

# Logix Federal Credit Union and Subsidiaries

Consolidated Financial Report  
December 31, 2017

## Contents

---

Independent auditor's report	1
<hr/>	
Financial statements	
Consolidated statements of financial condition	2
Consolidated statements of income	3
Consolidated statements of comprehensive income	4
Consolidated statements of members' equity	5
Consolidated statements of cash flows	6-7
Notes to consolidated financial statements	8-40

---



## Independent Auditor's Report

RSM US LLP

Supervisory Committee  
Logix Federal Credit Union and Subsidiaries

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Logix Federal Credit Union (a federally chartered credit union) and its subsidiaries, which comprise the consolidated statements of financial condition as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, members' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Logix Federal Credit Union and its subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with U.S. GAAP.

*RSM US LLP*

San Francisco, California  
March 30, 2018

**Logix Federal Credit Union and Subsidiaries**

**Consolidated Statements of Financial Condition  
December 31, 2017 and 2016**

	2017	2016
<b>Assets</b>		
Cash and cash equivalents	\$ 199,066,700	\$ 135,190,319
Available-for-sale investments	224,571,090	312,772,081
Other investments	41,040,000	22,410,000
Loans held for sale	26,691,412	15,211,812
Loans, net	4,754,887,008	4,188,667,580
Accrued interest receivable	15,067,437	12,594,746
Premises and equipment, net	51,326,576	35,869,528
National Credit Union Share Insurance Fund (NCUSIF) deposit	36,375,579	33,099,371
Other assets	34,836,489	31,447,001
	<u>4,754,887,008</u>	<u>4,188,667,580</u>
<b>Total assets</b>	<b><u>\$ 5,383,862,291</u></b>	<b><u>\$ 4,787,262,438</u></b>
<b>Liabilities and Members' Equity</b>		
Liabilities:		
Members' shares	\$ 4,165,252,964	\$ 3,873,415,302
Dividends payable	2,248,429	2,073,413
Accrued expenses and other liabilities	74,986,380	73,596,258
Borrowed funds	310,000,000	80,000,000
	<u>310,000,000</u>	<u>80,000,000</u>
<b>Total liabilities</b>	<b><u>4,552,487,773</u></b>	<b><u>4,029,084,973</u></b>
Commitments and contingencies (Notes 5, 8 and 9)		
Members' equity:		
Retained earnings, substantially restricted	854,879,962	779,013,284
Accumulated other comprehensive loss	(23,505,444)	(20,835,819)
	<u>831,374,518</u>	<u>758,177,465</u>
<b>Total members' equity</b>	<b><u>831,374,518</u></b>	<b><u>758,177,465</u></b>
	<u>4,754,887,008</u>	<u>4,188,667,580</u>
<b>Total liabilities and members' equity</b>	<b><u>\$ 5,383,862,291</u></b>	<b><u>\$ 4,787,262,438</u></b>

See notes to consolidated financial statements.

**Logix Federal Credit Union and Subsidiaries**

**Consolidated Statements of Income**  
**Years Ended December 31, 2017 and 2016**

	2017	2016
Interest income:		
Loans	\$ 179,745,971	\$ 156,861,893
Investments and cash equivalents	22,637,116	9,649,216
<b>Total interest income</b>	<b>202,383,087</b>	166,511,109
Interest expense:		
Members' shares	25,629,795	22,836,809
Borrowed funds	13,646,400	943,806
<b>Total interest expense</b>	<b>39,276,195</b>	23,780,615
<b>Net interest income</b>	<b>163,106,892</b>	142,730,494
Provision for loan losses	18,600,000	7,500,000
<b>Net interest income after provision for loan losses</b>	<b>144,506,892</b>	135,230,494
Noninterest income:		
Service charges and other fees	14,346,308	14,639,095
Interchange income	15,026,496	13,609,853
Commissions	9,706,520	8,706,592
Gains on sales of loans	7,690,691	9,853,237
Gains on sales of securities	419,811	1,440,047
Other noninterest income	2,800,410	1,605,938
<b>Total noninterest income</b>	<b>49,990,236</b>	49,854,762
Noninterest expense:		
Salaries and benefits	70,517,476	63,316,481
Operations and occupancy	47,997,799	42,559,186
Member loyalty reward	115,175	3,164,549
<b>Total noninterest expense</b>	<b>118,630,450</b>	109,040,216
<b>Net income</b>	<b>\$ 75,866,678</b>	<b>\$ 76,045,040</b>

See notes to consolidated financial statements.

**Logix Federal Credit Union and Subsidiaries**

**Consolidated Statements of Comprehensive Income  
Years Ended December 31, 2017 and 2016**

	2017	2016
Net income	<u>\$ 75,866,678</u>	<u>\$ 76,045,040</u>
Other comprehensive loss:		
Adjustment to defined benefit pension plan	951,942	(4,883,520)
Adjustment to postretirement benefit plan	(178,304)	81,667
Adjustment to supplemental executive retirement plan	(574,346)	(118,916)
Unrealized holding losses on available-for-sale securities, net of realized gains on sale of available-for-sale securities of approximately \$420,000 and \$1,440,000 for the years ended December 31, 2017 and 2016, respectively	(2,868,917)	(801,014)
<b>Other comprehensive loss</b>	<u>(2,669,625)</u>	<u>(5,721,783)</u>
<b>Comprehensive income</b>	<u><u>\$ 73,197,053</u></u>	<u><u>\$ 70,323,257</u></u>

See notes to consolidated financial statements.

**Logix Federal Credit Union and Subsidiaries**

**Consolidated Statements of Members' Equity  
Years Ended December 31, 2017 and 2016**

	Retained Earnings				Accumulated Other Comprehensive Loss	Total
	Regular Reserve	Other Appropriated	Unappropriated	Total		
Balance, December 31, 2015	\$ 31,302,181	\$ 644,317,339	\$ 27,348,724	\$ 702,968,244	\$ (15,114,036)	\$ 687,854,208
Net income	-	-	76,045,040	76,045,040	-	76,045,040
Other comprehensive loss	-	-	-	-	(5,721,783)	(5,721,783)
Appropriations	-	71,781,950	(71,781,950)	-	-	-
Balance, December 31, 2016	31,302,181	716,099,289	31,611,814	779,013,284	(20,835,819)	758,177,465
Net income	-	-	75,866,678	75,866,678	-	75,866,678
Other comprehensive loss	-	-	-	-	(2,669,625)	(2,669,625)
Appropriations	-	69,671,395	(69,671,395)	-	-	-
<b>Balance, December 31, 2017</b>	<b>\$ 31,302,181</b>	<b>\$ 785,770,684</b>	<b>\$ 37,807,097</b>	<b>\$ 854,879,962</b>	<b>\$ (23,505,444)</b>	<b>\$ 831,374,518</b>

See notes to consolidated financial statements.

**Logix Federal Credit Union and Subsidiaries**

**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2017 and 2016**

	2017	2016
Cash flows from operating activities:		
Net income	\$ 75,866,678	\$ 76,045,040
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premium on securities, net	1,738,184	3,015,713
Amortization of mortgage servicing rights, net of change in valuation allowance	1,711,745	1,880,244
Capitalization of mortgage servicing rights	(3,169,761)	(3,192,889)
Provision for loan losses	18,600,000	7,500,000
Capitalization of deferred net loan origination costs, net	(4,257,197)	(1,777,584)
Depreciation and amortization of premises and equipment	5,790,557	5,366,003
Losses on disposal of premises and equipment	167,659	10,459
Gains on sales of real estate owned	(181,298)	(225,358)
Gains on sales of securities	(419,811)	(1,440,047)
Originations of loans to be sold	(294,753,398)	(358,532,766)
Proceeds from sales of loans originated for sale	302,444,089	368,386,003
Gains on sales of loans	(7,690,691)	(9,853,237)
Net change in:		
Accrued interest receivable	(2,472,691)	(1,608,926)
Other assets	(1,590,843)	(1,273,124)
Accrued expenses and other liabilities	1,764,430	1,107,082
<b>Net cash provided by operating activities</b>	<b>93,547,652</b>	<b>85,406,613</b>
Cash flows from investing activities:		
Purchases of available-for-sale investments	(21,392,693)	(19,997,582)
Proceeds from sales of available-for-sale investments	21,892,874	70,501,121
Proceeds from principal pay-downs on available-for-sale investments	83,513,520	103,016,708
Proceeds from sales of other real estate owned	919,347	6,440,218
Net change in other investments	(18,630,000)	(5,160,000)
Net increase in loans as a result of originations and principal repayments	(593,120,509)	(672,879,162)
Increase in the NCUSIF deposit	(3,276,208)	(2,886,768)
Purchase of premises and equipment	(21,415,264)	(5,126,951)
<b>Net cash used in investing activities</b>	<b>(551,508,933)</b>	<b>(526,092,416)</b>
Cash flows from financing activities:		
Net increase in members' shares	291,837,662	400,090,789
Net proceeds from borrowed funds	230,000,000	80,000,000
<b>Net cash provided by financing activities</b>	<b>521,837,662</b>	<b>480,090,789</b>

(Continued)

**Logix Federal Credit Union and Subsidiaries**

**Consolidated Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Increase in cash and cash equivalents</b>	<b>\$ 63,876,381</b>	<b>\$ 39,404,986</b>
Cash and cash equivalents, beginning of year	<u>135,190,319</u>	<u>95,785,333</u>
Cash and cash equivalents, end of year	<u><b>\$ 199,066,700</b></u>	<u><b>\$ 135,190,319</b></u>
Supplemental disclosures of cash flow information:		
Loans transferred to loans held for sale	<u><b>\$ 11,479,600</b></u>	<u><b>\$ 4,426,294</b></u>
Dividends paid on members' shares and interest paid on borrowed funds	<u><b>\$ 39,374,498</b></u>	<u><b>\$ 23,637,866</b></u>
Supplemental disclosure of noncash investing activities:		
Transfers of loans to foreclosed property	<u><b>\$ 1,078,678</b></u>	<u><b>\$ 3,830,595</b></u>

See notes to consolidated financial statements.

