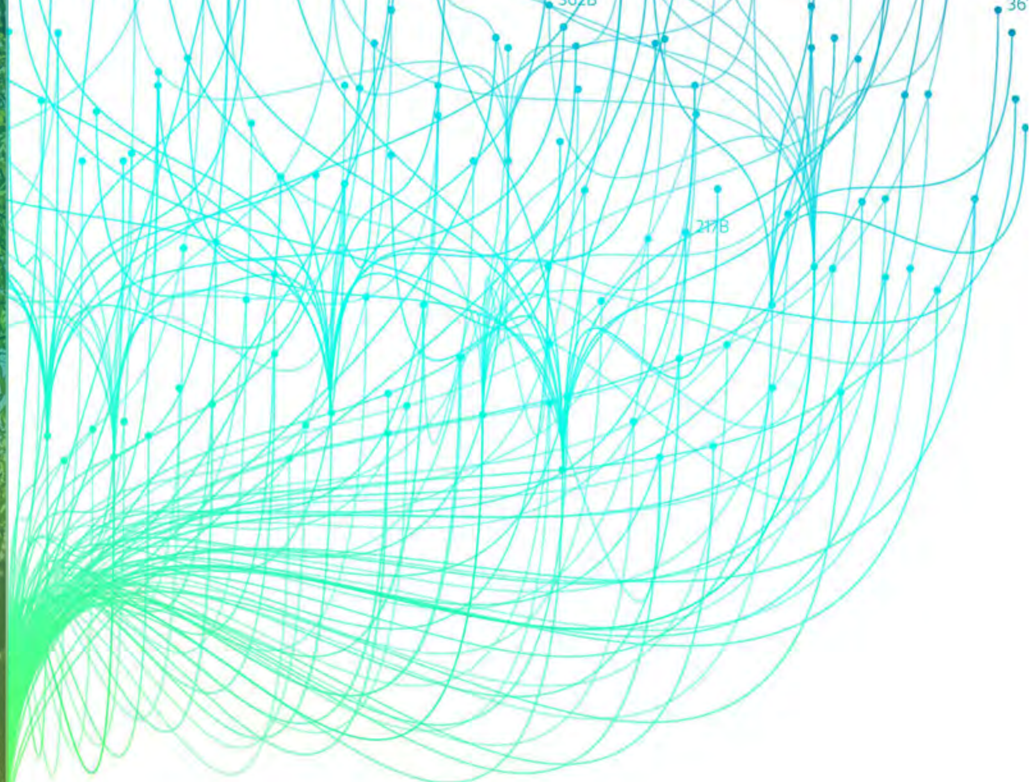
FAIRWINDS
CREDIT UNION

2018



Vision

Members financially secure and economically successful and responsible.

Mission

Improve members' financial well-being.

Core Values

Advocacy

Good Stewardship

Caring Environment

Honesty and Integrity

Cooperative Principles

Community Commitment

Exceptional Service and Value

Contents

Chairman's & President's Report

Jason Albu
Chairman

Larry Tobin
President/CEO

Thanks to the loyal support of *FAIRWINDS* members and the continued dedication of our crewmembers, we're proud to say that 2018 wasn't just a great year. It was an outstanding year.

At the core of this achievement lies a companywide commitment to making the financial well-being of members our top priority, ensuring the products, service, experience and guidance we provide supports this objective.

Members often seek our assistance when taking critical steps toward achieving life's biggest goals, and we take pride in helping them realize their dreams while keeping them on the path toward financial freedom.

Our 36- and 48-month auto loans along with our 15-year mortgage showcase our dedication to this lending approach. Each solution not only offers substantial savings on interest, they allow members to pay off debts much sooner.

By freeing up funds with a lower rate and shorter term, members are empowered to ramp up their savings efforts. Since this is such a crucial element of financial well-being, we're passionate about seeing members' savings thrive. That's why we introduced more higher-yield savings products this year, including our Add-On CDs and the popular Investor Savings Account.

And for those just starting their savings journey, our automated savings deposits and programs like **¢hange it up!** make achieving savings goals seem effortless. In fact, members have collectively rolled more than $1.4 million into their savings accounts since the launch of **¢hange it up!** in 2017.

Providing novice and experienced savers alike with products that match their needs is just one of the ways we improve our members' financial efficacy. We make the financial journey as straightforward, convenient and simple as possible with our mobile app, online applications, eAlerts, education articles and in-person seminars.

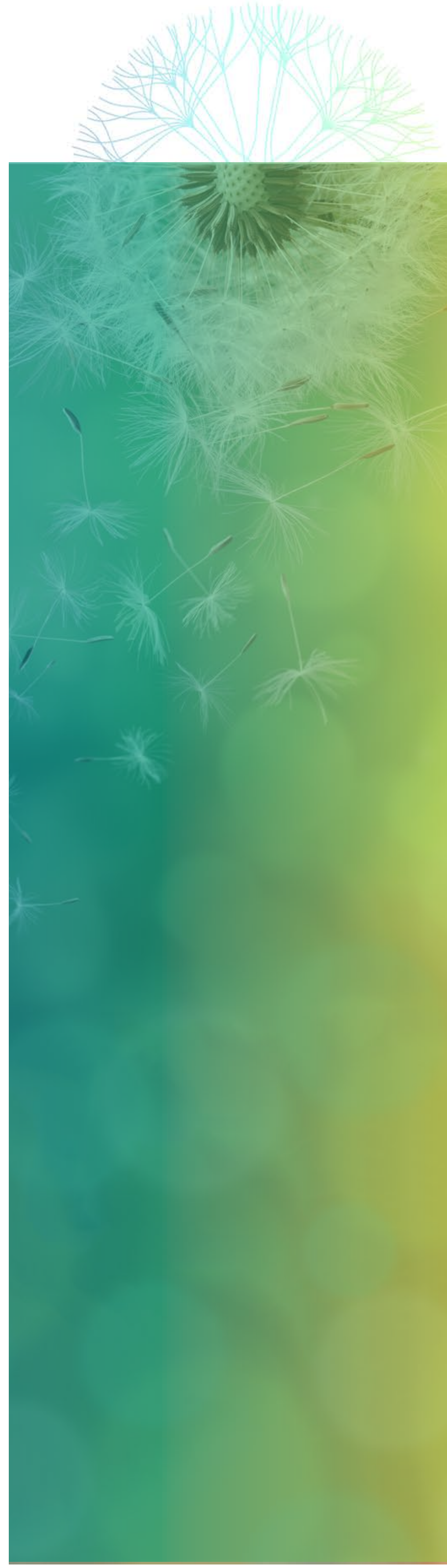
It's evident that our approach to being an expert you can count on has a direct impact on members' perception of the credit union, as shown in our 2018 Forrester CX Index results. When members were asked how effective we were at meeting their needs, how easy it was to work with us and how we made them feel, they rated us 83.8 overall, outperforming industry leaders such as Navy Federal Credit Union and USAA.

> It's evident that our approach to being an expert you can count on has a direct impact on members' perception of the credit union.

Beyond delighting members with our service, putting financial achievement within their reach contributes toward another core objective: strengthening and supporting our local community. After all, we believe that truly resilient communities are comprised of financially resilient citizens.

We strengthen the community by supporting local business as their financial institution of choice. We enhanced the experience of our business members with the phase one release of our *FAIRWINDS* Business Banking Suite.

It provides business members with an all-in-one app, allowing them to seamlessly manage their business finances from anywhere, along with same-day ACH origination and an intuitive design. Phase two of the



FAIRWINDS Business Banking Suite will release in 2019 with the additions of Positive Pay, Desktop Check Deposit and Credit Card Management.

The crewmembers who serve our business members enjoyed an upgrade, too, with the reimagination of the Corporate Tower's second floor. The technological improvements and new collaborative spaces were inspired by the transformation that took place at the *FAIRWINDS* Support Center.

> Our footprint in the community is deepened further through our partnerships with some of Central Florida's most recognized and influential organizations.

We're excited to continue our support of tomorrow's business leaders as the Official Student Banking Services Provider for the University of Central Florida. We look forward to the opening of UCF's expanded downtown campus in 2019. Its new location near our Downtown Orlando headquarters provides us with the opportunity to grow and cultivate new relationships with students, faculty, and staff.

Our footprint in the community is deepened further through our partnerships with some of Central Florida's most recognized and influential organizations, including Orlando City Soccer, the Orlando Magic, Dr. Phillips Center and the Orlando Philharmonic.

Through these valuable partnerships, we can provide members with exclusive offers, discounts, experiences and products. Plus, in 2018, we added several new ways for members to benefit even further.

