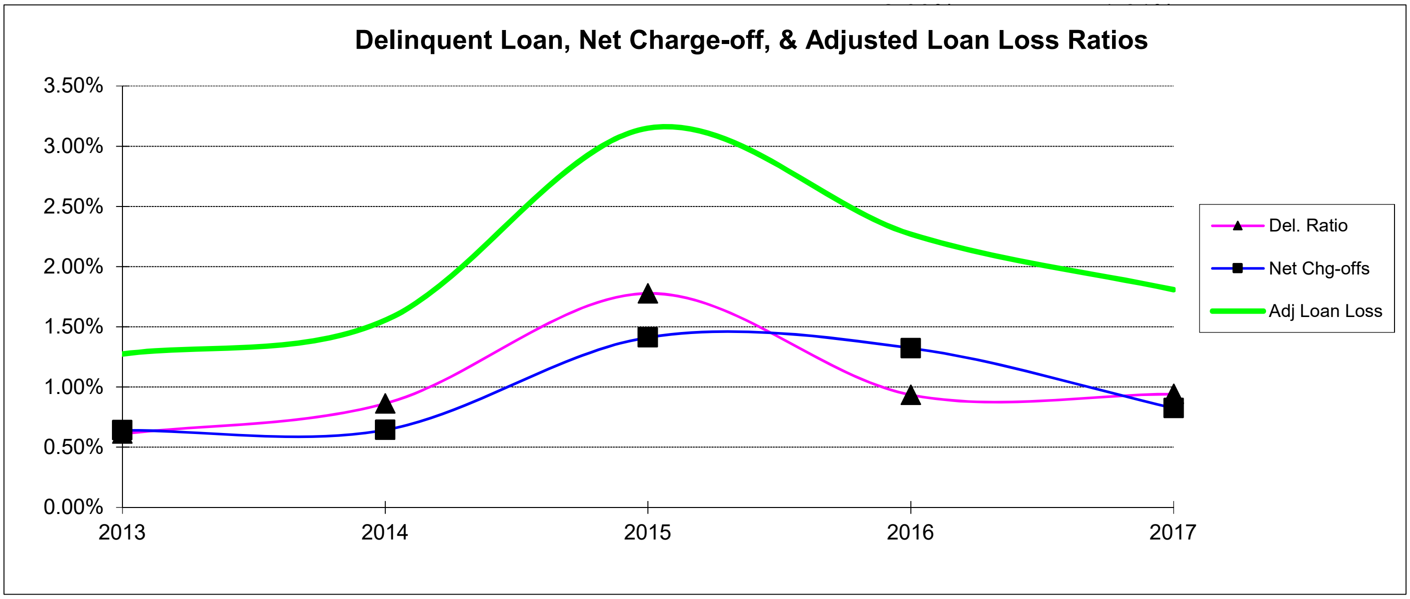
Delinquent Loans	December 31, 2016	December 31, 2017	Dollar Change
Delinquent 60 -179 days	$ 6,850,591	$ 7,341,602	$ 491,011
Delinquent 180 - 359 days	1,036,478	1,395,457	358,979
Delinquent 360 days >	97,686	60,972	(36,714)
Total	$ 7,984,755	$ 8,798,031	$ 813,276



	2013	2014	2015	2016	2017
60 - 179	4,118,017	6,693,949	11,677,538	6,850,591	7,341,602
180 - 359	647,359	768,593	1,476,921	1,036,478	1,395,457
360 +	-	55,488	1,658,841	97,686	60,972

Loan Performance Ratios	December 31, 2016	December 31, 2017	Peer Group 2016	Peer Group 2017
* Delinquent Loans > 60 days / Total Loans	0.93%	0.94%	0.69%	0.74%
* Net Charge-offs / Average Loans	1.32%	0.82%	0.49%	0.52%
**Adjusted Loan Loss Ratio	2.27%	1.81%	1.12%	1.20%