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

---

#### Note 1. Nature of Operations and Summary of Significant Accounting Policies

**Nature of operations:** Logix Federal Credit Union (the Credit Union) is a cooperative association holding a charter under the provisions of the Federal Credit Union Act. Membership is open to anyone who is part of the Credit Union's select employer groups or associations listed in the Credit Union's charter, or if they are related to an existing member. The field of membership is defined in the Credit Union's Charter and Bylaws.

A summary of the Credit Union's significant accounting policies is as follows:

**Significant accounting policies:** The Credit Union follows the accounting standards set by the Financial Accounting Standards Board (FASB). The FASB establishes U.S. generally accepted accounting principles (U.S. GAAP) that are followed to ensure consistent reporting of the financial condition, results of operations and cash flows of the Credit Union. References to U.S. GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification, commonly referred to as the Codification or ASC.

**Principles of consolidation:** The accompanying consolidated financial statements include the accounts of the Credit Union and its wholly owned subsidiaries, one of which is inactive. The other subsidiary is Logix Employment Services, Inc. (LESI), which leases employees to the Credit Union. All material intercompany balances and transactions have been eliminated in consolidation.

**Use of estimates:** The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses; the fair value of financial instruments and nonfinancial assets for measurement and disclosure, including, but not limited to, available-for-sale securities, loans held for sale, impaired loans, foreclosed property, and mortgage servicing rights (MSRs); and defined benefit, postretirement benefit and supplemental executive retirement plans.

**Subsequent events:** The Credit Union has evaluated subsequent events through March 30, 2018, the date on which the consolidated financial statements were available to be issued.

**Concentrations of credit risk:** Most of the Credit Union's business activity is with its members, many of whom reside in Southern California. The loan portfolio is diversified as a result of the Credit Union's membership. However, the Credit Union's loan portfolio has significant balances that are collateralized by residential and commercial real estate and may be exposed to credit risk resulting from this geographic concentration. In addition, the Credit Union's loan portfolio includes certain nontraditional loans (as described in Note 3), as well as 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 lienholder status and repossesses the collateral. Repossessed collateral normally consists of vehicles, residential and commercial real estate.

**Fair value:** The Codification defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement. Fair value is a market-based measurement, not an entity-specific measurement, and the hierarchy gives the highest priority to quoted prices in active markets. Fair value measurements are disclosed by level within the fair value hierarchy.

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

---

#### **Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Valuation techniques are to be consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the fair value hierarchy establishes valuation inputs that give the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

**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

A summary of the Credit Union's financial instruments and other accounts subject to fair value measurement and/or disclosure, including methodologies and resulting values, is presented in Note 13.

**Cash and cash equivalents:** For the purpose of the consolidated statements of financial condition and cash flows, cash and cash equivalents include cash on hand, amounts due from financial institutions and highly liquid debt instruments classified as cash that were purchased with maturities of three months or less. Amounts due from financial institutions may, at times, exceed federally insured limits.

**Investments:** Debt securities are classified as available-for-sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of individual available-for-sale securities below their cost that are deemed to be other than temporary are allocated to either (1) credit losses (which are reflected in earnings as realized losses) or (2) noncredit losses (which are recorded in other comprehensive income). In determining whether other-than-temporary impairment exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) the current liquidity and volatility of the market for each of the individual security categories, (4) the projected cash flows from the specific security type, (5) the financial guarantee and financial rating of the issuer, and (6) the intent and ability of the Credit Union to retain its investment in the issue for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

---

#### Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

**Federal Home Loan Bank stock:** The Credit Union became a member of the Federal Home Loan Bank (FHLB) of San Francisco in 2012 and is required to maintain an investment in capital stock of the FHLB in an amount equal to 1 percent of its membership asset value, which comprises substantially all commercial and residential mortgage loans and investment securities. No ready market exists for the FHLB stock and it has no quoted market value. FHLB stock is included in other investments on the consolidated statements of financial condition and is stated at cost.

**Loans held for sale:** Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated market value. All sales are made without recourse subject to the customary representations and warranties.

**Loans, net:** The Credit Union grants mortgage and consumer loans to members. The portfolio also includes commercial loans. The loan portfolio comprises three segments, with further disaggregation into classes of loans, as follows: residential real estate (first mortgages, second mortgages and equity lines), commercial (commercial real estate and Small Business Administration (SBA)) and consumer (vehicles, credit cards and other). The relevant risk characteristics for these classes of loans are as follows:

**First mortgages:** This portfolio class consists of wholly owned loans for which the Credit Union possesses a senior lien on the underlying collateral. Changes in real property values and the financial stability status of borrowers are key risk factors that may impact the collectibility of these loans, along with the condition of the collateral if foreclosed.

**Second mortgages:** This portfolio class consists of wholly owned loans for which the Credit Union possesses a junior lien on the underlying collateral. Changes in real property values and the financial stability status of borrowers are key risk factors that may impact the collectibility of these loans, along with the condition of the collateral if foreclosed.

**Equity lines:** This portfolio class consists of wholly owned loans for which the Credit Union possesses a junior lien on the underlying collateral. Changes in real property values and the financial stability status of borrowers are key risk factors that may impact the collectibility of these loans, along with the condition of the collateral if foreclosed.

**Commercial real estate:** This portfolio class consists of commercial real estate loans secured by the underlying collateral. Changes in commercial property values and the financial stability status of borrowers are key risk factors that may impact the collectibility of these loans, along with the condition of the collateral if foreclosed.

**SBA:** This portfolio class consists of small business loans secured by the underlying collateral. Changes in commercial property values and the financial stability status of borrowers are key risk factors that may impact the collectibility of these loans, along with the condition of the collateral if foreclosed.

**Vehicles:** This portfolio class primarily consists of loans that are secured by underlying collateral, which are primarily vehicles. The financial stability status of borrowers is a key risk factor that may impact the collectibility of these loans, along with the nature, value and condition of the collateral if foreclosed.

**Credit cards:** This portfolio class primarily consists of loans that are unsecured, which are primarily personal lines of credit. The financial stability status of borrowers is a key risk factor that may impact the collectibility of these loans due to the absence of collateral.

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

---

#### Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

**Other consumer:** This portfolio class primarily consists of other consumer loans that are secured and unsecured. For other secured loans, the financial stability status of borrowers is a key risk factor that may impact the collectibility of these loans, along with the nature, value and condition of the collateral if foreclosed. For other unsecured loans, the financial stability status of borrowers is a key risk factor that may impact the collectibility of these loans due to the absence of collateral.

Loans that the Credit Union has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are stated at their outstanding unpaid principal balances, less an allowance for loan losses and net deferred origination fees and 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.

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

**Impaired loans:** A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement.

**Troubled debt restructurings:** Included in impaired loans are troubled debt restructurings (TDR). A loan is classified as a TDR when a borrower is experiencing financial difficulties that lead to a restructuring of the loan, and the Credit Union grants concessions to the borrower in the restructuring that it would not otherwise consider. These concessions may include rate reductions, extension of maturity date, principal forgiveness and other actions intended to minimize potential losses.

**Nonaccrual loans:** The accrual of interest income on loans is discontinued at the time the loan is 90 days or more past due. Past-due status is based on the contractual terms of the loan. Loans are placed on nonaccrual status at an earlier date if the collection of principal and interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans, other than member business loans, are returned to accrual status when all of the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Member business loans are returned to accrual status when the member demonstrates a sustained period of payments (typically six consecutive payments).

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility 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 the underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Credit Union's allowance for loan losses and may require the Credit Union to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

---

#### Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

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

**Charge-off policies for loans:** The Credit Union's policies provide for charge-off of a loan when the balance of the loan is considered uncollectible. Specific timing and actions taken are generally based upon whether the account is identified as bankrupt or non-bankrupt. Bankruptcy accounts are evaluated for collectibility using information from the chapter filing and bankruptcy court decisions; non-bankruptcy accounts are evaluated for collectibility primarily based upon payment delinquency. Charge-off amounts are determined from the expected cash flows or the value of any available collateral, less costs to sell. While circumstances may require other terms of charge-off, unsecured loans are generally charged off no later than three months past due and secured loans no later than six months past due. A modified loan may exceed these typical past-due limits and not be charged off as long as the loan continues to perform as expected under the modified arrangements.

**Transfers of financial assets:** Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Credit Union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets. In addition, for transfers of a portion of financial assets (for example, participations of loans receivable), the transfer must meet the definition of "participating interest" in order to account for the transfer as a sale. Following are the characteristics of a participating interest:

- Pro rata ownership of an entire financial asset.
- From the date of transfer, all cash flows received from the entire financial asset are divided proportionately among the participating interest holders in an amount equal to their share of ownership.
- The rights of each participating interest holder have the same priority, and no participating interest holder's interest is subordinated to the interest of another participating interest holder. That is, no participating interest holder is entitled to receive cash before any other participating interest holder under its contractual rights as a participating interest holder.
- No party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to pledge or exchange the entire financial asset.

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

---

#### Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

**Loan servicing:** Servicing assets are recognized as separate assets based on fair value when rights are acquired through the purchase or sale of financial assets. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or 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. 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 amortized cost. Fair value changes most commonly are the result of changes in expected cash flows (i.e., prepayments, defaults or similar events) or changes in the valuation model inputs or assumptions. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as loan type, origination date 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.