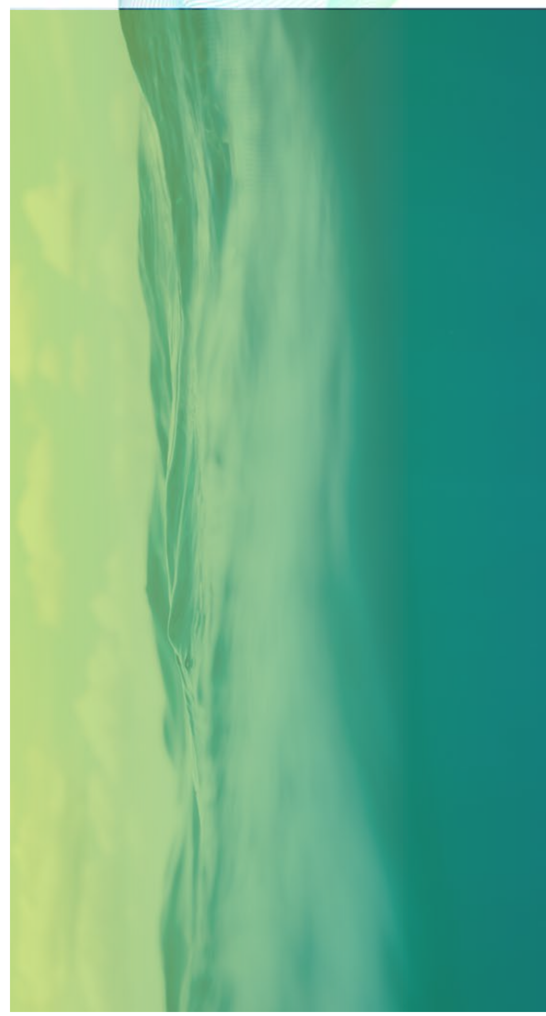
We introduced the *FAIRWINDS* Orlando Magic Visa® Credit Card along with a members-only feature within the Orlando Magic App, giving members exclusive access to purchase experiences like player meet-and-greets, arena tours and more. Similarly, our members now enjoy VIP access within the Dr. Phillips Center app, too, unlocking presales, discounts and special theater experiences.

We're helping enrich member experiences around the globe with our new *FAIRWINDS* Preferred Visa® Signature Credit Card. For every dollar spent using this card, members earn five points on travel, three points on dining, and two points on all other purchases, making this our most rewarding card yet.

As we enter our 70th year of service to our members and community, we're eager to make 2019 a success by doing what we do best.

As we enter our 70th year of service to our members and community, we're eager to make 2019 a success by doing what we do best: guiding you along the path toward financial freedom while helping you enjoy the best aspects of living in Central Florida.

Thank you for choosing *FAIRWINDS*. We are honored to serve you.



Looking Back on 2018

Here's a look back at how we helped our members, and our community, in 2018:

Enhancing the ways members can build savings

We introduced the Investor Savings Account as an added benefit for members investing with our Financial Advisors. With its liquidity, higher interest, no minimum deposits or balances, and no service charges, this product was met with enthusiasm by members.

To help other members earn more interest and see their savings grow, we introduced Add-On Certificates of Deposit (CDs). These CDs give members flexibility to make unlimited deposits throughout their term.

Optimizing our technology and improving convenience

Enhanced banking technology is now available to our business members with the phase one launch of the *FAIRWINDS* Business Banking Suite in December. It not only provides a more user-friendly platform and customization choices, members now enjoy an all-in-one app that offers a seamless experience from desktop to mobile.

Debit Card Instant Issue was introduced in our branches. It conveniently allows members to come into a branch and have a new debit card printed for them on demand.

Offering more rewarding ways to pay

We introduced our most rewarding credit card yet with the *FAIRWINDS* Preferred Visa® Signature Credit Card. Members with this card can earn five points per dollar spent on travel, three points on dining and two points on all other purchases. Plus, cardholders enjoy exclusive perks like rate discounts on qualifying *FAIRWINDS* loans and rate bumps on qualifying *FAIRWINDS* CDs.

Orlando Magic fans can now get a cash-back assist while representing their team spirit with the release of the official *FAIRWINDS* Orlando Magic Visa® Credit Card. It rewards members with 1.5% cash back on all purchases, no balance transfer fees and no foreign transaction fees.

Adding member-exclusive entertainment experiences

In another slam dunk for Magic fans, members can unlock exclusive game-day experiences within the Orlando Magic App, such as a Behind the Scenes Amway Center Tour, a Post-Game Player Meet and Greet and a Magic Locker Room Tour.

We also partnered with the Dr. Phillips Center to add member-exclusive features to their app, including show-night discounts at the Grand Bohemian Hotel Orlando, a Behind-the-Scenes Tour and access to purchase presale tickets.

Deepening our footprint within the community

Our crewmembers lent a helping hand in the community this year by volunteering at organizations including Second Harvest Food Bank, Ronald McDonald House, A Gift For Teaching and the Impower Holiday Project. Crewmembers and members also pledged $16,656 to the United Way Campaign, collected more than 13,000 donations to A Gift For Teaching and participated in a Holiday Toy Drive benefiting New Hope For Kids and the Seminole County Sheriff's Office Christmas Village.

We further solidified our position as an employer of choice in Central Florida. In 2018, we were listed among the *Orlando Sentinel's* "Best Companies for Working Families," *Orlando Business Journal's* "Best Places to Work in Central Florida" and *Florida Trend's* "Best Companies to Work for in Florida."

Looking Ahead to 2019

2018 was an outstanding year, thanks to you, our members. Here are highlights of how you can continue to count on your credit union in 2019:

We take great pride in providing cutting-edge solutions that make it easy for you to access and manage your account, anywhere, anyplace, anytime. With your convenience in mind, we are excited to provide even greater enhancements to our account management and payments solutions in 2019. You'll have access to a robust suite of customized real-time e-Alerts, helping you to stay on top of your finances at all times. We also look forward to offering access to some of the top digital payments platforms in the market.

Keeping you informed about important credit union information and updates, new savings, and member-only offers is always a priority. You can expect more personalized, real-time communications with you in 2019 that will include special offers, savings, and information tailored to meet your needs.

On the heels of the new *FAIRWINDS* Business Banking Suite that launched in December 2018, business members will continue to see new technology upgrades arriving, helping you seamlessly manage your business around the globe. New enhancements arriving in 2019 include: desktop check deposit, positive pay, and credit card management.

The *FAIRWINDS* Business Cash Visa and *FAIRWINDS* Business Rewards Visa Credit Cards will offer even more ways to save. Business members will enjoy to new redemption earnings and spending bonuses, making *FAIRWINDS* membership more rewarding – and powerful – than ever.

Treasurer's Report

Kelly D. Leary
Treasurer

FAIRWINDS Credit Union has demonstrated a proven track record of building on the success of the previous year, and 2018 was no exception. It proved to be another year of breaking records, with your credit union continuing to be one of the largest and most trusted financial institutions in the expanding Central Florida market.

> Rest assured that *FAIRWINDS'* performance in 2018 reinforces that your credit union remains safe, sound, and secure.

Soundness and Asset Quality

Confidence and trust in a financial institution is paramount. Rest assured that *FAIRWINDS'* performance in 2018 reinforces that your credit union remains safe, sound, and secure.

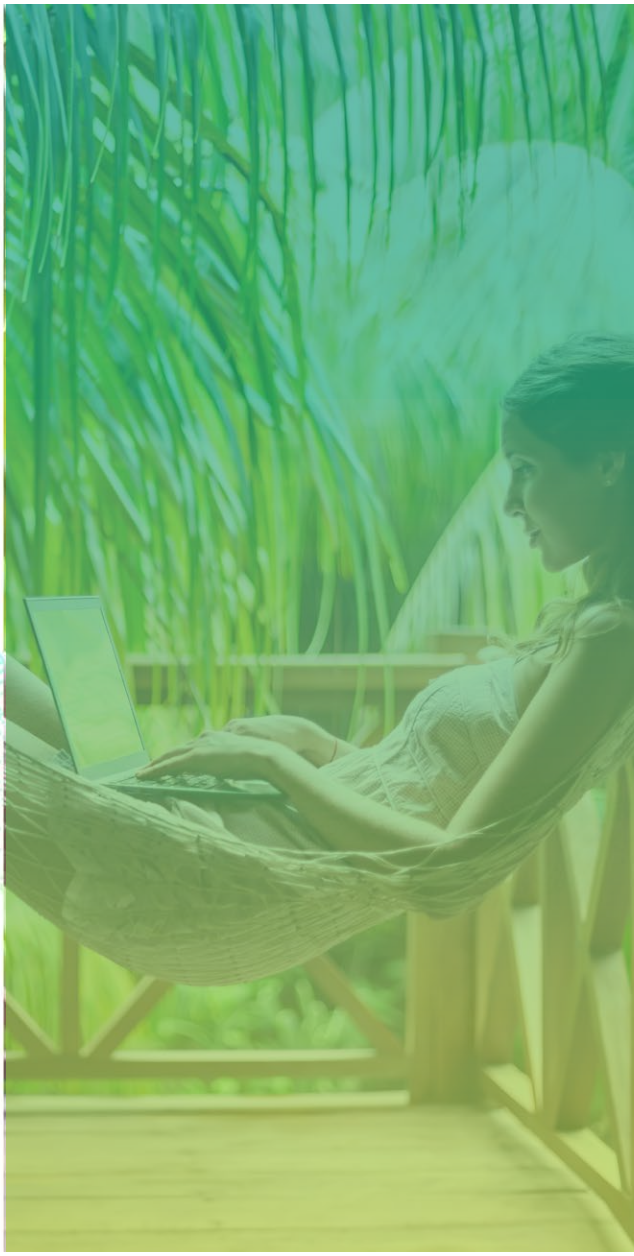
- **Net income** increased from $22.7 million in 2017 to $30.7 million in 2018.
- **Return on Assets** grew from 1.05% to 1.35%.
- **The Net Worth Ratio** climbed from 10.51% to 11.15%, well above the National Credit Union Administration's standard of 7.00%.
- **Delinquency** increased slightly from 0.44% in 2017 to 0.59% in 2018.
- **Charge-offs** decreased from 0.23% in 2017 to 0.16% in 2018.

