National Credit Union Administration

ANNUAL REPORT

2018

This page is intentionally left blank.

Source: NCUA

About this Report

The National Credit Union Administration's *2018 Annual Report* (also referred to as the Performance and Accountability Report) provides financial and high-level performance results for the agency and demonstrates to Congress, the President and the public the agency's commitment to its mission and accountability over the resources entrusted to it.

The *2018 Annual Report* focuses on the NCUA's strategic goals and performance results and details the agency's major regulatory and policy initiatives, activities, and accomplishments during the January 1, 2018 through December 31, 2018 reporting period. It also contains financial statements and audit information for the four funds the NCUA administers: the National Credit Union Share Insurance Fund, the NCUA Operating Fund, the Central Liquidity Facility and the Community Development Revolving Loan Fund.

This report and prior NCUA annual reports are available on the NCUA's website at https://www.ncua.gov/news/annual-reports.

To comment on this report, email pacamail@ncua.gov.

This page is intentionally left blank.

Table of Contents

J. Mark McWatters

Chairman

Rick Metsger

Board Member

Message from the Board

On behalf of the National Credit Union Administration, we are pleased to present our *2018 Annual Report*.

The NCUA's mission is to provide, through regulation and supervision, a safe and sound credit union system, which promotes confidence in the national system of cooperative credit. Further, the agency protects consumers, insures the deposits of credit union members, and safeguards the National Credit Union Share Insurance Fund from losses. As outlined in the agency's *2018–2022 Strategic Plan*, the NCUA's strategic goals are:

- Ensure a safe and sound credit union system
- Provide a regulatory framework that is transparent, efficient, and improves consumer access
- Maximize organizational performance to enable mission success

In carrying out our first strategic goal, we examine credit unions to ensure they are operating in a financially sound manner and complying with all applicable laws and regulations. This ensures that millions of Americans can confidently use credit unions for their financial needs and businesses have access to the credit they need to grow.

To meet our second strategic goal, we develop rules and regulations that strike a balance between mitigating potential risks to the credit union system while also creating an environment that encourages innovation and growth. Additionally, through our chartering and field-of-membership programs, we help millions of consumers — including those in rural and underserved areas — gain access to affordable financial services.

Our third strategic goal focuses on the efficiency of the agency's operations. We understand that the resources of federal and state-chartered credit unions and their members finance our agency's budget. We endeavor to structure the agency's operations so that we operate in a more efficient, effective, transparent, and fully accountable manner. We also are making critical investments in our technology and human capital to make sure the NCUA keeps pace with a changing marketplace and technological advances.

The NCUA continued its regulatory reform and modernization efforts throughout 2018. We successfully guided these efforts by working together in a bipartisan manner, with an appreciation that reasonable minds may — and will — differ. The result is sound public policy that benefits credit unions, their members, and the nation as a whole.

Providing Regulatory Relief While Protecting Taxpayers

As members of the NCUA Board, we have a responsibility to ensure the Share Insurance Fund remains strong and credit unions comply with all applicable laws and regulations. We also recognize that credit unions must compete in a dynamic marketplace. As such, we completed five substantive changes to the NCUA's regulatory structure during the year that strike a balance between safety and soundness and providing credit unions with regulatory relief. These improvements included:

- Providing additional flexibility to corporate credit unions' capital standards;
- Clarifying the severance claims process for employees of credit unions that were involuntarily liquidated;
- Improving the levels of transparency associated with voluntary mergers;
- Providing additional flexibility to federal credit unions considering a community-charter conversion or expansion; and
- Delaying the implementation date of the agency's 2015 risk-based capital rule until 2020 and raising the asset threshold that defines a complex credit union.

During the year, we also proposed or sought advance comment on changes that would provide credit unions with additional measures of regulatory relief by:

- Improving federal credit union bylaws;
- Clarifying the NCUA's loan maturity requirements;
- Clarifying the NCUA's limits on loans to a single borrower or group of associated borrowers; and
- Revising the NCUA's appraisal regulation to reduce its burden on credit unions and make compliance easier.

The NCUA Board is exploring additional areas where we can improve our regulatory framework. In December 2018, our Regulatory Reform Task Force presented its second reform report. This document outlined the agency's blueprint for future regulatory reform, established priorities for future action by the Board, and developed a mechanism for the public to view our progress in meeting these goals.

Improving Access to Affordable Financial Services

To help address the need for affordable financial service options in rural and underserved communities, we amended our chartering and field-of-membership rules in 2018 to provide federal credit unions with additional flexibility when submitting an application for a community-charter conversion or expansion. Federal credit unions now have the option of using a narrative approach to establish the existence of a well-defined local community in their applications. This new option will provide additional opportunities for credit union growth and increase access to affordable financial services.

In addition, there continues to be strong and consistent demand for short-term, small dollar loans. We proposed regulatory changes that would provide federal credit unions with additional payday alternative loan options. The goal of these proposals is to create new options for viable, short-term loan programs that could be an alternative to high-priced payday loans. A viable market-based program in federal credit unions could also be a way to break the cycle of debt that traps millions of consumers, and could be a first step in bringing more unbanked and underbanked individuals into the credit union system.