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 MSRs is netted against loan servicing fee income.

**Foreclosed property:** The Credit Union has foreclosed property consisting of other real estate owned and repossessed automobiles. Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Revenue and expenses associated with foreclosed assets, as well as the changes in the corresponding valuation allowance, are included in the consolidated statements of income as noninterest expense. As of December 31, 2017 and 2016, the Credit Union had approximately \$832,000 and \$1,198,000, respectively, of foreclosed property, which is included in other assets on the consolidated statements of financial condition.

**Premises and equipment, net:** Land is carried at cost. Buildings, leasehold improvements, and furniture and equipment are carried at cost, less accumulated depreciation and amortization. Buildings, furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases. Management reviews premises and equipment for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

**National Credit Union Share Insurance Fund deposit and insurance premium:** The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with National Credit Union Administration (NCUA) regulations, which in prior years required the maintenance of a deposit by each federally insured credit union in an amount equal to 1 percent of its insured members' shares. The deposit would be refunded to the Credit Union if its insurance coverage was terminated, if it converted its insurance coverage to another source, or if management of the fund was transferred from the NCUA Board.

**Other assets:** Other assets consist primarily of prepaid expenses, other receivables, foreclosed properties, and MSRs.

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

---

#### Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

**Members' shares:** Members' shares are the deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. Irrespective of the amount of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation.

Dividends on members' shares are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates are set by the Asset Liability Committee.

**Advertising costs:** Advertising costs are expensed as incurred.

**Noninterest income:** The Credit Union's noninterest income consists primarily of gains/losses on loan sales, MSR fair value adjustments, gains/losses on sales of securities, interchange income, service charges, other fees and commissions, which consist of investment brokerage commissions recorded on the settlement date. Commission income from the sale of insurance products is recognized as of the effective date of the insurance policy or the initial billing date for the policy, if later.

**Income taxes:** The Credit Union is exempt, by statute, from federal and state income taxes. The Credit Union's wholly owned subsidiary, LESI, is subject to federal and state income taxes. Operations of the wholly owned subsidiaries resulted in an insignificant amount of income taxes for the years ended December 31, 2017 and 2016.

FASB ASC Topic 740, Income Taxes, provides guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the financial statements. This requires the evaluation of tax positions taken or expected to be taken by the Credit Union, which must determine whether the tax positions are more likely than not to be sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense and liability in the current year. As of and for the years ended December 31, 2017 and 2016, management has determined that there are no material uncertain tax positions requiring recognition in the consolidated financial statements.

**Pension plan:** The Credit Union, through its subsidiary, LESI, has a qualified, noncontributory defined benefit pension plan. The Credit Union's policy is to fund the minimum amount required under the Employee Retirement Income Security Act of 1974. To the extent the Credit Union determines it is in its best interest, based on the availability of cash, cost of funds and internal return on capital, an amount in excess of the minimum amount required will be made.

**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, the defined benefit pension plan, postretirement benefit plan and the supplemental executive retirement plan (SERP), are reported as a separate component of the members' equity section of the consolidated statements of financial condition. For 2017 and 2016, other comprehensive loss includes reclassification adjustments related to realized gains on sales of available-for-sale securities.

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

---

#### Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Accumulated other comprehensive loss consists of the following as of December 31:

	2017	2016
Unrealized gains on available-for-sale securities	\$ 2,410,431	\$ 5,279,349
Minimum pension liability, postretirement benefit plan and SERP adjustments	(25,915,875)	(26,115,168)
	<u>\$ (23,505,444)</u>	<u>\$ (20,835,819)</u>

**Reclassifications:** Certain account reclassifications have been made to the prior year's consolidated financial statements in order to conform to classifications used in the current year, with no impact to previously reported members' equity or net income.

**Recent accounting pronouncements:** In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue From Contracts With Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods and services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. With the subsequent issuance of ASU 2015-14, *Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date*, the updated standard will be effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The Credit Union is currently evaluating the impact of the adoption of the standard on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Credit Union for fiscal years beginning after December 15, 2018. The Credit Union elected to early adopt the provision that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value and, as such, these disclosures are not included herein.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial condition for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Credit Union is currently evaluating the impact of the adoption of the standard on its consolidated financial statements.

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

---

#### Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU applies to entities holding financial assets and net investment in leases that are not accounted for at fair value through income including trade and other receivables as well as loans and debt securities. The amendments in this ASU require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The income statement reflects the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount.

An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances.

In addition to loans and other receivables, the ASU establishes that credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses.

Entities that are not public business entities will be required to adopt the ASU in fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. All entities will be permitted to early adopt the ASU as of fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. With certain exceptions, transition to the new requirements will be through a cumulative effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Credit Union is assessing data and system needs in order to evaluate the impact of adopting the new guidance. The Credit Union expects to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective. The Credit Union is currently evaluating the impact of the adoption of the standard on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of net Periodic Cost and Net Periodic Postretirement Benefit Cost*. The amendments require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit costs are required to be presented in the income statement from operations, if one is presented. The amendments allow only the service cost component to be eligible for capitalization.

The amendments are effective for non-public business entities for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance.

The amendments should be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and the net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. The amendments allow a practical expedient that permits an employer to use the amounts disclosed in its pension and other postretirement benefit plan note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. The amendment requires disclosure that the practical expedient was used.

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

The adoption of this standard will not impact the Credit Union's consolidated financial statements as nonpublic entities are not required to separately disclose components of net periodic benefit costs. The Credit Union is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

#### Note 2. Investments

Investments classified as available-for-sale consist of the following at December 31:

	2017			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Collateralized mortgage obligations (CMO), agency residential	\$ 20,698,366	\$ 114,522	\$ (208,834)	\$ 20,604,054
CMOs, private residential	16,006,200	20,238	(290,273)	15,736,165
Mortgage-backed securities (MBS), agency residential	185,456,093	3,138,707	(363,929)	188,230,871
	<u>\$ 222,160,659</u>	<u>\$ 3,273,467</u>	<u>\$ (863,036)</u>	<u>\$ 224,571,090</u>

  

	2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
CMOs, agency residential	\$ 28,284,885	\$ 267,711	\$ (210,264)	\$ 28,342,332
CMOs, private residential	21,943,704	17,833	(346,431)	21,615,106
MBSs, agency residential	257,264,143	5,785,631	(235,131)	262,814,643
	<u>\$ 307,492,732</u>	<u>\$ 6,071,175</u>	<u>\$ (791,826)</u>	<u>\$ 312,772,081</u>

The Credit Union's MBSs consist of residential real estate mortgage obligations and residential real estate CMO securities. Gross realized gains on sales of investments available for sale were approximately \$420,000 and \$1,440,000 in 2017 and 2016, respectively. There were no realized losses on sales of investments available for sale in 2017 or 2016.

As of December 31, 2017 and 2016, securities with a fair value totaling approximately \$75,214,000 and \$95,511,000, respectively, have been pledged as collateral to secure FHLB advances, as more fully disclosed in Note 7.

Expected maturities of MBSs and CMOs may differ from contractual maturities because borrowers or issuers may have the right to call or prepay the obligations, and are therefore classified separately with no specific maturity date.

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

	2017				
	Fair Value Associated With Unrealized Losses Existing for		Continuous Unrealized Losses Existing for		Total Unrealized Losses
	Less Than 12 Months	More Than 12 Months	Less Than 12 Months	More Than 12 Months	
Available for Sale					
CMOs, agency residential	\$ -	\$ 14,398,252	\$ -	\$ (208,834)	\$ (208,834)
CMOs, private residential	3,007,495	9,982,621	(24,779)	(265,494)	(290,273)
MBSs, agency residential	50,028,289	10,876,803	(158,286)	(205,643)	(363,929)
	<u>\$ 53,035,784</u>	<u>\$ 35,257,676</u>	<u>\$ (183,065)</u>	<u>\$ (679,971)</u>	<u>\$ (863,036)</u>

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 2. Investments (Continued)

	2016				
	Fair Value Associated With Unrealized Losses Existing for		Continuous Unrealized Losses Existing for		Total Unrealized Losses
	Less Than 12 Months	More Than 12 Months	Less Than 12 Months	More Than 12 Months	
Available for Sale					
CMOs, agency residential	\$ -	\$ 19,837,467	\$ -	\$ (210,264)	\$ (210,264)
CMOs, private residential	4,257,011	13,058,452	(78,082)	(268,349)	(346,431)
MBSs, agency residential	13,264,347	-	(235,131)	-	(235,131)
	<u>\$ 17,521,358</u>	<u>\$ 32,895,919</u>	<u>\$ (313,213)</u>	<u>\$ (478,613)</u>	<u>\$ (791,826)</u>

At December 31, 2017 and 2016, the investment portfolio included 11 and three securities, respectively, with unrealized losses that have existed for less than one year. In addition, the investment portfolio included 10 and seven securities, respectively, with unrealized losses that had existed for longer than one year.

Based upon an evaluation of the available evidence, including recent changes in market rates, credit rating information and information obtained from regulatory filings, management believes the decline in fair value for these securities is temporary, resulting primarily due to changes in interest rates and market illiquidity rather than credit deterioration of the investments. In addition, management of the Credit Union does not intend to sell, nor will the Credit Union be required to sell, these investment securities prior to the recovery of the amortized cost basis. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period in which the other-than-temporary impairment is identified.

Other investments consist of FHLB stock in the amount of approximately \$41,040,000 and \$22,410,000 at December 31, 2017 and 2016, respectively. FHLB stock has been classified with no contractual maturity.