Lending

Members counted on their credit union for some of the most competitive savings in the market and unmatched service for their personal, home, commercial, and small business financing needs.

- $547 million in **consumer loans** were disbursed in 2018, outperforming 2017's disbursements of $432 million.
- The competitive Central Florida housing market, combined with the ongoing low rate environment, resulted in more than $308 million disbursed in **mortgage loans**, up from $227 million in 2017.
- *FAIRWINDS'* **commercial and small business lending** division disbursed $71 million, an increase from $64 million in 2017.

Members trusted us to be good stewards for their savings and investments in 2018, helping them to further improve their financial well-being.



Assets Under Management and Investments

Members trusted us to be good stewards for their savings and investments in 2018, helping them to further improve their financial well-being.

- **Member deposits** grew $77 million, an increase of 4.08% from 2017.
- Our **Retirement Planning portfolio** increased to $453 million.

2018 truly was an outstanding year. We look forward to delivering even more exceptional performances in 2019. Thank you for choosing *FAIRWINDS* to be your trusted advisor.

Audit Committee Report

Elizabeth Krahmer

Audit Committee Chairman

As member advocates, not only are we dedicated to doing what is in our members' best interest, we are committed that the credit union operate to the highest levels of safety, soundness and security. Part of this commitment includes regular and ongoing audits of the credit union's annual financial statements, information systems review, operational and compliance reviews, and internal controls reviews. Each year the *FAIRWINDS* Audit Committee, serving independently from the credit union, appoints a third-party accounting firm to conduct an unbiased audit of *FAIRWINDS'* financial condition. In 2018, Doeren Mayhew, CPA, was charged with conducting the audit.

Doeren Mayhew, CPA has issued an unqualified opinion that the financial statements fairly, in all material respects, represent the financial position of the credit union as of September 30, 2018. Results of the audit report state that the credit union's financial statements are sound and free from material misstatements. Based upon these independent external audits and ongoing internal audits conducted by our Internal Audit department, on behalf of the Audit Committee, I am pleased to state that *FAIRWINDS* Credit Union's operations continue to be well-managed. *FAIRWINDS* members can count on their credit union to protect their money and financial information at all times.

Consolidated Financial Statements

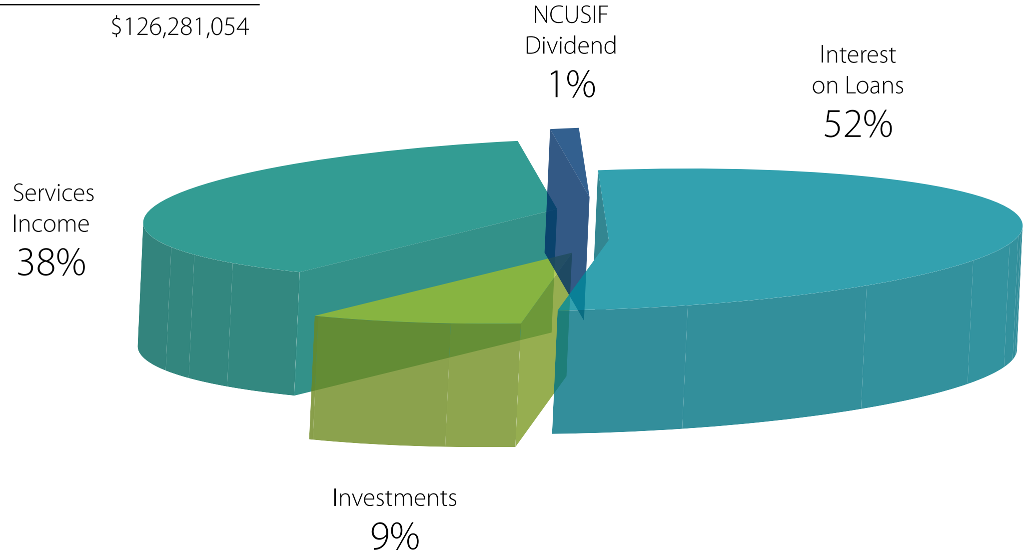
Assets	As of December 31, 2017	As of December 31, 2018
Net Loans to Members	$1,493,711,502	$1,714,872,108
Cash & Due from Banks	$45,558,176	$27,275,615
Government & Agency Securities	$449,445,284	$395,998,821
Other Investments	$45,088,993	$46,327,742
Fixed Assets	$94,808,152	$93,595,141
All Other Assets	$40,761,101	$41,919,288
Total Assets	$2,169,373,208	$2,319,988,715

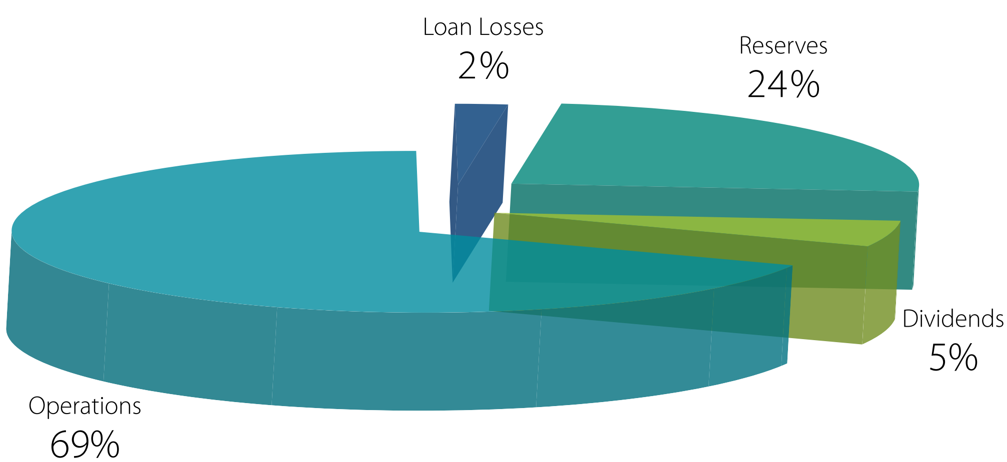
Liabilities & Members' Equity	As of December 31, 2017	As of December 31, 2018
Accounts Payable & Liabilities	$54,098,379	$101,785,953
Members' Shares & Deposits	$1,890,919,302	$1,968,084,027
Reserves & Undivided Earnings	$224,355,527	$250,118,734
Total Liabilty and Member's Equity	$2,169,373,208	$2,319,988,715

Statement of Income	As of December 31, 2017	As of December 31, 2018
Interest on Loans	$57,104,672	$65,994,020
Investment Income	$11,357,999	$11,173,215
Other Income	$45,235,972	$47,848,455
NCUSIF Distribution (Dividend)	$0	$1,265,364
Total Income	$113,698,643	$126,281,054
Operating Expenses	($81,662,046)	($87,937,011)
Provision for Loan Losses	($2,753,687)	($2,649,863)
Non-Operating Gains/(Losses)	($932,189)	$1,344,253
Dividends and Interest	($5,663,797)	($6,322,233)
Total Expenses	($91,011,718)	($95,564,853)
Net Earnings	$22,686,925	$30,716,201

Vital Statistics	As of December 31, 2017	As of December 31, 2018
Number of Members	180,986	190,040
Number of Loans Granted	16,555	20,373
$$$ of Loans Granted	$882,003,672	$1,029,672,568
Number of Loans Granted Since Organized	1,050,698	1,071,071
$$$ of Loans Granted Since Organized	$10,683,255,719	$11,712,928,287

Sources of Income	
Interest on Loans	$65,994,020
Investments	$11,173,215
Services Income	$47,848,455
NCUSIF Dividend	$1,265,364
Total	$126,281,054





Users of Income	
Loan Losses	$2,649,863
Reserves	$30,716,201
Dividends	$6,322,233
Operations	$86,592,758
Total	$126,281,054