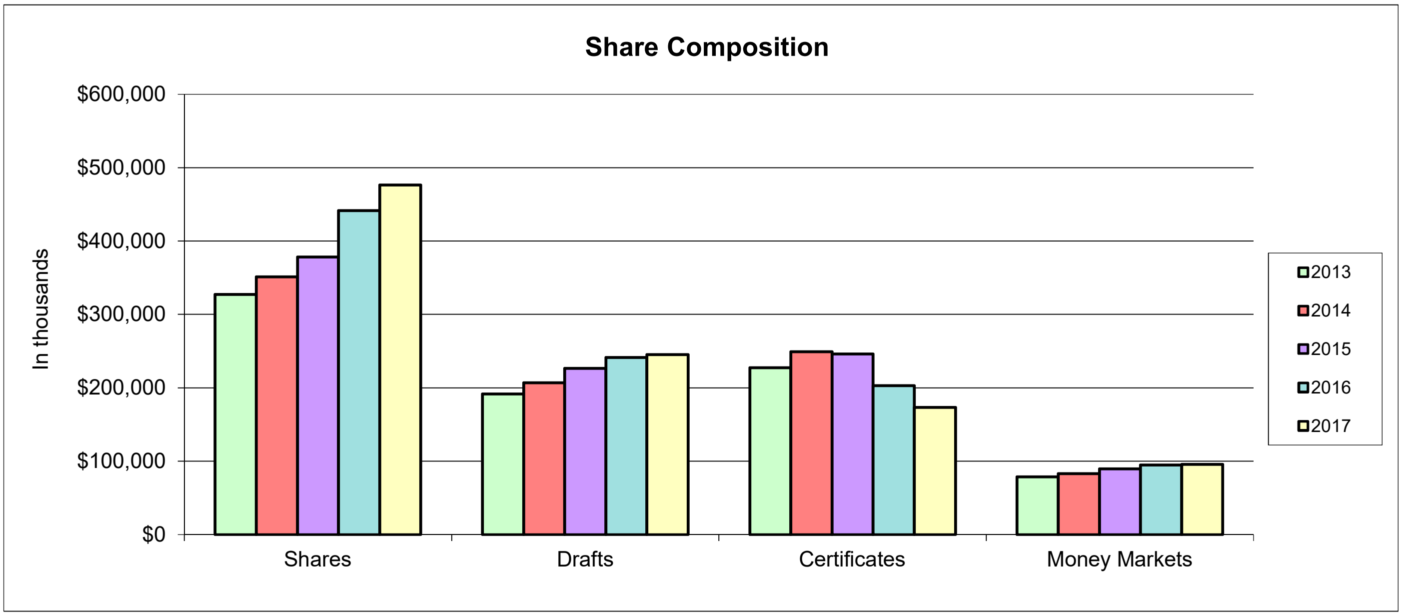
** ((Del. Loans > 60 days + Net Chg-offs) / Avg. Loans)



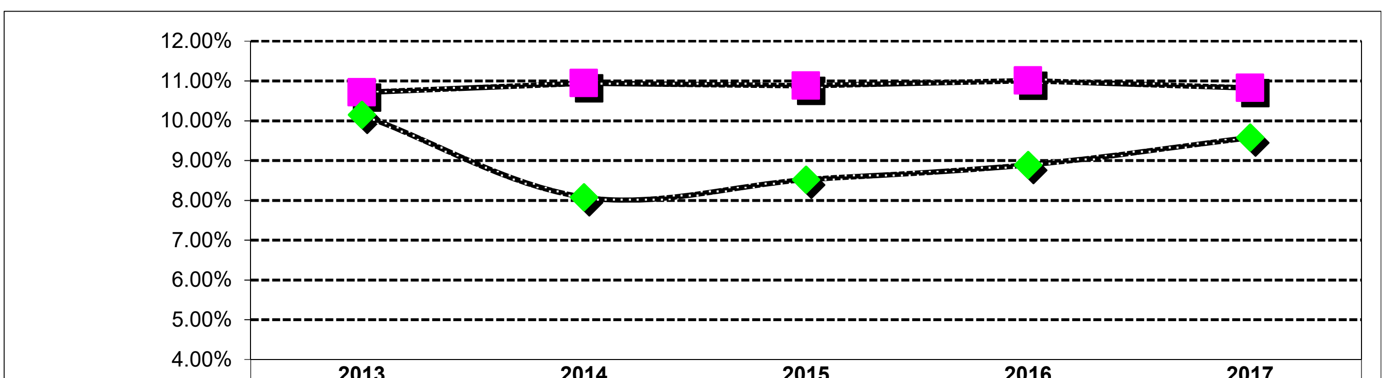
Unaudited, this information is for discussion purposes only.

*** - Key Financial Performance Ratio**

Share Mix	December 31, 2016 Balance	Percentage of Total	December 31, 2017 Balance	Percentage of Total	Peer Group Average
Shares	$ 441,504,252	45%	$ 476,197,846	48%	36%
Drafts	241,140,600	25%	245,169,671	25%	15%
Certificates	202,833,023	20%	173,358,241	17%	25%
Money Markets	94,821,540	10%	95,473,227	10%	24%
Total	$ 980,299,415	100%	$ 990,198,985	100%	100%



Net Worth Ratio	December 31, 2016	2017	Basis Point Change	Peer Group Average
* Net Worth / Total Assets	8.89%	9.58%	69	10.82%



	2013	2014	2015	2016	2017
Peer Group	10.71%	10.94%	10.88%	11.01%	10.82%
Credit Union	10.15%	8.08%	8.52%	8.89%	9.58%