Returning $736 Million to Credit Unions

In July 2018, the NCUA distributed $735.7 million in Share Insurance Fund dividends to more than 5,700 eligible institutions — the largest distribution in the fund's history. This distribution was made possible by closing the Temporary Corporate Credit Union Stabilization Fund in 2017 and transferring its assets and obligations to the Share Insurance Fund. Through a collaborative process among members of the Board, and the dedication and professionalism of the agency's staff, credit unions across the country are using these funds to create new businesses, strengthen communities, and improve the lives of their members.

The closing of the Stabilization Fund and the transfer of its assets also allowed the NCUA to address significant problems at several credit unions that had high concentrations of taxi medallion loans without having to assess any new share insurance premiums on federally insured credit unions. Through this and other actions taken by the agency, we mitigated any potential risk these institutions posed to the system, protected member accounts, ensured continued service, and maintained a healthy Share Insurance Fund.

Enhancing Our Examination Program

As part of the agency's broader reform and modernization plan, we undertook a number of initiatives to increase the efficiency and consistency of our examination, data collection, and reporting efforts. In the second half of the year, we began testing our new Modern Examination and Risk Identification Tool or MERIT, which will replace our current examination system. This new tool, along with other systems being developed as part of our Enterprise Solution Modernization Program, will make our examination, data collection, and reporting functions more efficient and cost effective.

The NCUA is also exploring ways to reduce our regulatory footprint in credit unions through the greater use of offsite supervision. By modifying our processes and procedures, leveraging technology, and collaborating with state supervisors, we can reduce the examination burden on credit unions, improve the work-life balance of our employees, and optimize the use of federal and state resources while still maintaining safety and soundness.

We are also improving our quality assurance program to ensure the consistency of our examination and supervisory program across all regions, and we are developing new data and analytical techniques as part our risk-monitoring program. When fully implemented, these improvements will strengthen our ability to identify, assess, and respond to safety and soundness issues earlier and at less cost to the Share Insurance Fund.

Looking to Challenges Ahead

Even with the success experienced in 2018, federally insured credit unions and the NCUA must continue to address several challenges in the future. Some of the areas of concern we have include:

Adapting to Cybersecurity Risks

Financial technology, or fintech, is reshaping the financial services industry by increasing efficiency and convenience, and by providing new and innovative solutions to consumers and businesses. As this technology evolves and plays a greater role in nearly all aspects of the financial services sector, credit unions face growing and evolving cybersecurity risks.

The NCUA is the only federal financial institutions regulator that does not have the authority to examine and supervise third-party financial services vendors, including credit union service organizations or CUSOs. This poses a potential systemic risk noted by both the Government Accountability Office and the Financial Stability Oversight Council.

The lack of vendor authority means the NCUA cannot accurately assess the actual risks present in credit union system and determine if the current risk-mitigation strategies and practices used by CUSOs and other third-party vendors are adequate. As more and more credit unions utilize CUSOs, fintechs, and other third parties, addressing this vulnerability is essential.

We support legislation that would provide the NCUA with the authority to examine and supervise CUSOs and other third-party vendors comparable to our Federal Financial Institutions Examination Council counterparts. Together, we will continue to work with Congress and other stakeholders to address this regulatory blind spot.

Continuing Disparities in Credit Union Performance

Large credit unions continued to lead the system in membership growth and financial performance while smaller institutions lagged behind their larger counterparts. These long-term trends have led to continued consolidation within the credit union system, a trend also seen in other areas of the financial services sector.

As consolidation leads to larger and more complex credit unions, there is increased risk to the Share Insurance Fund. Additionally, the loss of smaller institutions affects the availability of affordable financial services to communities that desperately need them. To address this, we will continue to support small, low-income and minority credit unions through our technical assistance grants, loan options, and online training programs for credit union staff.

Modernizing NCUA's Examination Program

The NCUA has several initiatives in process to improve and modernize how the agency conducts its examination and supervision of credit unions. The goals of these initiatives are to replace outdated examination systems, streamline processes, adopt enhanced examination techniques, and leverage new technology and data. This will maintain the high-quality supervision of federally insured credit unions, but with a less burdensome and intrusive regulatory footprint. Although it will take time to develop and implement these improvements and systems, they will transform how the agency approaches its safety and soundness mission in the future.

Moving Forward

By nearly every metric, 2018 was a successful year for federally insured credit unions and for the NCUA. Our accomplishments are the result of the hard work and dedication of our employees, who consistently display the highest standards of professionalism and public service.

Yet, much work remains. In 2019, the NCUA will continue to improve our examination and data collection and analytical programs to ensure that agency has the ability to respond to changes in the credit union system and the broader financial services sector in a timely fashion. We will continue to explore new ways of increasing the availability of affordable financial services for unbanked and underserved communities. Lastly, we will continue to reform and modernize our regulatory structure to give credit unions the flexibility they need to innovate and adapt to the financial needs of their members and communities while still maintaining safety and soundness and a strong Share Insurance Fund.

The future will undoubtedly bring new challenges and new risks. Nevertheless, it will also bring new opportunities. Through our collaboration and through the actions we have taken this year, we have better positioned the agency and the credit union system to meet these new challenges and opportunities.