Board of Directors

Jason Albu
Chairman

Lisa Snead
Vice Chair

Carol F. Denton
Secretary

Kelly D. Leary
Treasurer

Richard Leigh
Director

B. Daniel McNutt, Jr.
Director

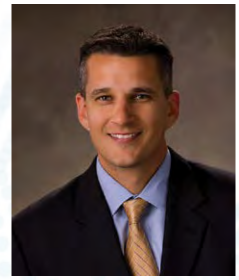
Mack R. Perry
Director

Management Team

Larry F. Tobin
President/CEO

Kathy A. Chonody
Senior Executive VP/CFO

Phillip C. Tischer
Senior Executive VP/COO

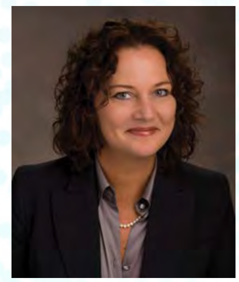


James D. Adamczyk
Senior Executive VP/CLO

Cathy M. Hertz
Executive VP - Human Resources

Mathy M. Hogan
Executive VP - Administration

Charles S. Lai
Executive VP/CIO



Dianne K. Owen
Executive VP - Marketing

Thomas R. Baldwin
Senior VP - Retirement Planning

Daniel T. Bock III
Senior VP - Finance

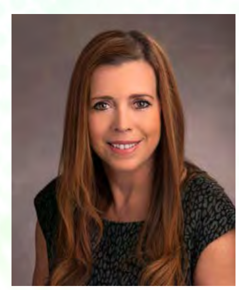
Andrew T. Dixon
Senior VP - General Counsel

Derek V. Drake
Senior VP - Risk Management

Jorge M. Font
Senior VP - Business Services

Bryan S. Meizinger
Senior VP - Retail Lending

James M. Thornberry
Senior VP - Operations



Kim B. Wightman
Senior VP - Accounting/Controller

Independent Auditor's Report

To the Board of Directors and Audit Committee of

FAIRWINDS **Credit Union and Subsidiaries**

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Fairwinds Credit Union and Subsidiaries, which comprise the consolidated statements of financial condition as of September 30, 2018 and 2017, and the related consolidated statements of earnings, comprehensive income, members' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from 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.

Auditor's Responsibility (Continued)

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 consolidated financial position of *FAIRWINDS* Credit Union and Subsidiaries as of September 30, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Troy, Michigan
December 14, 2018

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

SEPTEMBER 30, 2018 AND 2017

Assets	**2018**	**2017**
Cash and cash equivalents	$ 53,915,415	$ 82,236,883
Investment securities:		
Available-for-sale	435,439,234	503,946,029
Held-to-maturity	255,384	395,883
FHLB stock	5,140,000	3,994,600
Loans to members, net of allowance for loan losses	1,670,689,069	1,435,024,686
Accrued interest receivable	6,943,941	5,878,918
Property, equipment and leasehold improvements	93,696,847	93,552,732
NCUSIF deposit	18,217,442	17,103,341
Assets acquired in liquidation of loans	3,854,912	7,306,688
Investments in life insurance contracts	20,559,272	20,381,825
Other assets	13,528,752	10,260,716
Total assets	$ 2,322,240,268	$ 2,180,082,301

Liabilities and Members' Equity		
Liabilities:		
Members' shares and savings accounts	$ 1,974,471,018	$ 1,881,926,710
Borrowed funds	75,000,000	50,000,000
Supplemental executive retirement plan liability	9,575,847	7,351,126
Accrued expenses and other liabilities	23,082,852	19,407,949
Total liabilities	2,082,129,717	1,958,685,785
Commitments and contingent liabilities		
Members' equity:		
Regular reserves	14,459,893	14,459,893
Undivided earnings	237,363,091	208,426,994
Accumulated other comprehensive loss	(11,712,433)	(1,490,371)
Total members' equity	240,110,551	221,396,516
Total liabilities and members' equity	$ 2,322,240,268	$ 2,180,082,301

CONSOLIDATED STATEMENTS OF EARNINGS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	**2017**
Interest income:		
Loans receivable	$ 63,496,216	$ 55,554,942
Investment securities	12,222,345	11,270,599
Total interest income	75,718,561	66,825,541
Interest expense:		
Members' shares and savings	4,171,962	3,356,806
Borrowed funds	1,017,645	2,812,533
Total interest expense	5,189,607	6,169,339
Net interest income	70,528,954	60,656,202
Provision for loan losses	2,348,978	2,746,894
Net interest income after provision for loan losses	68,179,976	57,909,308
Non-interest income:		
Fees and charges	45,921,322	45,550,945
Market value increase (decrease) on trading securities and investments in life insurance contracts	1,797,612	4,768
Total non-interest income	47,718,934	45,555,713
Non-interest expenses:		
Compensation and benefits	46,284,038	43,335,075
Office operations	20,314,357	19,197,061
Operating expenses	12,676,891	10,418,430
Occupancy	7,475,950	6,893,953
Losses on sales and write-downs of assets in liquidation	182,982	1,081,856
Loss on disposals and write-downs of fixed assets	28,595	192,186
Total non-interest expenses	86,962,813	81,118,561
Net earnings	$ 28,936,097	$ 22,346,460
	28,936,097	22,346,460
	-	-

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	**2017**
Net earnings	$ 28,936,097	$ 22,346,460
Other comprehensive loss:		
Net changes in unrealized holding gains on investments classified as available-for-sale	(10,161,720)	(6,439,862)
Reclassification adjustment for securities gains included in net earnnings	(60,342)	-
Total other comprehensive loss	(10,222,062)	(6,439,862)
Comprehensive income	$ 18,714,035	$ 15,906,598

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Members' equity - October 1, 2016	$ 14,459,893	$ 186,080,534	$ 4,949,491	$ 205,489,918
Comprehensive income (loss)	-	22,346,460	(6,439,862)	15,906,598
Members' equity - September 30, 2017	14,459,893	208,426,994	(1,490,371)	221,396,516
Comprehensive income (loss)	-	28,936,097	(10,222,062)	18,714,035
Members' equity - September 30, 2018	$ 14,459,893	$ 237,363,091	$ (11,712,433)	$ 240,110,551

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	**2017**
Cash flows from operating activities:		
Net earnings	$ 28,936,097	$ 22,346,460
Adjustments to net cash provided from operating activities:		
Depreciation	5,448,893	4,601,999
Provision for loan losses	2,348,978	2,746,894
Net amortization of premiums on investment securities	926,646	1,012,289
Increases in market values of life insurance contracts	(1,797,612)	(161,951)
Gain on sale of available-for-sale investment securities	(60,342)	-
Loss on disposals and write-downs of fixed assets	28,595	192,186
Loss on sales and write-downs of assets in liquidation	182,982	1,081,856
Changes in assets and liabilities:		
Increase in accrued interest receivable	(1,065,023)	(381,216)
Increase in other assets	(1,880,736)	(3,535,890)
Increase in supplemental executive retirement plan liability	2,224,721	1,569,345
Increase in other accrued expenses and other liabilities	3,674,903	7,342,891
Total adjustments	10,032,005	14,468,403
Net cash provided from operating activities	38,968,102	36,814,863

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
Cash flows from investing activities:		
Net increase in loans to members	$ (240,547,101)	$ (148,285,332)
Proceeds from calls, maturities, and repayments of investment securities:		
Available-for-sale	128,598,975	93,712,913
Held-to-maturity	140,734	182,611
Purchases of investment securities - available-for-sale	(71,180,781)	(60,497,437)
Purchases of life insurance contracts	-	(702,277)
(Purchase) redemption of FHLB stock	(1,145,400)	926,300
Purchases of property and equipment	(8,645,941)	(20,059,218)
Premium payments on life insurance contracts	1,620,165	-
Proceeds from the sale of property and equipment	1,637,038	490,790
Proceeds from the sale of assets in liquidation	5,802,534	5,459,756
Net increase in NCUSIF deposit	(1,114,101)	(1,186,252)
Net cash used in investing activities	(184,833,878)	(129,958,146)
Cash flows from financing activities:		
Net increase in members' shares and savings accounts	92,544,308	113,087,174
Proceeds from advances	488,000,000	75,000,000
Repayment of borrowed funds	(463,000,000)	(100,000,000)
Net cash provided from financing activities	117,544,308	88,087,174
Net decrease in cash and cash equivalents	(28,321,468)	(5,056,109)
Cash and cash equivalents - beginning	82,236,883	87,292,992
Cash and cash equivalents - ending	$ 53,915,415	$ $82,236,883
Supplemental Information		
Interest and dividends paid	$ 5,189,607	$ $6,169,339
Assets acquired in the settlement of loans	$ 2,533,740	$ $3,087,185
Transfer of building held-for-sale to other assets	$ 1,387,300	$ -
	$ -	$ -

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

Note 1 - Nature of Business and Significant Accounting Policies

Nature of Business

FAIRWINDS Credit Union's (the Credit Union) operations are principally related to holding deposits for and making loans to individuals who qualify for membership. The field of membership is defined by the Credit Union's Charter and Bylaws.

FAIRWINDS Financial Services, L.L.C. is a wholly-owned subsidiary of the Credit Union. *FAIRWINDS* Financial Services, L.L.C.'s operations represent less than 1% of the consolidated totals for 2018 and 2017.

FAIRWINDS Insurance Services, L.L.C. is a wholly-owned subsidiary of *FAIRWINDS* Credit Union created to provide insurance products for members of the Credit Union. *FAIRWINDS* Insurance Services, L.L.C.'s operations represent less than 1% of the consolidated totals for 2018 and 2017.