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

---

#### Note 3. Loans, Net

Loans, net, consist of the following, presented by portfolio segment, at December 31:

	2017	2016
Residential real estate:		
First mortgages, fixed rate	\$ 1,757,605,274	\$ 1,554,694,881
First mortgages, variable rate	1,137,478,207	950,228,607
	<u>2,895,083,481</u>	<u>2,504,923,488</u>
Second mortgages, fixed rate	68,347,591	53,840,121
Equity lines, variable rate	315,257,037	287,581,071
Total residential real estate	<u>3,278,688,109</u>	<u>2,846,344,680</u>
Commercial:		
Real estate, fixed rate	103,520,869	123,681,875
Real estate, variable rate	229,743,311	201,050,475
	<u>333,264,180</u>	<u>324,732,350</u>
SBA	49,451	73,191
Total commercial	<u>333,313,631</u>	<u>324,805,541</u>
Consumer:		
Vehicle loans	886,626,500	788,356,656
Credit card loans, unsecured	232,811,711	217,041,674
Other consumer loans, primarily unsecured	63,176,298	53,355,391
Total consumer	<u>1,182,614,509</u>	<u>1,058,753,721</u>
Total loans receivable	4,794,616,249	4,229,903,942
Deferred net loan origination costs	17,053,439	12,796,242
Allowance for loan losses	(56,782,680)	(54,032,604)
	<u>\$ 4,754,887,008</u>	<u>\$ 4,188,667,580</u>

Commercial loans primarily consist of loans that are secured by office, industrial, apartment and retail business property. The Credit Union has purchased commercial participation loans originated by various other credit unions to faith-based organizations and other businesses. All of these loan participations were purchased without recourse and are secured by real property. The originating credit unions perform all servicing functions on these loans.

The Credit Union has nontraditional mortgage loans. These loans include hybrid adjustable rate mortgage (ARM), balloon and interest-only loans. Hybrid ARMs are loans that are fixed for an initial period of three, five, seven or 10 years. After this period, the mortgages are converted to a variable rate using the fully indexed rate, annually or every five years, which can result in payment shock for the borrower. Balloon loans do not fully amortize over their term and have a final payment for the nonamortized balance upon maturity. Interest-only loans allow the borrower to pay only interest for a specified number of years, after which the principal becomes due or the loan amortizes principal over its remaining term. The nontraditional mortgage loans amounted to approximately \$1,159,262,000 and \$968,327,000 at December 31, 2017 and 2016, respectively.

Nontraditional mortgage loans may have significantly different credit risk characteristics than traditional fixed- and variable-rate mortgages. However, the Credit Union believes it has established prudent underwriting standards as well as adequate risk management functions to monitor these additional risks. The Credit Union has discontinued offering certain nontraditional mortgage products.

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 3. Loans, Net (Continued)

Included in mortgage loans are first trust deeds in the amount of approximately \$2,204,950,000 and \$2,152,839,000 at December 31, 2017 and 2016, respectively, which have been pledged as collateral to secure FHLB advances, as more fully disclosed in Note 7.

The allowance for loan losses is considered by the Credit Union as adequate to cover probable losses inherent in the loan portfolio. However, no assurance can be given that the Credit Union, in any particular period, will not sustain loan losses that exceed the allowance, or that subsequent evaluation of the loan portfolio, in light of then-prevailing factors, including economic conditions, credit quality of the assets comprising the portfolio and the ongoing evaluation process, will not require significant changes in the allowance for loan losses.

The following tables present, by loan portfolio segment, the activity in the allowance for loan losses and the recorded investments in loans and the associated allowance amounts according to the two methods of impairment (collectively evaluated and individually evaluated):

	Residential Real Estate	Commercial	Consumer	Total
December 31, 2017				
Allowance for loan losses:				
Beginning balance	\$ 30,429,367	\$ 7,876,318	\$ 15,726,919	\$ 54,032,604
Provision	(2,667,648)	(2,472,662)	23,740,310	18,600,000
Charge-offs	(174,014)	-	(17,527,719)	(17,701,733)
Recoveries	456,671	71,776	1,323,362	1,851,809
Ending balance	<u>\$ 28,044,376</u>	<u>\$ 5,475,432</u>	<u>\$ 23,262,872</u>	<u>\$ 56,782,680</u>
Ending balance: individually evaluated for impairment	\$ 3,749,503	\$ 215,379	\$ 3,488,641	\$ 7,453,523
Ending balance: collectively evaluated for impairment	24,294,873	5,260,053	19,774,231	49,329,157
	<u>\$ 28,044,376</u>	<u>\$ 5,475,432</u>	<u>\$ 23,262,872</u>	<u>\$ 56,782,680</u>
Total loans:				
Ending balance: individually evaluated for impairment	\$ 28,552,896	\$ 4,004,806	\$ 17,943,642	\$ 50,501,344
Ending balance: collectively evaluated for impairment	3,250,135,213	329,308,825	1,164,670,867	4,744,114,905
	<u>\$ 3,278,688,109</u>	<u>\$ 333,313,631</u>	<u>\$ 1,182,614,509</u>	<u>\$ 4,794,616,249</u>
December 31, 2016				
Allowance for loan losses:				
Beginning balance	\$ 37,786,749	\$ 6,789,935	\$ 13,259,327	\$ 57,836,011
Provision	(7,037,924)	945,755	13,592,169	7,500,000
Charge-offs	(682,609)	(19,013)	(12,228,056)	(12,929,678)
Recoveries	363,151	159,641	1,103,479	1,626,271
Ending balance	<u>\$ 30,429,367</u>	<u>\$ 7,876,318</u>	<u>\$ 15,726,919</u>	<u>\$ 54,032,604</u>
Ending balance: individually evaluated for impairment	\$ 4,114,277	\$ 1,766,839	\$ 2,321,791	\$ 8,202,907
Ending balance: collectively evaluated for impairment	26,315,090	6,109,479	13,405,128	45,829,697
	<u>\$ 30,429,367</u>	<u>\$ 7,876,318</u>	<u>\$ 15,726,919</u>	<u>\$ 54,032,604</u>
Total loans:				
Ending balance: individually evaluated for impairment	\$ 33,678,245	\$ 8,546,310	\$ 10,064,680	\$ 52,289,235
Ending balance: collectively evaluated for impairment	2,812,666,435	316,259,231	1,048,689,041	4,177,614,707
	<u>\$ 2,846,344,680</u>	<u>\$ 324,805,541</u>	<u>\$ 1,058,753,721</u>	<u>\$ 4,229,903,942</u>

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 3. Loans, Net (Continued)

Credit quality indicators represent loan attributes and information used by the Credit Union to evaluate the adequacy of the allowance for loan losses. "Pass" loans are performing loans that are collectively evaluated for impairment. The other categories reflect the following credit quality indicators that are then used to establish loan ratings for each loan segment as follows:

**Commercial:** Delinquency status, financial condition and collateral value are monitored to determine whether repayment weakness exists. Accordingly, management regularly reviews and risk grades commercial loans in the Credit Union's portfolio. The risk grading system allows management to classify assets by credit quality in accordance with the Credit Union's policy. The Credit Union's internal risk-grading definition is as follows:

**Pass:** The loan is either risk rated as highest grade, excellent, satisfactory, acceptable or pass/watch and contains no well-defined deficiencies or weaknesses.

**Special Mention:** The loan has credit deficiencies or potential weaknesses that deserve management's close attention and warrant more frequent monitoring; usually current but show some sign of potential problems that, if not addressed, may affect future credit risk.

**Substandard:** The loan is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loan classified as "substandard" must have a well-defined weakness that jeopardizes the full recovery of the debt.

**Doubtful:** The loan has all the weaknesses inherent in those classified "substandard", with the added characteristic that the weaknesses make collection in full, on the basis of currently existing facts, conditions and values, highly improbable. The possibility of loss is high, but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the loans, its classification as an estimated loss is deferred until its more exact status may be determined.

**Loss:** The loan is considered uncollectible and of such little value that continuing to carry it as an asset on the statement of financial condition is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather, it is not practical to defer writing off the asset, even though the partial recovery may be affected in the future.

The following presents, by credit quality indicator, the commercial portfolio:

	Pass	Special Mention	Substandard	Loss	Total Loans
December 31, 2017					
Commercial:					
Real estate	\$ 321,685,350	\$ 6,974,118	\$ 4,604,712	\$ -	\$ 333,264,180
SBA	952	-	11,529	36,970	49,451
Total commercial	<u>\$ 321,686,302</u>	<u>\$ 6,974,118</u>	<u>\$ 4,616,241</u>	<u>\$ 36,970</u>	<u>\$ 333,313,631</u>
December 31, 2016					
Commercial:					
Real estate	\$ 313,783,389	\$ 2,443,032	\$ 8,505,929	\$ -	\$ 324,732,350
SBA	27,772	5,927	-	39,492	73,191
Total commercial	<u>\$ 313,811,161</u>	<u>\$ 2,448,959</u>	<u>\$ 8,505,929</u>	<u>\$ 39,492</u>	<u>\$ 324,805,541</u>

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 3. Loans, Net (Continued)

**Residential real estate:** Delinquency status serves as the initial indicator for loan rating purposes, with collateral value and repayment considerations then evaluated to determine if the loan is to be categorized as performing or nonperforming.

**Consumer:** Delinquency status is the primary factor considered with further analysis performed at the loan level to determine if the loan is to be categorized as performing or nonperforming.