In accordance with Section 102(d) of the Federal Credit Union Act, this annual report reviews the agency's performance in 2018 and includes the audited financial statements for the NCUA's four funds: the National Credit Union Share Insurance Fund, the NCUA Operating Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund. Each of these funds received an unmodified or "clean" audit opinion and reported no material weaknesses. In addition, the financial data contained in this report are reliable and complete, consistent with the Office of Management and Budget Circulars A-11, A-123, and A-136, as applicable.

J. Mark McWatters
Chairman
February 15, 2019

Rick Metsger
Board Member
February 15, 2019

This page is intentionally left blank.

Source: NCUA

Introduction to the Report

The NCUA's *2018 Annual Report* provides financial and performance information for the calendar year beginning January 1, 2018, and ending on December 31, 2018, with comparative prior year data where appropriate. This report demonstrates the agency's commitment to its mission and accountability to Congress and the American people. It also presents our operations, accomplishments, and challenges.

The *2018 Annual Report* begins with a message from the NCUA's Board of Directors. This introduction is then followed by six main sections:

Management's Discussion and Analysis

This section provides an overview of the NCUA's performance and financial information. It includes a brief summary of the agency's mission and describes the agency's organizational structure and office functions. This section highlights challenges, accomplishments, and results in key performance programs in 2018. It offers forward-looking information on trends and issues that will affect the credit union system and the NCUA in the coming years. The section also highlights the agency's financial results and provides management's assurances on the NCUA's internal controls.

Performance Results

This section contains information on the agency's strategic and priority goals, and it details the NCUA's performance results and challenges during the calendar year.

Financial Information

This section begins with a message from the Chief Financial Officer and details the agency's finances, including the NCUA's four funds. It also includes the audit transmittal letter and management challenges from the Inspector General, the independent auditor's reports, and the audited financial statements and notes.

Other Information

This section includes a summary of the results of the agency's financial statement audit and management assurances and information on its civil monetary penalties.

Statistical Data

This section contains an overview of the credit union system's financial performance in 2018, as well as data on trends affecting the National Credit Union Share Insurance Fund and all federally insured credit unions.

Appendix

This section contains biographic information for the agency's senior leadership and information about the functions of each NCUA office and region. In addition, you will find a glossary of key terms and acronyms, as well as a list of hyperlinks to additional information that appears in this report.

Source: Shutter Stock

Management's Discussion and Analysis

The NCUA in Brief

Mission Statement

"Provide, through regulation and supervision, a safe and sound credit union system, which promotes confidence in the national system of cooperative credit."

Vision Statement

"Protecting credit unions and the consumers who own them through effective supervision, regulation, and insurance."

Values

- **Integrity**—Adhere to the highest ethical and professional standards.
- **Accountability**—Accept responsibilities and meet commitments.
- **Transparency**—Be open, direct and frequent in communications.
- **Inclusion**—Foster a workplace culture that values diverse backgrounds, experiences and perspectives.
- **Proficiency**—Deploy a workforce with a high degree of skill, competence and expertise to maximize performance.

Created by the U.S. Congress in 1970, the National Credit Union Administration (NCUA) is an independent federal agency that insures deposits at federally insured credit unions, protects the members who own credit unions, and charters and regulates federal credit unions.

A three-member Board of Directors oversees NCUA's operations by setting policy, approving budgets and adopting rules.[1] Each Board Member is appointed by the President and confirmed by the Senate. The president also designates the Chairman of the NCUA Board. No more than two Board members can be from the same political party, and each member serves a staggered six-year term.

The NCUA protects the safety and soundness of the credit union system by identifying, monitoring and reducing risks to the National Credit Union Share Insurance Fund. Backed by the full faith and credit of the United States, the Share Insurance Fund provides up to $250,000 of federal share insurance to more than 116 million account holders in all federal credit unions and the overwhelming majority of state-chartered credit unions.

As detailed in the *2018–2022 Strategic Plan,* NCUA's strategic goals in 2018 were to:

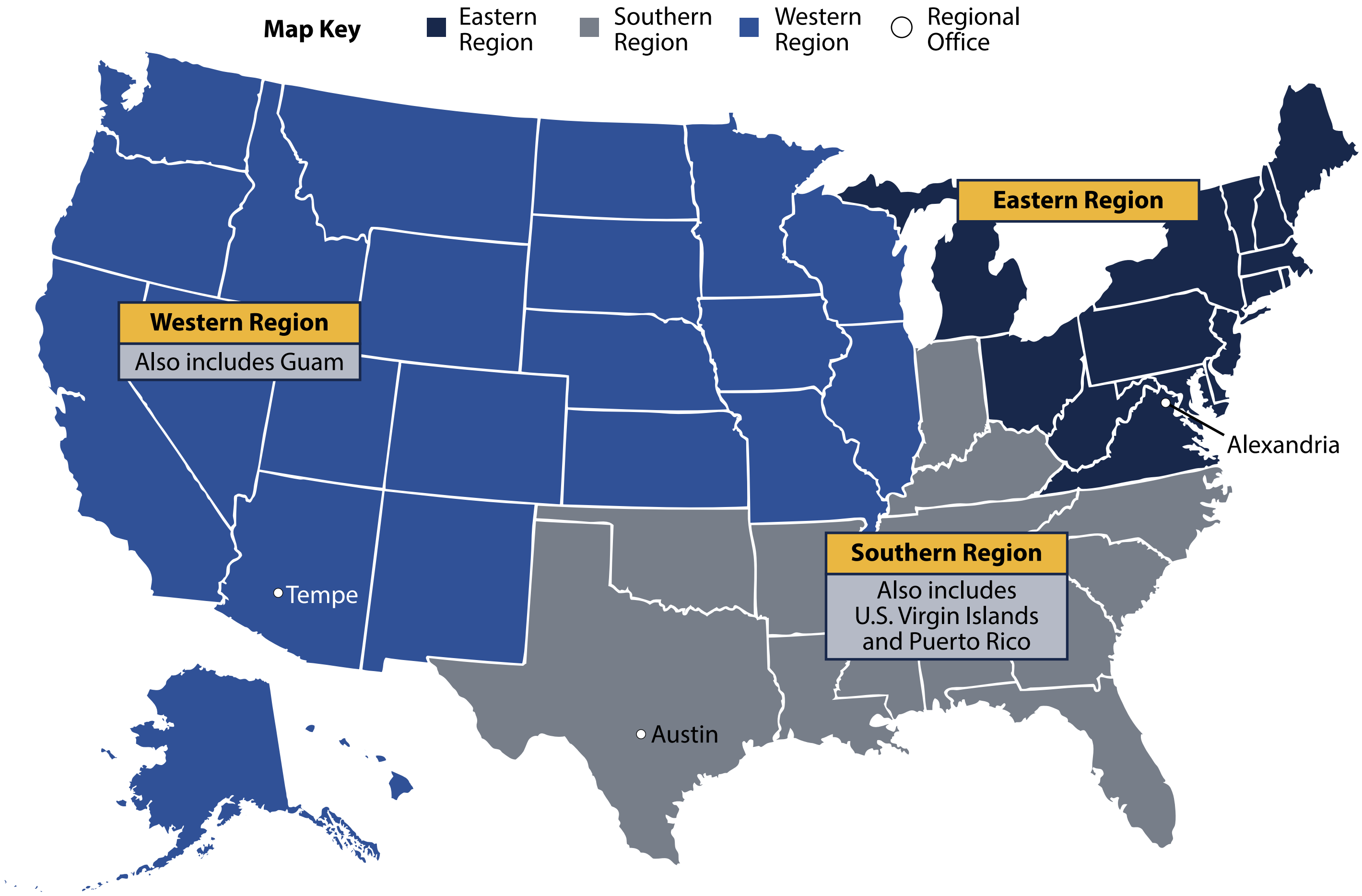
- Ensure a safe and sound credit union system
- Provide a regulatory framework that is transparent, efficient, and improves consumer access
- Maximize organizational performance to enable mission success

The NCUA also plays a role in helping to ensure broader financial stability as a member of the Federal Financial Institutions Examination Council. This council is responsible for developing uniform principles, standards and report forms, and for promoting uniformity in the supervision of depository financial institutions. The NCUA's Chairman is also a voting member of the Financial Stability Oversight Council, an interagency body tasked with identifying and responding to emerging risks and threats to the financial system.

The agency operates its headquarters in Alexandria, Virginia; its Asset Management and Assistance Center in Austin, Texas, to liquidate credit unions and recover assets; and three regional offices, which carry out the agency's supervision and examination program.