Principles of Consolidation

The consolidated financial statements included the accounts of the Credit Union and its wholly-owned subsidiaries, *FAIRWINDS* Financial Services, L.L.C. and *FAIRWINDS* Insurance Services, L.L.C. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

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

Cash and Cash Equivalents

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

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

Investment Securities

Investments are classified into the following categories: held-to-maturity and available-for-sale. Investment securities classified as held-to-maturity are measured at amortized cost. This classification is based upon the Credit Union's intent and ability to hold these investment securities to full maturity. Investment securities classified as available-for-sale are measured at fair value as of the consolidated statement of financial condition date.

Unrealized gains and losses on available-for-sale investments are reported as a separate component of members' equity. Realized gains and losses on disposition, if any, are computed using the specific identification method. Investments are adjusted for the amortization of premiums and accretion of discounts as an adjustment to interest income on investments over the term of the investment.

Declines in the estimated fair value of individual investment securities below their cost that are other-than-temporary are reflected as realized losses in the consolidated statements of earnings. Factors affecting the determination of whether an other-than-temporary impairment has occurred include, among other things: (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near term prospects of the issuer, (iii) that the Credit Union does not intend to sell these securities, and (iv) it is more likely than not that the Credit Union will have the ability to hold the securities for a period of time sufficient to allow for any anticipated recovery in fair value.

Federal Home Loan Bank (FHLB) Stock

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

Loans to Members

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

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in the process of collection. Credit card loans and other personal loans are typically charged-off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

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

Loans to Members (Continued)

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

`Certain direct loan origination costs are deferred and recognized as an adjustment to interest income over the contractual life of the loans.

Allowance for Loan Losses

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

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

For purposes of determining the allowance, the Credit Union has segmented certain loans in the portfolio by product type. Loans are divided into the following segments: commercial, real estate, and consumer. The Credit Union further disaggregates these segments into classes based on the associated risks within those segments. Real estate loans are divided into first mortgages and home equity. Consumer loans are divided into secured and unsecured.

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

Allowance for Loan Losses (Continued)

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

These portfolio segments include commercial, real estate, and consumer with risk characteristics described as follows:

Commercial: Commercial loans not secured by real estate generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Commercial real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in decreased collateral values.

Real Estate: The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate, and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments.

Consumer: The consumer loan portfolio usually comprises a large number of small loans, including automobile, personal loans, bounce protection, etc. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

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

Allowance for Loan Losses (Continued)

Commercial Segment Methodology

For loans not individually evaluated, the Credit Union determines the allowance on a collective basis utilizing historical losses adjusted for current factors. This actual loss experience is adjusted for economic factors based on the risks present for each class of loans. As of September 30, 2018 and 2017, the historical loss time frame for each class was 60 months.

Consumer and Real Estate Segment Methodology

For loans not individually evaluated, the Credit Union determines the allowance on a collective basis utilizing historical losses adjusted for current factors. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment or class of loans. As of September 30, 2018 and 2017, the historical loss time frame for real estate loans was 36 months. As of September 30, 2018 and 2017, the historical loss time frame for consumer loans was 12 months.

Impaired Loans

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

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

Allowance for Loan Losses (Continued)

Troubled Debt Restructurings

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

Consumer and Real Estate Credit Quality Indicators

The majority of the Credit Union's consumer and real estate loan portfolio comprises secured loans that are evaluated at origination on a centralized basis against standardized underwriting criteria. The ongoing measurement of credit quality of the consumer and residential loan portfolios is largely done on an exception basis. If payments are made on schedule, as agreed, then no further monitoring is performed. However, if delinquency occurs, the delinquent loans are turned over to the Credit Union's special assets department for resolution, which generally occurs fairly rapidly and often through repossession and foreclosure. Credit quality for the entire consumer and real estate loan portfolio is measured by the periodic delinquency rate, nonaccrual amounts, and actual losses incurred.

The Credit Union evaluates the credit quality of loans in the consumer loan portfolio based primarily on the aging status of the loan and payment activity. Accordingly, nonaccrual loans and loans modified under troubled debt restructurings that are past due in accordance with the loans' original contractual terms are considered to be in a non-performing status for purposes of credit quality evaluation.

Commercial Credit Quality Indicators

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

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

Allowance for Loan Losses (Continued)

Commercial Credit Quality Indicators Continued)

The risk ratings can be grouped into five major categories, defined as follows:

Pass: A pass loan is a credit with no existing or known potential weaknesses deserving of management's close attention.

Special Mention: Loans classified as special mention have potential weaknesses, such as negative financial trends, a limited financial history, a serious documentation flaw, or inadequate control on the part of the Credit Union. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset. However, a loan rated "special mention" is considered fully collectible.

Substandard: A loan is "substandard" if there is the potential for loss. Such loans have well-defined weaknesses and are not fully protected either by the paying capacity of the borrower or the value of the secondary source of repayment. These loans are characterized by the distinct possibility that the Credit Union could sustain some loss if the deficiencies are not corrected.

Doubtful and Loss: The lowest risk ratings of "doubtful" and "loss" indicate increased loss potential. Such loans should have already been recognized and, more than likely, charged-off.

Loan Charge-off Policies

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

All loans will be charged-off once deemed uncollectible. Non-performing loans are charged-off in compliance with Section 655.044, Florida Statutes. Generally, non-performing loans are deemed to be a loss when they become six months delinquent unless it is determined prior that there is no collectability based on the established loan life collections process. This process includes well defined procedures and guidelines used to identify, monitor, and address non-performing loans and when they should be considered for charge-off.

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

Allowance for Loan Losses (Continued)

Loan Charge-off Policies (Continued)

In the overdraft program, deposit accounts that are negative for 60 consecutive days will be charged-off. All other negative balance deposit accounts will be written off as operational losses as appropriate.

Concentrations of Credit Risk

A significant amount of the Credit Union's business activity is with members who work or reside in the Orlando, Florida metropolitan area. Therefore, the Credit Union may be exposed to credit risk by the economic climate of the overall geographical region in which borrowers reside.

Property, Equipment and Leasehold Improvements

Land is carried at cost. Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are stated at cost, less accumulated amortization. Amortization is computed on the straight-line method over the length of the lease term. Assets classified as construction-in-process are not depreciated until the asset has been completed and placed into service. The Credit Union reviews property and equipment (long-lived assets) for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Maintenance, repairs, and minor alterations are charged to current operations as expenditures occur and major improvements are capitalized.

NCUSIF Deposit

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

Assets Acquired in Liquidation of Loans

Assets acquired in liquidation of loans represent collateral used to secure members' loans that have been acquired by the Credit Union in an effort to settle the members' loan and are recorded at the lower of cost or market less costs of liquidation.

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

Assets Acquired in Liquidation of Loans (Continued)

Upon acquisition, the assets are initially recorded at estimated fair value, less costs to sell, at the date of transfer, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the carrying amount or estimated fair value less costs to sell.

Investments in Life Insurance Contracts

The Credit Union owns investments in various life insurance contracts for key executives. These investments are recorded at their cash surrender value. Gains and losses from changes in value are recorded as part of net earnings.

Members' Shares and Savings Accounts

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

Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' shares and savings accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on members' share accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Income Taxes

The Credit Union and its Subsidiaries are exempt from most federal, state and local income taxes under the provisions of the Internal Revenue Code and state tax laws.

The Credit Union is a state-chartered credit union as described in Internal Revenue Code (IRC) Section 501(c)(14). As such, the Credit Union is exempt from federal taxation of income derived from the performance of activities that are in furtherance of its exempt purposes. However, IRC Section 511 imposes a tax on the unrelated business income (as defined in Section 512) derived by state-chartered credit unions. Many states have similar laws. The specific application of Section 512 to the various activities conducted by state-chartered credit unions has been an issue for many years. In 2007, the Internal Revenue Service (IRS) issued a series of Technical Advice Memoranda (TAM) to a number of state-chartered credit unions located throughout the country. In these TAMs, the IRS ruled certain products and services to be subject to taxation as unrelated business income. In light of the TAMs, the Credit Union has assessed its activities and any potential federal or state income tax liability.

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

Income Taxes (Continued)

In the opinion of management, any liability arising from federal or state taxation of activities deemed to be unrelated to its exempt purpose is not expected to have a material effect on the Credit Union's financial condition or results of operations. The Credit Union's income tax filings are subject to audit by various taxing authorities and open tax periods cover the three year period ending September 30, 2018.

Risks and Uncertainties

The Credit Union invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial condition and consolidated statements of earnings.

Recent Accounting Pronouncements

In January, 2016, the FASB issued Accounting Standards Update (ASU) 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. The changes to the current model primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The classification and measurement guidance will be effective for non-public business entities in fiscal years beginning after December 15, 2018, or they may early adopt for periods after December 15, 2017. The Credit Union is currently evaluating the impact of this ASU.

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

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

Recent Accounting Pronouncements (Continued)

The CECL model represents a significant change from existing GAAP, and may result in material changes to the Credit Union's accounting for loans. The Credit Union has not determined the effect that ASU 2016-13 will have on its consolidated financial statements and its related disclosures. The ASU will be effective for the Credit Union's September 30, 2022 annual financial statements. Early application is permitted for annual periods beginning January 1, 2019.