The following tables present the residential real estate and consumer loans portfolio based on the Credit Union's credit quality categories:

	Performing	Nonperforming	Total Loans
December 31, 2017			
Residential real estate:			
First mortgages	\$ 2,870,139,458	\$ 24,944,023	\$ 2,895,083,481
Second mortgages	67,151,841	1,195,750	68,347,591
Equity lines	312,843,914	2,413,123	315,257,037
Total residential real estate	<u>3,250,135,213</u>	<u>28,552,896</u>	<u>3,278,688,109</u>
Consumer:			
Vehicles	870,915,203	15,711,297	886,626,500
Credit cards	231,077,670	1,734,041	232,811,711
Other	62,677,994	498,304	63,176,298
Total consumer	<u>1,164,670,867</u>	<u>17,943,642</u>	<u>1,182,614,509</u>
Total	<u>\$ 4,414,806,080</u>	<u>\$ 46,496,538</u>	<u>\$ 4,461,302,618</u>
December 31, 2016			
Residential real estate:			
First mortgages	\$ 2,475,382,535	\$ 29,540,953	\$ 2,504,923,488
Second mortgages	52,489,631	1,350,490	53,840,121
Equity lines	284,794,269	2,786,802	287,581,071
Total residential real estate	<u>2,812,666,435</u>	<u>33,678,245</u>	<u>2,846,344,680</u>
Consumer:			
Vehicles	780,543,950	7,812,706	788,356,656
Credit cards	215,150,295	1,891,379	217,041,674
Other	52,994,796	360,595	53,355,391
Total consumer	<u>1,048,689,041</u>	<u>10,064,680</u>	<u>1,058,753,721</u>
Total	<u>\$ 3,861,355,476</u>	<u>\$ 43,742,925</u>	<u>\$ 3,905,098,401</u>

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 3. Loans, Net (Continued)

Impaired loans consist primarily of TDRs and nonaccrual loans. The following table includes information for impaired loans by class, with additional segregation of balances and allowances by those loans requiring a specific allowance and those that do not require a specific allowance:

	December 31, 2017			December 31, 2016		
	Unpaid Principal Balance	Associated Allowance	Average Balance	Unpaid Principal Balance	Associated Allowance	Average Balance
Allowance recorded:						
Residential real estate:						
First mortgages	\$ 13,688,877	\$ 2,962,205	\$ 16,983,640	\$ 20,278,403	\$ 2,778,546	\$ 21,854,033
Second mortgages	732,414	235,484	905,872	1,079,330	274,332	1,359,285
Equity lines	1,004,787	551,814	1,291,655	1,578,522	1,061,399	1,504,304
Total residential real estate	15,426,078	3,749,503	19,181,167	22,936,255	4,114,277	24,717,622
Commercial:						
Real estate	1,566,458	176,681	3,315,274	5,064,090	1,727,347	4,711,642
SBA	38,698	38,698	39,095	39,492	39,492	105,727
Total commercial	1,605,156	215,379	3,354,369	5,103,582	1,766,839	4,817,369
Consumer:						
Vehicles	15,711,297	2,435,911	11,762,002	7,812,706	1,256,084	8,591,992
Credit cards	1,734,041	821,401	1,812,710	1,891,379	883,492	1,712,301
Other	498,304	231,329	429,450	360,595	182,215	322,597
Total consumer	17,943,642	3,488,641	14,004,162	10,064,680	2,321,791	10,626,890
Subtotal	34,974,876	7,453,523	36,539,698	38,104,517	8,202,907	40,161,881
No allowance recorded:						
Residential real estate:						
First mortgages	11,255,146	-	10,258,848	9,262,550	-	8,920,993
Second mortgages	463,336	-	367,248	271,160	-	392,139
Equity lines	1,408,336	-	1,308,308	1,208,280	-	1,270,113
Total residential real estate	13,126,818	-	11,934,404	10,741,990	-	10,583,245
Commercial:						
Real estate	2,399,650	-	2,920,744	3,441,839	-	5,105,108
SBA	-	-	445	889	-	7,102
Total commercial	2,399,650	-	2,921,189	3,442,728	-	5,112,210
Subtotal	15,526,468	-	14,855,593	14,184,718	-	15,695,455
Total	\$ 50,501,344	\$ 7,453,523	\$ 51,395,291	\$ 52,289,235	\$ 8,202,907	\$ 55,857,336

For the years ended December 31, 2017 and 2016, residential real estate and commercial loan interest income of approximately \$1,446,000 and \$1,837,000, respectively, was recognized on impaired loans. No significant amount of interest income was recognized on impaired consumer loans in 2017 or 2016. There were no loans more than three months past due and still accruing interest at December 31, 2017 or 2016.

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

---

#### Note 3. Loans, Net (Continued)

Nonaccrual loans at December 31 are presented by class as follows:

	2017	2016
Residential real estate:		
First mortgages	\$ 9,240,327	\$ 9,801,063
Second mortgages	408,000	322,885
Equity lines	916,277	825,614
Total residential real estate	<u>10,564,604</u>	<u>10,949,562</u>
Commercial:		
SBA	159,404	39,492
Total commercial	<u>159,404</u>	<u>39,492</u>
Consumer:		
Vehicles	6,098,390	4,917,680
Credit cards	875,162	86,691
Other	212,328	46,873
Total consumer	<u>7,185,880</u>	<u>5,051,244</u>
Total	<u>\$ 17,909,888</u>	<u>\$ 16,040,298</u>

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 3. Loans, Net (Continued)

The Credit Union monitors loans using the delinquency categories presented in the following table. The table includes TDRs for which delinquency is reported consistent with the modified loans' contractual terms.

	Current	1 to < 2 Months	Reportable Delinquency			Total Reportable	Total Loans
			2 to < 6 Months	6 to 12 Months	> 12 Months		
December 31, 2017							
Residential real estate:							
First mortgages	\$ 2,859,839,667	\$ 19,595,623	\$ 10,932,226	\$ 1,979,930	\$ 2,736,035	\$ 15,648,191	\$ 2,895,083,481
Second mortgages	67,354,350	504,263	161,188	58,800	268,990	488,978	68,347,591
Equity lines	311,966,659	1,491,648	1,349,030	336,725	112,975	1,798,730	315,257,037
Total residential real estate	3,239,160,676	21,591,534	12,442,444	2,375,455	3,118,000	17,935,899	3,278,688,109
Commercial:							
Real estate	333,264,180	-	-	-	-	-	333,264,180
SBA	953	-	11,529	-	36,969	48,498	49,451
Total commercial	333,265,133	-	11,529	-	36,969	48,498	333,313,631
Consumer:							
Vehicles	872,136,021	7,759,871	5,502,317	993,177	235,114	6,730,608	886,626,500
Credit cards	228,842,891	1,965,278	1,990,707	12,835	-	2,003,542	232,811,711
Other	62,174,136	576,536	403,010	22,616	-	425,626	63,176,298
Total consumer	1,163,153,048	10,301,685	7,896,034	1,028,628	235,114	9,159,776	1,182,614,509
Total	\$ 4,735,578,857	\$ 31,893,219	\$ 20,350,007	\$ 3,404,083	\$ 3,390,083	\$ 27,144,173	\$ 4,794,616,249
December 31, 2016							
Residential real estate:							
First mortgages	\$ 2,478,928,739	\$ 13,846,557	\$ 4,935,426	\$ 4,310,399	\$ 2,902,367	\$ 12,148,192	\$ 2,504,923,488
Second mortgages	52,537,422	737,715	345,688	34,724	184,572	564,984	53,840,121
Equity lines	283,180,221	2,775,710	1,396,528	39,175	189,437	1,625,140	287,581,071
Total residential real estate	2,814,646,382	17,359,982	6,677,642	4,384,298	3,276,376	14,338,316	2,846,344,680
Commercial:							
Real estate	324,732,350	-	-	-	-	-	324,732,350
SBA	33,699	-	-	-	39,492	39,492	73,191
Total commercial	324,766,049	-	-	-	39,492	39,492	324,805,541
Consumer:							
Vehicles	774,641,621	8,051,890	5,022,017	635,058	6,070	5,663,145	788,356,656
Credit cards	214,053,688	2,010,253	971,159	6,574	-	977,733	217,041,674
Other	52,747,000	314,127	292,463	1,801	-	294,264	53,355,391
Total consumer	1,041,442,309	10,376,270	6,285,639	643,433	6,070	6,935,142	1,058,753,721
Total	\$ 4,180,854,740	\$ 27,736,252	\$ 12,963,281	\$ 5,027,731	\$ 3,321,938	\$ 21,312,950	\$ 4,229,903,942

The Credit Union has modified loans to assist members who are expected to perform according to the modified loan terms. Modifications generally provide the member with lower payments through either the reduction of the interest rate and/or the extension of the maturity date. Principal amounts are rarely forgiven. Because of the nature of the allowable TDR terms granted by the Credit Union, the financial effects of such modifications are considered insignificant to the Credit Union. TDRs are summarized as follows:

	December 31, 2017			
	Number of Contracts	Balance	Associated Allowance	Net Balance
Outstanding as of end of year:				
Residential real estate	88	\$ 18,497,851	\$ 3,205,154	\$ 15,292,697
Commercial	5	3,464,499	213,650	3,250,849
Consumer	1,335	15,905,445	1,189,801	14,715,644
Total	1,428	\$ 37,867,795	\$ 4,608,605	\$ 33,259,190

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 3. Loans, Net (Continued)

	December 31, 2016			
	Number of Contracts	Balance	Associated Allowance	Net Balance
Outstanding as of end of year:				
Residential real estate	101	\$ 22,533,599	\$ 3,066,544	\$ 19,467,055
Commercial	5	5,104,471	1,766,839	3,337,632
Consumer	791	8,646,441	765,301	7,881,140
Total	897	\$ 36,284,511	\$ 5,598,684	\$ 30,685,827

	December 31, 2017		December 31, 2016	
	Number of Contracts	Post-Modification Balance	Number of Contracts	Post-Modification Balance
Loans modified during the year:				
Residential real estate:				
First mortgages	4	\$ 1,751,916	3	\$ 998,387
Commercial:				
Real estate	-	-	1	613,367
Consumer:				
Vehicles	674	10,504,525	142	2,304,877
Credit cards	31	188,001	22	185,256
Other	23	167,753	12	67,085
Total consumer	728	10,860,279	176	2,557,218
Total	732	\$ 12,612,195	180	\$ 4,168,972

	December 31, 2017		December 31, 2016	
	Number of Contracts	Post-Modification Balance	Number of Contracts	Post-Modification Balance
Modified loans for which payment default occurred (re-defaults):				
Residential real estate:				
First mortgages	2	\$ 764,796	-	\$ -
Consumer:				
Vehicles	40	572,844	21	276,509
Credit cards	2	22,121	5	65,105
Other	-	-	4	28,925
Total consumer	42	594,965	30	370,539
Total	44	\$ 1,359,761	30	\$ 370,539

As of December 31, 2017 and 2016, there are no commitments to lend additional funds to members whose loans have been modified as TDRs.