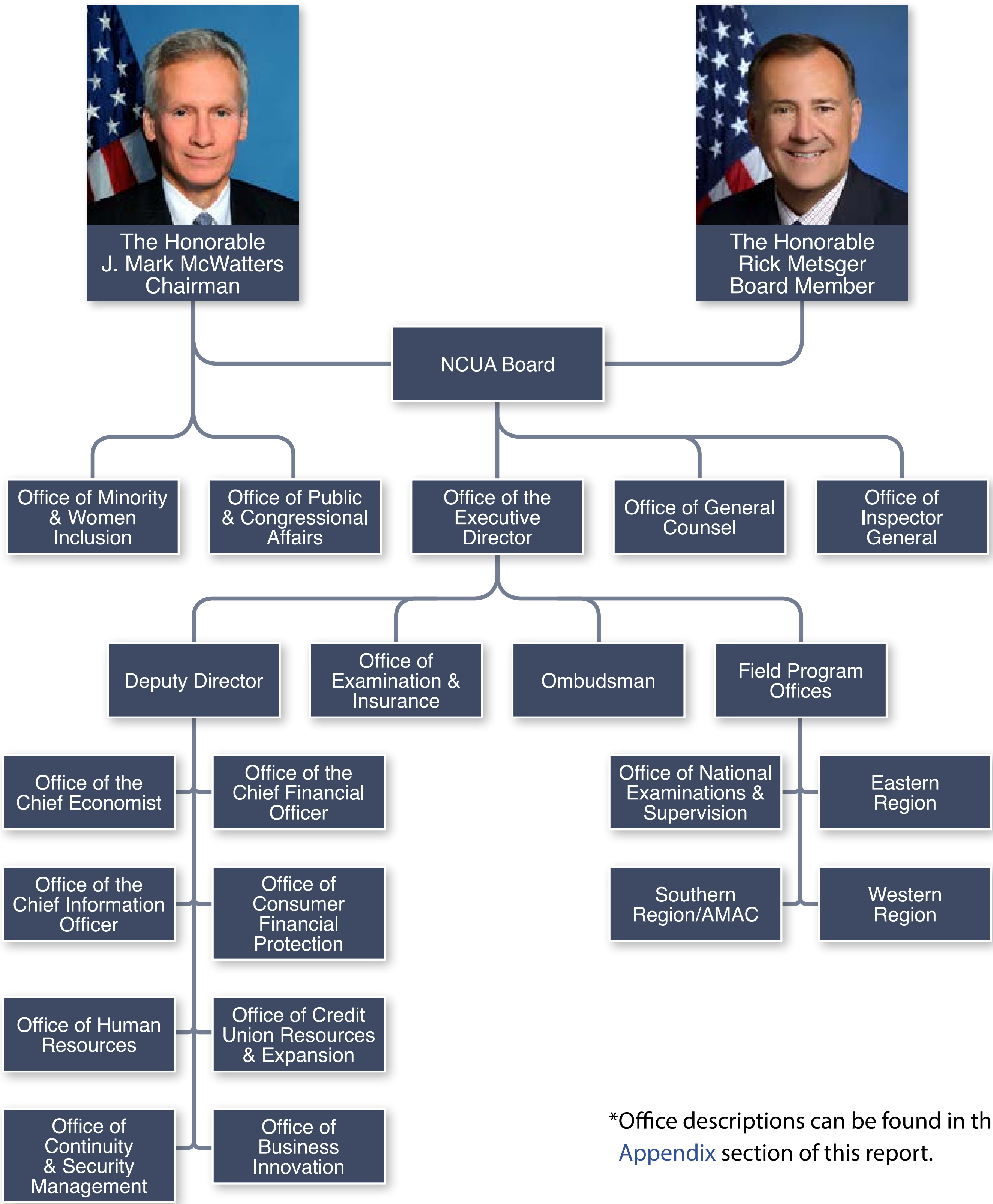
[1] In 2018, there were only two members on the NCUA Board during the year.

NCUA's Regional Offices



As part of the agency's 2017 realignment, five regional offices were consolidated to three, and the two former regional offices located in Albany, New York, and Atlanta, Georgia, were closed at the end of 2018. The agency also reassigned field and regional office staff to fit its new three-region structure, which became effective on January 7, 2019.

National Credit Union Administration
Organizational Chart



*Office descriptions can be found in the Appendix section of this report.

Year in Review

Federally insured credit unions continued to perform well in 2018. By year's end, credit union membership grew to more than 116 million members, assets in the credit union system increased to $1.45 trillion, and the system's aggregate net worth ratio stood at 11.30 percent, well above the 7-percent statutory level for well capitalized.

As credit unions provided their members with essential financial services, the NCUA executed its congressionally mandated mission to provide safety and soundness to the credit union system. The following is a discussion of the NCUA's significant activities in 2018, as outlined in the *2018–2022 Strategic Plan*, as well as some of the challenges facing the credit union system and the NCUA in the near future. The Performance Results section of this report provides additional information about how the agency met its strategic goals and objectives.

Ensuring a Safe and Sound Credit Union System

The NCUA's primary mission is to ensure that the nation's system of cooperative credit remains safe and sound. To achieve this mission, the NCUA's examination program focuses on risks to the credit union system and the National Credit Union Share Insurance Fund.

For most small federal credit unions with less than $50 million in total assets and CAMEL ratings of 1, 2, or 3, the NCUA uses its Small Credit Union Examination Program. This streamlined examination program focuses on the most pertinent areas of risk in these types of institutions. For larger credit unions with assets less than $10 billion, the agency conducts risk-focused examinations that review areas with the highest potential risks, new products and services, and compliance with federal regulations, among others.

The agency's Office of National Examinations and Supervision oversees and examines consumer credit unions with $10 billion or more in assets. During these examinations, field staff focus on interest rate risk, evaluate lending and credit practices, and assess information technology, cybersecurity, and payment system risks. In addition, institutions with $10 billion or more in assets conduct annual assessments of their capital levels under a series of adverse scenarios. Credit unions between $10 billion and $15 billion are not subject to any supervisory stress testing requirements, they develop their own adverse scenarios and incorporate them into their capital plans. When a credit union reaches $15 billion they are also subject to stress testing, and even then they are not subject to the 5 percent minimum stress test ratio until they reach $20 billion in assets.

The office also supervises 11 corporate credit unions, which range in size between $109 million and $3.4 billion in assets. Each of these institutions acts as a "credit union for credit unions" by providing a number of critical financial services for consumer credit unions, including payment processing. The NCUA assesses these institutions' capital levels, interest rate risk, cybersecurity preparedness, and other critical areas.