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

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including December 14, 2018, which is the date the consolidated financial statements were available to be issued.

Note 2 - Investment Securities

The following table presents the amortized cost and estimated fair value of investments as of September 30, 2018:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available-for-sale:				
Federal agency securities	$ 94,572,901	$ -	$ (868,792)	$ 93,704,109
Collateralized mortgage obligations	200,702,996	27,927	(9,376,391)	191,354,532
Mortgage-backed securities	69,680,475	22,754	(2,610,695)	67,092,534
Corporate bonds	65,057,253	-	(1,231,103)	63,826,150
Mutual funds	17,138,042	2,323,867	-	19,461,909
Total securities available-for-sale	$ 447,151,667	$ 2,374,548	$ (14,086,981)	$ 435,439,234
Securities to be held-to-maturity:				
Mortgage-backed securities	$ 255,384	$ 7,430	$ -	$ 262,814

The following table presents the amortized cost and estimated fair value of investments as of September 30, 2017:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available-for-sale:				
Federal agency securities	$ 119,484,862	$ 282,166	$ (156,268)	$ 119,610,760
Collateralized mortgage obligations	213,135,740	306,654	(3,244,415)	210,197,979
Mortgage-backed securities	75,955,994	174,365	(388,314)	75,742,045
Corporate bonds	80,076,605	337,416	(78,621)	80,335,400
Mutual funds	16,783,199	1,276,646	-	18,059,845
Total securities available-for-sale	$ 505,436,400	$ 2,377,247	$ (3,867,618)	$ 503,946,029
Securities to be held-to-maturity:				
Mortgage-backed securities	$ 395,883	$ 19,393	$ -	$ 415,276

Note 2 - Investment Securities (Continued)

The amortized cost and estimated market value of debt securities, at September 30, 2018, by contractual maturity, are shown below. Expected maturities on mortgage-backed securities will differ from contractual maturities because the borrower may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Available-for-Sale		Securities to be Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in less than one year	$ 50,026,518	$ 49,734,099	$ -	$ -
Due in one year to less than five years	109,603,636	107,796,1600	-	-
Due in five years to ten years	-	-	-	-
Due in greater than ten years	-	-	-	-
Collateralized mortgage obligations	200,702,996	191,354,532	-	-
Mortgage-backed securities	69,680,475	67,092,534	255,384	262,814
Total	$ 430,013,625	$ 415,977,325	$ 255,384	$ 262,814

Investments in mutual funds, which are classified as available-for-sale for the year ended September 30, 2018, have no contractual maturity and are excluded from the maturity schedule above. The mutual funds had a fair value of $19,461,909 as of September 30, 2018.

Note 2 - Investment Securities (Continued)

Information pertaining to investments with gross unrealized losses as of September 30, 2018 aggregated by investment category and length of time that individual investments have been in a continuous loss position, follows:

	Continuing Unrealized Losses for Less Than 12 Months		Continuing Unrealized Losses for 12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal agency securities	$ 55,266,772	$ (353,369)	$ 38,997,609	$ (515,423)	$ 94,264,381	$ (868,792)
Collateralized mortgage obligations	43,632,567	(811,482)	147,161,694	(8,564,909)	190,794,261	(9,376,391)
Mortgage-backed securities	18,992,527	(332,314)	46,746,772	(2,278,381)	65,739,299	(2,610,695)
Corporate bonds	44,219,100	(677,776)	19,607,050	(553,327)	63,826,150	(1,231,103)
Total	$ 162,110,966	$ (2,174,941)	$252,513,125	$ (11,912,040)	$ 414,624,091	$ (14,086,981)

Information pertaining to investments with gross unrealized losses as of September 30, 2017 aggregated by investment category and length of time that individual investments have been in a continuous loss position, follows:

	Continuing Unrealized Losses for Less Than 12 Months		Continuing Unrealized Losses for 12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal agency securities	$ 84,393,960	$ (156,268)	$ -	$ -	$ 84,393,960	$ (156,268)
Collateralized mortgage obligations	114,993,317	(1,461,312)	71,445,634	(1,783,103)	186,438,951	(3,244,415)
Mortgage-backed securities	57,273,910	(388,314)	-	-	57,273,910	(388,314)
Corporate bonds	20,127,550	(28,474)	5,017,050	(50,147)	25,144,600	(78,621)
Total	$276,788,7374	(2,034,368)	76,462,684	(1,833,250)	353,251,421	(3,867,618)

Note 2 - Investment Securities (Continued)

Unrealized losses on securities issued by the U.S. Government and its Agencies have not been recognized into income because the implicit guarantee of the principal balances of these securities by the U.S. Government and its Agencies. The decline in fair value is primarily due to differences between security yields and market interest rates. Additionally, the decline in fair value is expected to be recovered as securities approach their maturity date and/or market rates decline. Management has the ability and intent to hold these securities through to recovery of fair value, which may be maturity. Corporate bonds were temporarily impaired as a result of changes in the current interest rate environment and not due to increased credit risk. The Corporate bonds were all rated investment grade securities by Moody's as of September 30, 2018 and 2017.

Proceeds from the sales of investments classified as available-for-sale approximated $1,368,000 during the year ended September 30, 2018. Gross gains of approximately $60,000 was realized for the year ended September 30, 2018. There were no gross gains during the year ended September 30, 2017. There were no realized losses during the years ended September 30, 2018 and 2017.

Note 3 - Loans to Members

The composition of loans to members is as follows:

	2018	2017
Commercial loans	$ 202,757,504	$ 173,856,709
Real Estate:		
First mortgages	714,360,559	630,437,998
Home equity	73,004,077	73,172,443
Consumer:		
Secured	588,875,668	474,783,480
Unsecured	93,168,585	86,247,107
Net deferred loan origination fees/costs	9,561,937	7,916,285
Total	1,681,728,330	1,446,414,022
Less: allowance for loan losses	11,039,261	11,389,336
Total loans to members	$ 1,670,689,069	$ 1,435,024,686

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses and Recorded Investment in Loans

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method at September 30, 2018:

	Commercial	Real Estate	Consumer	Total
Allowance for loan losses:				
Beginning balance	$ 2,523,988	$ 5,382,357	$ 3,482,991	$ 11,389,336
Charge-offs	(268,255)	(17,442)	(3,719,822)	(4,005,519)
Recoveries	79,521	610,554	616,391	1,306,466
Provision (recapture)	(202,151)	(860,243)	3,411,372	2,348,978
Ending balance	2,133,103	5,115,226	3,790,932	11,039,261
Ending balance individually evaluated for impairment	115,990	3,081,304	-	3,197,294
Ending balance collectively evaluated for impairment	$ $2,017,113	$ $2,033,922	$ $3,790,932	$ $7,841,967
Loans:				
Ending balance individually evaluated for impairment	$ 4,983,226	$ 37,944,624	$ -	$ 42,927,850
Ending balance collectively evaluated for impairment	197,774,278	752,729,538	688,296,664	1,638,800,480
Total recorded investment in loans	$ 202,757,504	$ 790,674,162	$ 688,296,664	$ 1,681,728,330

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses and Recorded Investment in Loans (Continued)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method at September 30, 2017:

	Commercial	Real Estate	Consumer	Total
Allowance for loan losses:				
Beginning balance	$ 2,119,263	$ 5,010,122	$ 3,722,919	$ 10,852,304
Charge-offs	(49,941)	(102,827)	(4,140,000)	(4,292,768)
Recoveries	21,469	1,501,614	559,823	2,082,906
Provision	433,196	(1,026,552)	3,340,250	2,746,894
Ending balance	2,523,987	5,382,357	3,482,992	11,389,336
Ending balance individually evaluated for impairment	233,373	3,818,730	-	4,052,103
Ending balance collectively evaluated for impairment	$ 2,290,614	$ 1,563,627	$ 3,482,992	$ 7,337,233
Loans:				
Ending balance individually evaluated for impairment	$ 6,392,756	$ 46,388,792	$ -	$ 52,781,548
Ending balance collectively evaluated for impairment	167,463,953	660,330,199	565,838,322	1,393,632,474
Total recorded investment in loans	$ 173,856,709	$ 706,718,991	$ 565,838,322	$ 1,446,414,022

Note 3 - Loans to Members (Continued)

Impaired Loans

Loan impairment is measured by estimating the expected future cash flows or by valuing the underlying collateral. The following table presents loans individually evaluated for impairment by class of loans as of September 30, 2018:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 3,240,067	$ 3,240,067	$ -	$ 1,620,034	$ 61,651
Real Estate:					
First mortgages	6,119,001	6,119,001	-	8,567,434	227,726
Home equity	536,180	536,180	-	572,092	24,459
With an allowance recorded:					
Commercial	$ 1,743,159	$ 1,743,159	$ 115,990	$ 4,067,958	$ 66,900
Real Estate:					
First mortgages	29,574,899	29,574,899	2,876,329	30,995,721	1,062,971
Home equity	1,714,544	1,714,544	204,975	2,031,461	72,110
Total					
Commercial	$ 4,983,226	$ 4,983,226	$ 115,990	$ 5,687,992	$ 128,551
Real Estate	$ 37,944,624	$ 37,944,624	$ 3,081,304	$ 42,166,708	$ 1,387,266