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

---

#### Note 4. Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of these loans at December 31 are summarized as follows:

	2017	2016
Mortgage loan portfolios serviced for:		
Federal National Mortgage Association (FNMA)	\$ 1,229,185,052	\$ 1,164,371,627
FHLB	111,709,948	42,546,126
Federal Home Loan Mortgage Corporation	-	1,429
Other investors	223,470,882	115,025,253
	<u>\$ 1,564,365,882</u>	<u>\$ 1,321,944,435</u>

A summary of the changes in the balance of MSRs for the years ended December 31 is as follows:

	2017	2016
Balance, beginning of year	\$ 9,988,592	\$ 8,675,947
Servicing assets recognized during the year	3,169,761	3,192,889
Amortization of servicing assets	(1,656,539)	(1,773,230)
Net change in valuation allowance	(55,206)	(107,014)
Balance, end of year	<u>\$ 11,446,608</u>	<u>\$ 9,988,592</u>

Significant assumptions made in the calculations of servicing assets include discount rates ranging from 9.5 percent to 12.5 percent for the years ended December 31, 2017 and 2016, and weighted prepayment speeds of 158 and 142 for the years ended December 31, 2017 and 2016, respectively, utilizing the Public Securities Association factors. Expected life of the loan portfolio associated with servicing assets was approximately 6.61 years and 7.03 years as of December 31, 2017 and 2016, respectively.

The Credit Union has an existing master agreement with FNMA whereby sales of fixed-interest residential mortgage loans may be securitized and retained by the Credit Union in the form of Logix Federal Credit Union agency residential MBSs (see Note 2). Consistent with other loans sold, these sales are made without recourse, are subject to customary representations and warranties, and are guaranteed by FNMA.

In May 2016, the Credit Union became a member of the FHLB Original Mortgage Partnership Finance program to sell loans to the FHLB. The program calls for credit risk sharing with the FHLB up to a maximum of 8 percent of the loan amount, referred to as the credit enhancement (CE) obligation. A CE fee of 10 basis points of the outstanding master commitment balances is paid to the Credit Union by the FHLB on a monthly basis. The Credit Union entered into an agreement with the FHLB providing for a mandatory commitment of \$50 million in loans and a maximum CE amount of \$4 million. In the event of underdelivery, the Credit Union is subject to a pair-off or price-adjustment fee for any portion of the delivery commitment that is under or over the tolerance limit of 1 percent.

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

---

#### Note 5. Premises and Equipment, Net

Premises and equipment, net are summarized as follows at December 31:

	2017	2016
Land	\$ 19,607,618	\$ 19,610,655
Building	14,358,174	15,008,537
Furniture and equipment	35,179,631	32,724,823
Leasehold improvements	8,338,356	7,485,303
	<u>77,483,779</u>	<u>74,829,318</u>
Accumulated depreciation and amortization	(45,643,761)	(42,215,516)
	<u>31,840,018</u>	<u>32,613,802</u>
Construction in progress	19,486,558	3,255,726
	<u>\$ 51,326,576</u>	<u>\$ 35,869,528</u>

In June 2015, the Credit Union executed a purchase and sale agreement for the acquisition of a 12-acre parcel of land located in Santa Clarita, California for approximately \$15.6 million. This acquired property is intended to be used for the construction of the Credit Union's new headquarters. At December 31, 2017 and 2016, the Credit Union incurred approximately \$16,849,000 and \$2,255,000, respectively, for the ongoing construction of its new headquarters, which is inclusive of the total capitalized interest cost of approximately \$307,000 and \$141,000, respectively. The Credit Union currently anticipates completion of this new headquarters by March 2019.

The Credit Union leases 17 offices. The operating leases contain renewal options and provisions requiring the Credit Union to pay property taxes and operating expenses over base period amounts. All rental payments are dependent only upon the lapse of time. Minimum rental payments under operating leases with initial or remaining terms of one year or more at December 31, 2017, are as follows:

Years ending December 31:	
2018	\$ 2,921,000
2019	2,255,000
2020	1,907,000
2021	1,705,000
2022	1,188,000
Subsequent years	2,964,000
	<u>\$ 12,940,000</u>

Rental expense for the years ended December 31, 2017 and 2016, for all facilities leased under operating leases, totaled approximately \$3,369,000 and \$2,993,000, respectively, which is included in noninterest expense in the consolidated statements of income.

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

---

#### Note 6. Members' Shares

Members' shares are summarized as follows at December 31:

	2017	2016
Regular shares	\$ 612,771,888	\$ 559,519,485
Share draft accounts	518,232,407	454,480,610
Money market accounts	2,145,476,694	1,994,875,488
Individual Retirement Account (IRA) shares	96,906,283	92,215,105
Certificates	791,865,692	772,324,614
	<u>\$ 4,165,252,964</u>	<u>\$ 3,873,415,302</u>

Shares by maturity as of December 31, 2017, are summarized as follows:

No contractual maturity	<u>\$ 3,373,387,272</u>
Zero to one year maturity	542,480,433
One to two years maturity	111,594,131
Two to three years maturity	44,213,554
Three to four years maturity	65,776,994
Four to five years maturity	27,800,580
	<u>791,865,692</u>
	<u>\$ 4,165,252,964</u>

Regular shares, share draft accounts, money market accounts and IRA shares have no contractual maturity. Certificate accounts have maturities of five years or less.

The NCUSIF insures members' shares and certain IRAs and Keogh accounts up to a maximum federal deposit insurance level of \$250,000. This includes all account types, such as regular share, share draft, money market and certificates of deposit. IRA and Keogh account coverage remains at up to \$250,000 separate from other types of accounts owned.

The aggregate amount of certificates in denominations of \$250,000 or more at December 31, 2017 and 2016, is approximately \$149,456,000 and \$141,772,000, respectively.

#### Note 7. Borrowed Funds

The Credit Union utilizes a demand loan agreement with the FHLB under a Securities-Backed Credit Program. The terms of the agreement call for pledging of certain investments held in safekeeping by the FHLB of approximately \$75,214,000 and \$95,511,000 at December 31, 2017 and 2016, respectively, as more fully described in Note 2. This current agreement provides for a maximum borrowing amount of approximately \$71,399,000.

The Credit Union also has a demand loan agreement with the FHLB under the Standard Credit Program. Any and all advances under this agreement are secured by certain first trust deeds of approximately \$2,204,950,000 and \$2,152,839,000 at December 31, 2017 and 2016, respectively, as more fully described in Note 3. This current agreement provides for a maximum borrowing amount of approximately \$1,846,934,000. There is an overall maximum financing availability of approximately \$1,569,184,000 at the FHLB.

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

---

#### Note 7. Borrowed Funds (Continued)

At December 31, 2017, total borrowings under the above agreements were \$310,000,000, with interest rates ranging from 1.37 percent and 1.41 percent. All outstanding borrowings mature on January 2, 2018. At December 31, 2016, total borrowings under the above agreements were \$80,000,000, with an interest rate of 0.52 percent, maturing on January 5, 2017.

The following is other pertinent data with respect to short-term borrowings with the FHLB for the years ended December 31:

	2017	2016
Average borrowings during the year	\$ 501,883,721	\$ 157,035,714
Maximum amount outstanding during the year	1,449,000,000	830,000,000
Weighted-average monthly interest on borrowings:		
During the year	1.0%	0.4%
At year-end	1.4%	0.5%

The Credit Union also has a borrowing agreement with the Federal Reserve Bank's Discount Window. The total borrowing limit under this agreement is based on any amount that can be pledged as collateral to cover any such advances. At December 31, 2017 and 2016, there were no borrowings under this agreement and there was no collateral pledged as security.

#### Note 8. Off-Balance-Sheet Activities

The Credit Union is 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 amounts recognized in the consolidated financial statements.

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

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. However, if all commitments were to be drawn upon, it would result in significant liquidity pressure for the Credit Union. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained to secure borrowings on the lines of credit is based on management's credit evaluation of the member.

Unfunded commitments under revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized, 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.

Outstanding commitments to fund mortgage loans at December 31, 2017 and 2016, total approximately \$73,796,000 and \$74,542,000, respectively.