Each year, the NCUA outlines its primary areas of focus for its risk-focused exam program. In 2018, the agency's supervisory priorities were:

- **Cybersecurity**—The NCUA began implementing the Automated Cybersecurity Examination Tool (ACET) in credit unions with more than $1 billion in assets to improve and standardize its supervision related to cybersecurity. The ACET provides the NCUA with a repeatable, measurable, and transparent process for assessing the level of cyber preparedness across federally insured institutions.

- **Bank Secrecy Act Compliance**—The NCUA remains vigilant in ensuring the credit union system is not used to launder money or finance criminal or terrorist activity. Examiners reviewed credit unions' compliance with the Bank Secrecy Act and completed related examination questionnaires at every examination.

- **Internal Controls and Fraud Prevention**—NCUA's examiners evaluated the adequacy of credit union internal controls and the systems in place to prevent and detect fraud.

- **Interest Rate and Liquidity Risk**—Examiners continued to assess credit unions' exposure to interest rate risk and potential exposure to liquidity risk.

- **Automobile Lending**—Examiners applied additional scrutiny to credit unions with material exposure to higher risk forms of auto lending.

- **Commercial Lending**—Examiners evaluated credit unions' commercial loan policies and procedures, and assessed the effectiveness of risk-management processes credit unions have in place to manage their commercial loan portfolios.

- **Consumer Compliance**—Examiners performed targeted evaluations, including credit unions' compliance with the Military Lending Act and the Home Mortgage Disclosure Act.

In 2018, field staff completed 5,571 supervisory contacts and reported 554,296 examination hours, compared to 6,024 supervisory contacts and 579,330 examination hours in 2017. Most of the reduction in supervisory contacts and examination hours resulted from the implementation of the extended examination cycle for well-managed and low-risk credit unions.

Distribution from the Share Insurance Fund

In July 2018, the NCUA distributed $735.7 million in Share Insurance Fund equity in the form of dividends to more than 5,700 eligible institutions — the largest distribution in the fund's history. This distribution was made possible by closing the Temporary Corporate Credit Union Stabilization Fund (the Stabilization Fund) in 2017 and transferring its assets and obligations to the Share Insurance Fund.[1]

[1] The Federal Credit Union Act gives the NCUA Board authority to close the Stabilization Fund at its discretion prior to the fund's expiration date. The NCUA is required by law to distribute funds, property and other assets of the Stabilization Fund at its closing to the Share Insurance Fund. See https://www.ncua.gov/Legal/Documents/fcu_act.pdf

The pro rata equity distribution was made through an updated method approved by the Board in February 2018. The NCUA Board amended its share insurance requirements rule to provide stakeholders with greater transparency regarding the calculation of each eligible financial institution's pro rata share of a declared equity distribution from the Share Insurance Fund. The rule also prohibits a federally insured credit union that terminates share insurance coverage from receiving a distribution for the calendar year in which that termination occurred unless that credit union filed at least one quarterly Call Report with the NCUA for that year. The Board also adopted a temporary provision to govern all Share Insurance Fund equity distributions related to the Corporate System Resolution Program, a special purpose program established by the Board to stabilize the corporate credit union system following the 2007–2009 financial crisis.