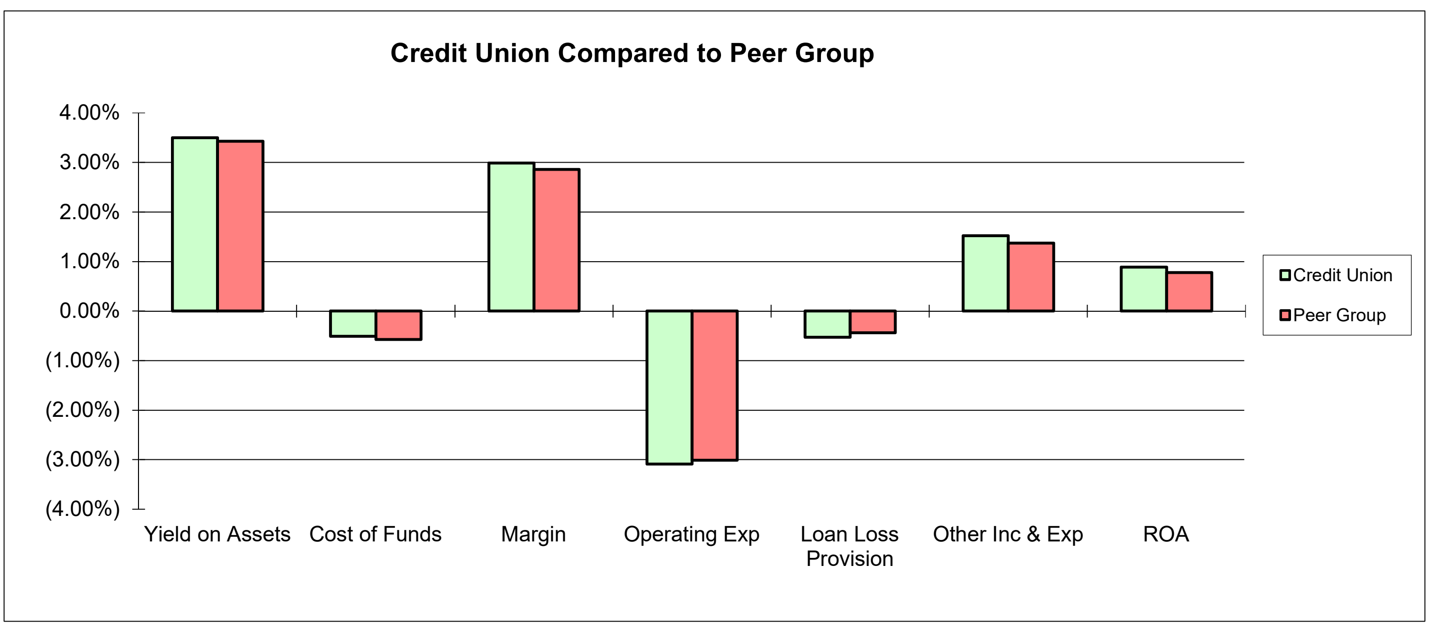
Unaudited, this information is for discussion purposes only.

*** - Key Financial Performance Ratio**

Credit Union Profitability Ratios	<A> For the Period Ended December 31, 2016	 2017	 Basis Point Change	<B> Peer Group Average	<A> - <B> Basis Point Comparison to Peer Group
Yield on Assets / Average Assets	3.29%	3.50%	21	3.43%	7
Cost of Funds / Average Assets	(0.60%)	(0.51%)	9	(0.57%)	6
Net Interest Margin	2.69%	2.99%	30	2.86%	13
Operating Expenses / Average Assets	(2.98%)	(3.09%)	(11)	(3.01%)	(8)
Provision for Loan Loss / Average Assets	(1.01%)	(0.53%)	48	(0.44%)	(9)
Other Income & Expense / Average Assets	2.10%	1.52%	(58)	1.37%	15
* Return on Average Assets (ROA)	0.80%	0.89%	9	0.78%	11
Combined Operating Expense Ratio & Other Income/Expense Ratio	(0.88%)	(1.57%)	(69)	(1.64%)	7

Peer Group Profitability Ratios	For the Period Ended December 31, 2016	 2017	Basis Point Change
Yield on Assets / Average Assets	3.25%	3.43%	18
Cost of Funds / Average Assets	(0.51%)	(0.57%)	(6)
Net Interest Margin	2.74%	2.86%	12
Operating Expenses / Average Assets	(2.97%)	(3.01%)	(4)
Provision for Loan Loss / Average Assets	(0.32%)	(0.44%)	(12)
Other Income & Expense / Average Assets	1.38%	1.37%	(1)
* Return on Average Assets (ROA)	0.83%	0.78%	(5)
Combined Operating Expense Ratio & Other Income/Expense Ratio	(1.59%)	(1.64%)	(5)

Key Ratio Summary	
Del. Loans	0.94%
Net Chg-offs	0.82%
Net Worth	9.58%
ROA	0.89%



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*** - Key Financial Performance Ratio**