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

---

#### Note 8. Off-Balance-Sheet Activities (Continued)

Unfunded loan commitments under lines of credit are summarized as follows at December 31:

	2017	2016
Credit card	\$ 544,364,000	\$ 400,029,000
Home equity	404,402,000	336,269,000
Other	19,919,000	19,513,000
	<u>\$ 968,685,000</u>	<u>\$ 755,811,000</u>

#### Note 9. Commitments and Contingent Liabilities

The Credit Union is party to various legal actions normally associated with collections of loans and other business activities of financial institutions, the aggregate effect of which, in management's opinion, would not have a material adverse effect on the financial condition or results of operations of the Credit Union.

The Credit Union had approximately \$27,000,000 and \$30,755,000 in outstanding commitments to sell loans to the secondary market or for investment purposes at December 31, 2017 and 2016, respectively.

#### Note 10. Employee Benefits

**Defined benefit pension plan:** The Credit Union, through its subsidiary, sponsors a defined benefit pension plan for the benefit of its employees. The plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Credit Union and compensation levels at retirement. Contributions to the plan reflect benefits attributed to employees' services to date, as well as services expected to be earned in the future.

Effective December 31, 2006, the plan was amended to freeze the benefit accrual for salaried employees who are under the age of 40 with less than five years of service as of December 31, 2006.

The Codification requires the Credit Union to recognize the funding status of its defined benefit pension plan in its consolidated statements of financial condition, with a corresponding adjustment to accumulated other comprehensive income. Net unrecognized actuarial losses and unrecognized prior service costs are recognized as net periodic pension plan cost pursuant to the Credit Union's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that are not recognized as net periodic pension cost in the same period will be recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic pension plan cost on the same basis as the amounts recognized in accumulated other comprehensive income.

**Logix Federal Credit Union and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 10. Employee Benefits (Continued)**

	2017	2016
Benefit obligation	\$ (77,889,940)	\$ (69,342,860)
Fair value of plan assets	60,997,717	50,212,046
Funded status	<u>\$ (16,892,223)</u>	<u>\$ (19,130,814)</u>

Amounts recognized in the consolidated statements of financial condition pension liability

	<u>\$ (16,892,223)</u>	<u>\$ (19,130,814)</u>
--	------------------------	------------------------

Accumulated benefit obligation

	<u>\$ (68,187,937)</u>	<u>\$ (59,604,641)</u>
--	------------------------	------------------------

	2017	2016
Net pension cost	\$ 3,383,351	\$ 3,429,170
Employer contribution	4,670,000	7,600,000
Plan participants' contribution	-	-
Benefit payments	1,425,050	1,259,493

Amounts recognized in accumulated other comprehensive loss at December 31 consist of the following:

	2017	2016
Loss	\$ 23,093,780	\$ 23,844,043
Prior service cost	1,529,121	1,730,800
	<u>\$ 24,622,901</u>	<u>\$ 25,574,843</u>

The following are the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic pension cost over the next year ending December 31, 2018:

Loss	\$ 1,523,469
Prior service cost	184,971

	2017	2016
Assumptions used to determine benefit obligation:		
Discount rate	3.7%	4.2%
Rate of compensation increase	4.0%	4.0%

	2017	2016
Assumptions used to determine net pension cost:		
Discount rate	3.8%-4.3%	3.9%-4.5%
Expected long-term return on plan assets	6.6%	6.6%
Rate of compensation increase	4.0%	4.0%

Expected long-term return on plan assets is determined by using industry averages from other institutions with similar plan asset allocations.

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 10. Employee Benefits (Continued)

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

	2017	2016
Equity securities (including common collective trust funds)	71.8%	67.4%
Fixed-income securities	24.7%	27.0%
Money market funds	3.5%	5.6%
	<u>100.0%</u>	<u>100.0%</u>

The Credit Union has developed asset allocation and diversification guidelines, which are monitored for compliance by the Investment Committee on a quarterly basis. The guidelines were established to optimize the pension plan's expected return based on the Credit Union's risk tolerance.

The fair values of the Credit Union's pension plan assets by asset category are as follows:

Asset Category	Total	Fair Value Measurements at December 31, 2017		
		Level 1	Level 2	Level 3
Money market funds	\$ 2,167,058	\$ 2,167,058	\$ -	\$ -
Mutual funds:				
Fixed-income funds	15,051,061	15,051,061	-	-
Equity funds	4,766,482	4,766,482	-	-
Other equity funds	33,067,472	33,067,472	-	-
Balance funds	5,945,644	5,945,644	-	-
	<u>\$ 60,997,717</u>	<u>\$ 60,997,717</u>	<u>\$ -</u>	<u>\$ -</u>

Asset Category	Total	Fair Value Measurements at December 31, 2016		
		Level 1	Level 2	Level 3
Money market funds	\$ 2,800,864	\$ 2,800,864	\$ -	\$ -
Mutual funds:				
Fixed-income funds	13,565,561	13,565,561	-	-
Equity funds	5,111,823	5,111,823	-	-
Other equity funds	23,182,703	23,182,703	-	-
Balance funds	5,551,095	5,551,095	-	-
	<u>\$ 50,212,046</u>	<u>\$ 50,212,046</u>	<u>\$ -</u>	<u>\$ -</u>

The Credit Union expects to contribute \$4,670,000 to the plan for the year ending December 31, 2018.

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

Years ending December 31:	
2018	\$ 1,945,409
2019	2,272,618
2020	2,565,875
2021	2,913,346
2022	3,222,852
2023 and thereafter	20,846,672
	<u>\$ 33,766,772</u>

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 10. Employee Benefits (Continued)

**Other postretirement benefits plan:** The Credit Union, through its subsidiary, sponsors a healthcare plan that provides postretirement medical and life insurance benefits to full-time employees who meet minimum age and service requirements. The plan is contributory with retiree contributions adjusted annually, and contains other cost-sharing features such as deductibles and co-insurance. The accounting for the plan anticipates future cost-sharing changes to the written plan that are consistent with the Credit Union's expressed interest to increase the retiree contribution rate annually for the expected general inflation rate for that year. The Credit Union's policy is to fund the cost of medical benefits in amounts determined at the discretion of management. There are no assets set aside to prefund the liability associated with the plan.

	2017	2016
Benefit obligation	\$ (1,938,629)	\$ (1,888,920)
Fair value of plan assets	-	-
Funded status	<u>\$ (1,938,629)</u>	<u>\$ (1,888,920)</u>

Accrued benefit cost recognized in the consolidated statements of financial condition	<u>\$ (1,938,629)</u>	<u>\$ (1,888,920)</u>
---	-----------------------	-----------------------

	2017	2016
Net periodic postretirement benefit cost	\$ (71,547)	\$ (27,060)
Employer contribution	57,048	45,940
Benefit payments	57,048	45,940

Amounts recognized in accumulated other comprehensive loss at December 31 consist of the following:

	2017	2016
Gain	\$ (1,730,828)	\$ (1,927,088)
Prior service cost	72,905	90,861
	<u>\$ (1,657,923)</u>	<u>\$ (1,836,227)</u>

The following are the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic postretirement benefit cost over the next year ending December 31, 2018:

Gain	\$ (222,276)
Prior service cost	17,956

	2017	2016
Assumptions used to determine benefit obligation:		
Discount rate	3.7%	4.2%
Increase in health insurance premiums:		
Initial increase	7.5%	7.8%
Ultimate increase	4.3%	4.3%
Year ultimate reached	2032	2031

**Logix Federal Credit Union and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 10. Employee Benefits (Continued)**

	2017	2016
Assumptions used to determine net postretirement benefit cost:		
Discount rate	4.2%	4.5%
Expected long-term return on plan assets	NA	NA
Rate of compensation increase	NA	NA

The plan is unfunded, so the Credit Union makes benefit payments as they become due. The benefit payments are made from the general assets of the Credit Union.

The Credit Union expects to contribute approximately \$75,000 to the plan for the year ending December 31, 2018.

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

Years ending December 31:		
2018	\$	155,580
2019		168,584
2020		170,668
2021		182,300
2022		205,128
2023 and thereafter		1,019,074
		<u>\$ 1,901,334</u>

**Supplemental executive retirement plan:** The Credit Union, through its subsidiary, also sponsors a defined benefit supplemental executive retirement plan for selected employees. The plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Credit Union and compensation levels at retirement. No contributions, except to fund benefit payments, have been made to the plan since inception. Therefore, there are no plan assets.

	2017	2016
Benefit obligation	\$ (7,006,239)	\$ (5,787,156)
Fair value of plan assets	-	-
Funded status	<u>\$ (7,006,239)</u>	<u>\$ (5,787,156)</u>
Accrued benefit cost recognized in the consolidated statements of financial condition	<u>\$ (7,006,239)</u>	<u>\$ (5,787,156)</u>

**Logix Federal Credit Union and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 10. Employee Benefits (Continued)**

	2017	2016
Net periodic postretirement benefit cost	\$ (787,742)	\$ (743,895)

Amounts recognized in accumulated other comprehensive loss at December 31 consist of the following:

	2017	2016
Loss	\$ 2,829,074	\$ 2,217,004
Prior service cost	121,824	159,548
	<u>\$ 2,950,898</u>	<u>\$ 2,376,552</u>

The following are the amounts in accumulated other comprehensive income expected to be recognized as components of net period postretirement benefit cost over the next year ending December 31, 2018:

Loss	\$ 301,485
Prior service cost	37,724

	2017	2016
Assumptions used to determine benefit obligation:		
Discount rate	3.7%	4.2%
Rate of compensation increase	4.5%	4.5%
Pension increases for in-payment and deferred benefits	0.0%	0.0%

	2017	2016
Assumptions used to determine net postretirement benefit cost:		
Discount rate	4.2%	4.5%
Expected long-term return on plan assets	NA	NA
Rate of compensation increase	4.5%	4.5%

The plan is unfunded, so the Credit Union makes benefit payments as they become due. The benefit payments are made from the general assets of the Credit Union.