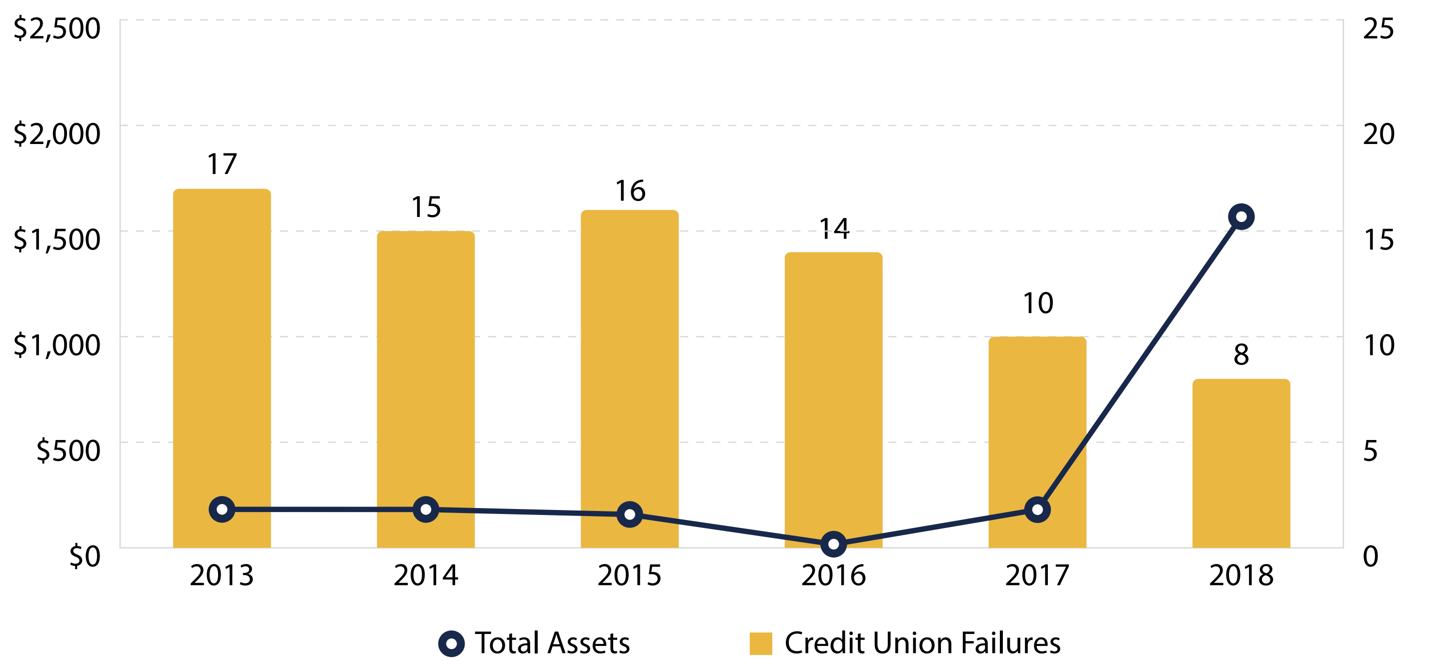
Resolving Troubled Credit Unions

When prudent, the NCUA uses its conservatorship authority provided in the Federal Credit Union Act to resolve operational problems that could affect that credit union's safety and soundness. During a conservatorship, the credit union remains open, members may transact business, and accounts remain insured by the National Credit Union Share Insurance Fund. In all, the NCUA was the conservator of six credit unions at various times throughout 2018. As of December 31, 2018, there were no credit unions operating under the NCUA's conservatorship.

Protecting Member Deposits

For 2018, there were eight credit union failures compared to 10 failures in 2017. The Share Insurance Fund insures member deposits at all federally insured credit unions up to $250,000. As a result, the members of the eight federally insured credit unions that failed in 2018 suffered no losses on their insured deposits. Verified shares were paid out within five days of a closure.

Number of Credit Union Failures to Total Assets (Dollars are in millions)



Source: NCUA Annual Reports and Audited Financials Statements of the Share Insurance Fund

The cost to the Share Insurance Fund of these failures was $785.0 million, an increase from $24.4 million in 2017. This increase was attributed to the failure of two large credit unions. This loss figure will change depending on the performance of the remaining assets of the failed credit unions. The NCUA continues to evaluate all courses of action that will maximize potential recoveries from the assets of the liquidated credit unions and minimize losses to the Share Insurance Fund. The fund remains financially strong and has sufficient equity and reserves to cover anticipated losses.

Gross assets managed by the NCUA's Asset Management and Assistance Center, which are comprised primarily of loans, were approximately $2.1 billion at the end of 2018, an increase from $425 million at the end of 2017. The increase in gross assets managed was primarily due to the liquidation of two large credit unions in 2018.

Providing High-Quality and Efficient Supervision

The NCUA has several initiatives in process to improve and modernize how the agency conducts examinations and provides supervision to the credit union system. The goals of these initiatives are to replace outdated, end-of-life examination systems, streamline existing processes, adopt enhanced examination techniques, and leverage new technology and data to maintain high-quality supervision of insured credit unions with less onsite presence.

In August 2018, the NCUA issued Letter to Credit Unions, 18-CU-01, "Examination Modernization Initiatives," which outlined five initiatives the NCUA Board approved to modernize the agency's examinations processes. Some of the intended benefits of these initiatives are:

- More efficient examinations and supervision
- Reduced burden on credit unions
- More consistent and accurate supervisory determinations
- Greater ability to adapt to changes in the marketplace and credit union business models
- Enhanced coordination with state supervisory authorities
- Reduced travel costs
- Improved quality of life for examiners
- More secure, reliable, and flexible technology foundation able to support future expansion capabilities

As these initiatives support and build upon one another, they will ultimately result in a fully modernized examination and supervision program with various incremental improvements occurring along the way.

The Examination Flexibility Initiative created a joint working group with state supervisors and recommended enhanced coordination with state supervisory authorities on examinations of federally insured, state-chartered credit unions. In 2018, the NCUA-State Supervisor Working Group created an alternating examination pilot program that began in 2019. The NCUA and six state regulators are piloting an alternating examination program for federally insured, state-chartered credit unions. This pilot will provide insight into how an alternating examination program can improve coordination and optimize federal and state resources, while still maintaining the safety and soundness of federally insured, state-chartered credit unions. This pilot program will also explore potential improvements that can lead to better consistency and communication between the NCUA, as the insurer, and the prudential state regulatory agencies.

The NCUA also expanded the Flexible Examination (FLEX) Pilot Program that began in 2017. This program allows examiners to remotely perform portions of an examination for well-run credit unions that have the technology and platforms to provide electronic data securely. This program reflects the NCUA's most immediate solution to the agency's efforts to reduce, but not eliminate, onsite presence during exams.

Preliminary results from this pilot show cost savings to the NCUA, realized in part by reducing travel time and costs for examiners. In designated FLEX reviews, over 35 percent of the total exam hours were performed offsite. Credit union feedback has also been positive, with the majority of credit unions reporting positive experiences with the modified exam approach.

The NCUA implemented a secure file transfer portal to support much of this offsite work. The secure file transfer portal was fully deployed in July 2018 and is discussed in more detail under "Implementing Secure, Reliable and Innovative Technology Solutions."