Note 3 - Loans to Members (Continued)

Impaired Loans (Continued)

Loan impairment is measured by estimating the expected future cash flows or by valuing the underlying collateral. The following table presents loans individually evaluated for impairment by class of loans as of September 30, 2017:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Real Estate:					
First mortgages	11,015,867	11,015,867	-	6,384,046	543,665
Home equity	608,004	608,004	-	348,540	34,232
With an allowance recorded:					
Commercial	$ 6,392,756	$ 6,392,756	$ 233,373	$ 4,507,830	$ 143,658
Real Estate:					
First mortgages	32,416,543	32,416,543	3,544,615	38,394,539	1,357,507
Home equity	2,348,378	2,348,378	274,115	1,471,345	104,084
Total					
Commercial	$ 6,392,756	$ 6,392,756	$ 233,373	$ 4,507,830	$ 143,658
Real Estate	$ 46,388,792	$ 46,388,792	$ 3,818,730	$ 46,598,470	$ 2,039,488

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans

The following table presents the aging of the recorded investment in past due loans at September 30, 2018:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivable	Recorded Investment > 90 Days and Accruing
Commercial	$ 26,797	$ 2,892,087	$ 21,291	$ 2,940,175	$ 199,817,329	$ 202,757,504	$ -
Real estate:							
First mortgages	21,897	1,906,275	1,872,677	3,800,849	712,728,947	716,529,796	-
Home equity	283,656	182,816	-	466,472	73,677,894	74,144,366	-
Consumer:							
Secured	2,731,724	189,730	-	2,921,454	592,207,645	595,129,099	-
Unsecured	621,227	430,408	1,049,777	2,101,412	91,066,153	93,167,565	-
Total	$ 3,685,301	$ 5,601,316	$ 2,943,745	$ 12,230,362	$ 1,669,497,968	$ 1,681,728,330	$ -

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans (Continued)

The following table presents the aging of the recorded investment in past due loans at September 30, 2017:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivable	Recorded Investment > 90 Days and Accruing
Commercial	$ 1,860,976	$ -	$ 13,867	$ 1,874,843	$ 171,981,866	$ 173,856,709	$ -
Real estate:							
First mortgages	-	3,034,177	2,819,245	5,853,422	626,776,789	632,630,211	-
Home equity	436,271	273,921	323,637	1,033,829	73,054,951	74,088,780	-
Consumer:							
Secured	2,556,152	178,836	115,236	2,850,224	478,032,393	480,882,617	-
Unsecured	904,513	413,321	559,287	1,877,121	83,078,584	84,955,705	-
Total	$ 5,757,912	$ 3,900,255	$ 3,831,272	$ 13,489,439	$ 1,432,924,583	$ 1,446,414,022	$ -

Note 3 - Loans to Members (Continued)

Commercial Credit Quality

The Credit Union considers the performance of the loan portfolio and its impact on the allowance for loan losses. For commercial loan classes, the Credit Union evaluates credit quality based on risk ratings assigned to each loan as described in Note 1.

The following table presents the loan balance for commercial loans based on risk rating as of September 30, 2018:

Credit grade:		
Pass	$	192,985,014
Special mention		4,914,996
Substandard		4,516,735
Doubtful		340,759
Loss		-
Total	$	202,757,504

The following table presents the loan balance for commercial loans based on risk rating as of September 30, 2017:

Credit grade:		
Pass	$	162,283,802
Special mention		5,903,158
Substandard		5,328,965
Doubtful		340,784
Loss		-
Total	$	173,856,709

Note 3 - Loans to Members (Continued)

Consumer and Real Estate Credit Quality

The Credit Union considers the performance of the loan portfolio and its impact on the allowance for loan losses. For real estate and consumer loan classes, the Credit Union evaluates credit quality based on the aging status of the loan and payment activity. Accordingly, nonaccrual loans are considered to be in a non-performing status for purposes of credit quality evaluation.

The following tables present the loan balance based on performance indication as of September 30, 2018 and 2017:

	September 30, 2018		September 30, 2017	
	Performing Loans	Non-Performing Loans	Performing Loans	Non-Performing Loans
Real estate:				
First mortgages	$ 714,657,119	$ 1,872,677	$ 629,810,966	$ 2,819,245
Home equity	74,144,366	-	73,765,143	323,637
Total real estate	788,801,485	1,872,677	703,576,109	3,142,882
Consumer:				
Secured	595,129,099	-	480,767,381	115,236
Unsecured	92,117,788	1,049,777	84,396,418	559,287
Total consumer	687,246,887	1,049,777	565,163,799	674,523
Total	$ 1,476,048,372	$ 2,922,454	$ 1,268,739,908	$ 3,817,405

Note 3 - Loans to Members (Continued)

Troubled Debt Restructurings

The consolidated statement of earnings impact of approved TDRs was immaterial for consolidated financial statement disclosure for the years ended September 30, 2018 and 2017. Subsequently defaulted is defined as reaching 90 days past due during the first 12 months subsequent to approval:

	September 30, 2018		
	Number of Contracts	Recorded Investment in TDRs Approved	TDRs Which Subsequently Defaulted
Commercial	1	$ 28,595	$ -
Real estate:			
First mortgages	1	25,408	-
Consumer:			
Unsecured	13	61,202	3,235
Secured	2	11,834	-
Total	17	$ 127,039	$ 3,235

	September 30, 2017		
	Number of Contracts	Recorded Investment in TDRs Approved	TDRs Which Subsequently Defaulted
Commercial	2	$ 3,289,112	$ -
Real estate:			
First mortgages	2	$ 317,614	$ -
Home equity	2	44,032	-
Consumer:			
Unsecured	16	92,999	-
Total	22	$ 3,743,757	$ -

Note 4 - Property, Equipment and Leasehold Improvements

The principal categories of property, equipment and leasehold improvements may be summarized as follows:

	2018	2017
Land and improvements	$ 22,875,627	$ 24,749,660
Building and improvements	69,133,150	71,389,883
Furniture and equipment	24,550,563	35,633,589
Leasehold improvements	11,188,680	9,426,815
Construction-in-process	226,184	1,421,774
Total cost	127,974,204	142,621,721
Less accumulated depreciation	34,688,228	49,068,989
Undepreciated cost	$ 93,696,847	$ 93,552,732

Depreciation and amortization charged to earnings was approximately $5,400,000 and $4,600,000 for the years ended September 30, 2018 and 2017, respectively.

Note 5 - Borrowed Funds

The Credit Union has outstanding borrowed funds and these notes mature and carry interest rates as follows:

	2018	2017
Fixed Rate Note with the Federal Home Loan Bank of Atlanta bearing interest of 2.702%, interest is payable monthly and principal is payable with a single payment on January 30, 2018	$ -	$ 25,000,000
Fixed Rate Note with the Federal Home Loan Bank of Atlanta bearing interest of 1.160%, interest is payable monthly and principal is payable with a single payment on October 30, 2017	-	25,000,000
Fixed Rate Note with the Federal Home Loan Bank of Atlanta bearing interest of 2.260%, interest is payable monthly and principal is payable with a single payment on December 6, 2018	25,000,000	-
Fixed Rate Note with the Federal Home Loan Bank of Atlanta bearing interest of 2.300%, interest is payable monthly and principal is payable with a single payment on December 18, 2018	25,000,000	-
Fixed Rate Note with the Federal Home Loan Bank of Atlanta bearing interest of 2.320%, interest is payable monthly and principal is payable with a single payment on December 24, 2018	25,000,000	-
Total borrowed funds	$ 75,000,000	$ 50,000,000

Note 5 - Borrowed Funds (Continued)

As of September 30, 2018, the Credit Union has pledged $574,416,250 in first mortgage loans as collateral against the term loans held with the Federal Home Loan Bank of Atlanta.

The Credit Union maintains a credit agreement with the Federal Home Loan Bank of Atlanta, maximum credit available of $574,416,250 at September 30, 2018. At September 30, 2018 and 2017, the Credit Union had advanced $75,000,000 and $50,000,000, respectively, against this line-of-credit agreement in the form of term notes. Interest rates on advances from the FHLB are determined at the time of the advances and collateral in the form of mortgage securities are pledged at the time of the advance.

The Credit Union maintains a line-of-credit with Corporate One Federal Credit Union at a variable rate of interest, guaranteed by all assets, maximum credit available of $100,000,000 at September 30, 2018 and 2017. There were no outstanding advances as of September 30, 2018 and 2017.

The Credit Union is authorized to borrow from the Federal Reserve discount window. The Credit Union may borrow funds up to amounts collateralized by Credit Union assets including investment securities. The Credit Union has no outstanding borrowings at September 30, 2018.