The Credit Union does not expect to contribute to the plan for the year ending December 31, 2018.

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

Years ending December 31:	
2018	\$ 241,360
2019	292,684
2020	314,365
2021	349,738
2022	363,762
2023 and thereafter	1,992,875
	<u>\$ 3,554,784</u>

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

---

#### Note 10. Employee Benefits (Continued)

**401(k) plan:** The Credit Union has a 401(k) defined contribution plan that allows eligible employees to defer a portion of their salary into the 401(k) plan. There is no minimum age or minimum service requirement for eligibility. The Credit Union matches a portion of employees' wage reductions. Plan costs are accrued and funded on a current basis. The Credit Union contributed approximately \$1,895,000 and \$1,677,000 to the plan for the years ended December 31, 2017 and 2016, respectively, which is included in noninterest expense in the consolidated statements of income.

**Supplemental savings plan:** The Credit Union has a supplemental savings plan for eligible executives that allows them to contribute in excess of their maximum 401(k) plan contribution. The Credit Union provides a corresponding matching amount for these executives at the Credit Union's discretion. The liability associated with this supplemental savings plan is approximately \$5,187,000 and \$4,102,000 at December 31, 2017 and 2016, respectively.

#### Note 11. Members' Equity

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines that involve quantitative measures of the Credit Union's assets, liabilities and certain off-balance-sheet items as calculated under U.S. GAAP. The Credit Union's capital amounts and 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. Further, credit unions over \$10,000,000 in assets are also required to calculate a Risk-Based Net Worth (RBNW) requirement that establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNW requirements were 5.63 percent and 5.28 percent as of December 31, 2017 and 2016, respectively. The minimum requirement to be considered "complex" under the regulatory framework is 6 percent. Management believes, as of December 31, 2017 and 2016, that the Credit Union meets all capital adequacy requirements to which it is subject.

Other appropriated retained earnings represent a restriction of retained earnings as established by the Board of Directors.

Key aspects of the Credit Union's minimum capital amounts and ratios at December 31 are summarized as follows:

	2017		2016	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Amount needed to be classified as "adequately capitalized"	\$ 323,031,737	6.00%	\$ 287,235,746	6.00%
Amount needed to be classified as "well-capitalized"	376,870,360	7.00%	335,108,371	7.00%
Actual net worth	854,879,962	15.9%	779,013,284	16.3%

As of December 31, 2017 and 2016, 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 percent of assets. There are no conditions or events since that notification that management believes have changed the institution's category.

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

---

#### Note 11. Members' Equity (Continued)

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

#### Note 12. Related-Party Transactions

The Credit Union has had, and may be expected to have in the future, transactions in the ordinary course of business with directors, supervisory committee members and executive officers (commonly referred to as related parties). In management's opinion, these loans and transactions were on the same terms as those for comparable loans and transactions with non-related parties.

Aggregate loan transactions with related parties for the years ended December 31 were as follows:

	2017	2016
Balance, beginning of year	\$ 3,398,000	\$ 3,928,000
New loans	289,000	1,437,000
Repayments	(378,000)	(1,967,000)
Balance, end of year	<u>\$ 3,309,000</u>	<u>\$ 3,398,000</u>

None of the loans are past due, nonaccrual or restructured to provide a reduction or deferral of interest or principal because of deteriorations in the financial position of the borrower. There were no loans to a related party that were considered classified loans at December 31, 2017 or 2016.

Total undisbursed loan commitments outstanding with related parties were approximately \$1,412,450 at December 31, 2017.

Deposits from related parties at December 31, 2017 and 2016, amounted to approximately \$2,121,000 and \$2,451,000, respectively.

#### Note 13. Fair Value

The following methods and assumptions were used by the Credit Union in estimating fair values as disclosed herein:

**Financial instruments:** Fair value represents management's best estimates based on a range of methodologies and assumptions. The carrying value of short-term financial instruments (such as cash and cash equivalents), other investments, as well as receivables and payables arising in the ordinary course of business (such as accrued interest receivable and dividends payable) approximates fair value because of the relatively short period of time between the origination and expected realization. The fair value of the Credit Union's off-balance-sheet commitments are estimated using fees charged to others to enter into similar agreements, taking into account the remaining terms of the agreements and credit standing of the members. The estimated fair value of these commitments is not significant.

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

---

#### Note 13. Fair Value (Continued)

The Credit Union's policies for the determination of fair value of other financial instruments for disclosure or measurement are described below:

**Investment securities:** The Credit Union considers the inputs utilized to fair value the U.S. agency and U.S.-sponsored agency issued debt securities (callable and noncallable notes), private label securities, MBSs guaranteed by those agencies and CMOs issued by those agencies within Level 2 of the valuation hierarchy, which are derived from readily available pricing sources and third-party pricing services for identical or comparable instruments, respectively. However, the fair value reported may not be indicative of the amounts that could be realized in an actual market exchange.

**Impaired loans, net, and loans held for sale:** When quoted market prices are not available, the fair value of loans receivable is generally based upon observable market prices of similar instruments, including loans with similar characteristics. If observable market prices are not available, fair value is based upon estimated cash flows adjusted for credit risk that are discounted using an interest rate appropriate for the maturity of the applicable loans or the unfunded commitments.

The inputs for the determination of the fair value of loans are generally classified within Level 2 of the valuation hierarchy. However, certain of the Credit Union's loans, including nonperforming loans, are classified within Level 3 due to the lack of observable pricing data. The fair value of these Level 3 loans is calculated with a discounted cash flows model using market-based credit spreads of comparable debt instruments or credit derivatives of the specific borrower or comparable borrowers. Results of discounted cash flow calculations may be adjusted, as appropriate, to reflect other market conditions or the perceived credit risk of the borrower.

Loans held for sale are required to be measured at the lower of cost or fair value. The market value represents fair value. Management obtains quotes or bids on all or part of these loans directly from the purchasing financial institutions, which is a Level 2 input. Premiums received or to be received on the quotes or bids are indicative of the fact that cost is lower than fair value.

**Mortgage servicing rights:** MSR's do not trade in an active, open market with readily observable prices. While sales of MSR's do occur, the precise terms and conditions typically are not readily available. Accordingly, the Credit Union estimates the fair value of MSR's and certain other retained interests in securitizations using discounted cash flow models incorporating numerous assumptions from the perspective of market participants, including servicing income, servicing costs, market discount rates, prepayment speeds and default rates. Due to the nature of the valuation inputs, MSR's are classified within Level 3 of the valuation hierarchy.

**Nonfinancial assets:** The Credit Union's primary nonfinancial assets subject to fair value measurement include foreclosed property.

**Fair value on a recurring basis:** The tables below present the balances of assets measured at fair value on a recurring basis:

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
CMOs, agency residential	\$ 20,604,000	\$ -	\$ 20,604,000	\$ -
CMOs, private residential	15,736,000	-	15,736,000	-
MBSs, agency residential	188,231,000	-	188,231,000	-
	<u>\$ 224,571,000</u>	<u>\$ -</u>	<u>\$ 224,571,000</u>	<u>\$ -</u>

## Logix Federal Credit Union and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 13. Fair Value (Continued)

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
CMOs, agency residential	\$ 28,342,000	\$ -	\$ 28,342,000	\$ -
CMOs, private residential	21,615,000	-	21,615,000	-
MBSs, agency residential	262,815,000	-	262,815,000	-
	<u>\$ 312,772,000</u>	<u>\$ -</u>	<u>\$ 312,772,000</u>	<u>\$ -</u>

**Fair value on a nonrecurring basis:** Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following tables present those assets, by caption and by level within the valuation hierarchy, and any nonrecurring change in fair value:

	Carrying Value at December 31, 2017			
	Total	Level 1	Level 2	Level 3
Loans held for sale	\$ 26,691,000	\$ -	\$ 26,691,000	\$ -
Impaired loans, other than TDRs	9,789,000	-	-	9,789,000
TDRs	33,259,000	-	-	33,259,000
Foreclosed property	832,000	-	-	832,000
MSRs	11,447,000	-	-	11,447,000

	Carrying Value at December 31, 2016			
	Total	Level 1	Level 2	Level 3
Loans held for sale	\$ 15,212,000	\$ -	\$ 15,212,000	\$ -
Impaired loans, other than TDRs	13,400,000	-	-	13,400,000
TDRs	30,686,000	-	-	30,686,000
Foreclosed property	1,198,000	-	-	1,198,000
MSRs	9,989,000	-	-	9,989,000

Nonrecurring basis fair value measurement instruments include certain impaired loans as described in Note 3. The tables above reflect the loan receivable amounts for impaired loans and TDRs after the application of valuation allowances. The specific reserves for collateral-dependent impaired loans are based on the fair value of the collateral less estimated costs to sell. The fair value of collateral was determined based on appraisals or discounted cash flow models. In some cases, adjustments were made to the appraised values for various factors, including age of the appraisal, age of comparable included in the appraisal, and known changes in the market and in the collateral. When significant adjustments were based on unobservable inputs, the resulting fair value measurement has been categorized as a Level 3 measurement.

Foreclosed property consists of other real estate owned and repossessed automobiles. Note 1 describes the accounting policy applied to such assets. In accordance with U.S. GAAP, for fair value measurement purposes, the Credit Union excludes transaction costs such as costs to sell or dispose of the property.

The fair value for MSRs is based on a discounted cash flow model that calculates the present value of estimated future net servicing income, as more fully described in Note 1.