Note 6 - Members' Shares and Savings Accounts

	2018	**2017**
Share draft accounts	$ 154,283,093	$ 151,848,489
Shares and equivalents	935,233,859	834,400,591
Money market accounts	634,502,642	637,357,596
Individual retirement accounts	52,388,085	54,135,185
Certificates of deposit and IRA certificates	198,063,339	204,184,849
Total members' shares and savings accounts	$ 1,974,471,018	$ 1,881,926,710

Note 6 - Members' Shares and Savings Accounts (Continued)

At September 30, 2018, scheduled maturities of certificates of deposit and IRA certificates are as follows:

Year Ending September 30th:	
2019	$ 141,993,648
2020	20,984,411
2021	12,022,586
2022	19,131,589
2023	3,927,032
Therafter	4,073
Total	$ 198,063,339

The aggregate amount of time deposit accounts in denominations of $250,000 or more at September 30, 2018 were $12,151,531.

Note 7 - Regulatory Capital

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

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table on the following page) of net worth (as defined in NCUA Regulations) to total assets (as defined in NCUA Regulations). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR ratio as of September 30, 2018 and 2017 was 6.36% and 6.14%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6.0%. The Credit Union is considered complex under the regulatory framework.

Note 7 - Regulatory Capital (Continued)

As of September 30, 2018, the most recent call reporting period, the NCUA categorized the Credit Union as "*well capitalized*" under the regulatory framework for prompt corrective action. To be categorized as "*well capitalized*" the Credit Union must maintain a minimum net worth ratio of 7.00% of assets.

There are no conditions or events since that notification that management believes have changed the Credit Union's category.

	As of September 30, 2018		As of September 30, 2017	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Actual net worth	$ 251,822,984	10.84%	$ 222,886,887	10.22%
Amount needed to be classified as "adequately capitalized"	139,334,416	6.00%	130,804,938	6.00%
Amount needed to be classified as "well capitalized"	162,556,819	7.00%	152,605,761	7.00%

Note 8 - Related Party Transactions

The majority of employees and all members of the Board of Directors have member accounts at the Credit Union, including share, deposit and loan accounts. The terms of transactions involving these accounts (i.e., rates charged and paid) are comparable to other members.

Included in loans receivable at September 30, 2018 and 2017 are loans of $4,053,660 and $4,041,856, respectively, to directors and officers of the Credit Union. Such loans are made in the ordinary course of business at normal credit terms including interest rates and collateralization.

Note 9 - Commitments and Contingent Liabilities

The principal commitments of the Credit Union are as follows:

Lease Commitments

At September 30, 2018 and 2017, the Credit Union had outstanding commitments under noncancellable operating leases for office space for several branch locations. Net rent expenses under the operating leases, included in expenses, were $1,968,253 and $2,631,563 for the years ended September 30, 2018 and 2017, respectively.

Note 9 - Commitments and Contingent Liabilities (Continued)

The projected minimum rental payments under the terms of the leases at September 30, 2018 are as follows:

Year Ending September 30th:		
2019	$	1,760,108
2020		1,419,109
2021		1,243,141
2022		1,265,930
2023		1,304,915
Therafter		3,832,123
Total	$	10,822,326

Off-Balance Sheet Risk

The Credit Union is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its members and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. The contract or notional amounts of those instruments reflect the extent of involvement the Credit Union has in particular classes of financial instruments.

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments may expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. As of September 30, 2018, the total unfunded commitments under such lines-of-credit was approximately $466,623,000. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the member.

Note 10 - Fair Value Measurements

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy under this guidance are described on the following page:

Note 10 - Fair Value Measurements (Continued)

Basis of Fair Value Measurements

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

Level 2 - Valuation is based on inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

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

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis at September 30, 2018 and 2017 are summarized as follows:

	Fair Value Measurements at September 30, 2018			
	Level 1	Level 2	Level 3	Total
Available-for-sale securities	$ -	$ 435,439,234	$ -	$ 435,439,234
Investments in life insurance contracts	20,559,272	-	-	20,559,2725
Total	$ 20,559,272	$ 435,439,234	$ -	$ 455,998,506

	Fair Value Measurements at September 30, 2017			
	Level 1	Level 2	Level 3	Level 4
Available-for-sale securities	$ -	$ 503,946,029	$ -	$ 503,946,029
Investments in life insurance contracts	20,381,825	-	-	20,381,825
Total	$ 20,381,825	$ 503,946,029	$ -	$ 524,327,8541

Note 10 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Non-Recurring Basis

Assets measured at fair value on a non-recurring basis at September 30, 2018 and 2017 are summarized as follows:

	Fair Value Measurements at September 30, 2018			
	Level 1	Level 2	Level 3	Total
Assets acquired in liquidation of loans	$ -	$ -	$ 3,854,9128	$ 3,854,912
Impaired loans	-	-	39,730,556	39,730,556
Total	$ -	$ -	$ 43,585,468	$ 43,585,468

	Fair Value Measurements at September 30, 2017			
	Level 1	Level 2	Level 3	Level 4
Assets acquired in liquidation of loans	$ -	$ -	$ 7,306,688	$ 7,306,688
Impaired loans	-	-	48,729,445	48,729,445
Total	$ -	$ -	$ 56,036,133	$ 56,036,133

Assets acquired in liquidation of loans primarily consists of other real estate owned (OREO) properties acquired through or in lieu of foreclosure and are initially recorded at fair value less estimated selling costs, establishing a new cost basis. The fair value amount is determined by using appraisals or broker price opinions (BPOs), which are supported by unobservable inputs, such as historical information relative to sales prices for similar properties located in the surrounding area. As a result, the information derived from appraisals and BPOs is subjective and can result in a wide range of fair value estimates. Accordingly, OREO is classified as Level 3 in the fair value hierarchy and valued on a non-recurring basis.

The Credit Union markets the OREO properties for sale to the public. Periodically, fair value amounts are reviewed to ensure the carrying amount of OREO is not maintained at a level that is higher than the current fair value less estimated selling costs. Holding costs such as insurance, maintenance, taxes and utility costs are charged to expense as incurred. Valuation adjustments on these assets as well as gains or losses realized from disposition of such properties are reflected in "other non-interest income or expense" on the consolidated statements of earnings.

Note 10 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Non-Recurring Basis (Continued)

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or market value. For collaterally dependent loans, fair value is measured based on the value of the collateral securing the loans and is classified at a Level 3 in the fair value hierarchy where the collateral is real estate. The value of real estate collateral is determined based on appraisal by qualified licensed appraisers hired by the Credit Union. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. For non-collaterally dependent loans, fair value is determined based on a present value of cash flows methodology. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified previously.

Note 11 - Employee Benefit Plans

Defined Contribution 401(k) Profit Sharing Plan

The Credit Union has a 401(k) profit sharing plan that covers substantially all employees. Contributions by the Credit Union included in the determination of net earnings for the years ended September 30, 2018 and 2017 amounted to approximately $1,168,000 and $1,204,000, respectively.

Deferred Compensation Plan

The Credit Union has a deferred compensation plan covering certain management employees which will be payable upon the employees retirement or termination. The liability at September 30, 2018 and 2017 was approximately $61,000 and $75,000, respectively and is included in other accrued liabilities on the consolidated statements of financial condition.

The Credit Union has three Supplemental Executive Retirement Plans (SERPs) that guarantee specific payments be made to key executives once eligibility requirements are met. As of September 30, 2018 and 2017, the obligation to the executives was $9,575,847 and $7,351,126, respectively. The SERPs were established to provide periodic benefit payments for each executive to be paid when they reach certain ages. The amounts are paid as a lump-sum, with the final payment to be made at age 65 determined based on the 5 highest years of compensation paid to the executive between the date the agreements were signed and retirement age.

Note 11 - Employee Benefit Plans (Continued)

The Credit Union anticipates payments under the terms of the SERPs to be as follows:

Year Ending September 30th:	
2019	$ -
2020	-
2021	-
2022	1,000,000
2023	500,000
5 years therafter	8,075,847
	$ 9,575,847

The Credit Union has invested in assets, which consist of mutual funds, life insurance and annuity contracts, to informally fund the deferred compensation plans. As of September 30, 2018 and 2017, the Credit Union had mutual funds valued at $19,461,909 and $18,059,845, respectively, and life insurance and annuity contracts valued at $20,559,272 and $20,381,825, respectively, related to these plans. The assets would be available to general creditors in the event of liquidation of the Credit Union's assets.

Note 12 - 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 and the related custodial escrow balances approximate the following as of September 30, 2018 and 2017:

	2018	**2017**
Mortgage loan portfolio serviced for:		
Federal National Mortgage Association (FNMA)	$ 310,637,976	$ 250,154,054
Custodial escrow balances	$ 4,156,458	$ 3,524,634

Note 12 - Loan Servicing (Continued)

The following table presents mortgage servicing rights activity and fair value as of and for the years ended September 30, 2018 and 2017:

	2018	2017
Mortgage servicing rights:		
Balance - beginning	$ 2,378,395	$ 1,812,360
Capitalized servicing rights	870,237	715,278
Amortization expense	(294,793)	(149,243)
Balance - ending	$ 2,953,839	$ 2,378,395

At September 30, 2018 and 2017, the fair value of the mortgage servicing rights approximated its book value. Mortgage servicing rights are included in other assets in the consolidated statements of financial condition at September 30, 2018 and 2017.

*** * * End of Notes * * ***

FAIRWINDS
CREDIT UNION