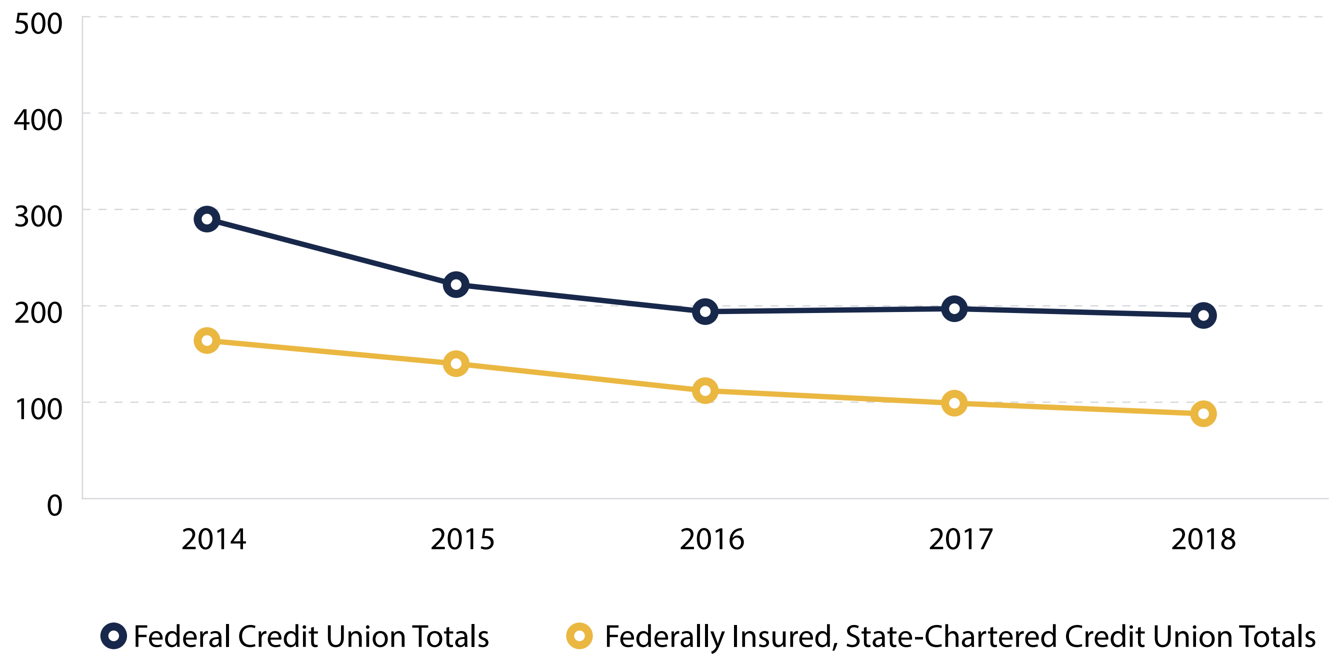
The Office of National Examinations and Supervision began its data-driven supervision initiative in 2018. This is an effort to move to a continuous supervision model for large, systemically important credit unions, defined as those natural-person credit unions with $10 billion or more in total assets. The continuous supervision model will use data-driven analytics to monitor and identify risk, and support the transition to credit union driven stress testing.

In 2018, the NCUA also developed new, or revised existing training courses for examiner staff in emerging risk areas and areas with increasing complexity. New training courses in 2018 include classes on the Bank Secrecy Act, real estate and business lending, capital markets and cybersecurity. Ensuring NCUA's examination staff are well trained in relevant subject matters improves the quality and consistency of examinations.

Using Supervisory Tools to Address Compliance Concerns

To protect the credit union system and the Share Insurance Fund from losses, the NCUA employs several supervisory tools and enforcement actions depending on the severity of the situation. Some of these tools include Preliminary Warning Letters, Letters of Understanding and Agreement, and Cease-and-Desist orders. The number of total outstanding enforcement actions for federally insured credit unions decreased from 296 at the end of 2017, to 278 at the end of 2018.

Total Outstanding Enforcement Actions at the End of 2018



OUTSTANDING ENFORCEMENT ACTIONS AT THE END OF 2018					
	2014	**2015**	**2016**	**2017**	**2018**
Federal Credit Unions					
Preliminary Warning Letters	77	48	56	51	47
Unpublished Letters of Understanding and Agreement	209	171	135	145	142
Published Letters of Understanding and Agreement	0	0	0	0	0
Cease-and-Desist Orders	2	0	1	0	0
Conservatorships	2	3	2	1	0
Federally Insured, State-Chartered Credit Unions					
Preliminary Warning Letters	18	16	11	13	14
Unpublished Letters of Understanding and Agreement	139	115	91	77	69
Cease-and-Desist Orders	5	6	8	7	5
Conservatorships	2	3	2	2	0
Federally Insured Credit Unions Totals	**454**	**362**	**306**	**296**	**278**

Source: NCUA Examination Data.

In addition, the NCUA assesses civil monetary penalties against credit unions that fail to file a Call Report on time. In 2018, the agency assessed 30 credit unions $12,464, in penalties. In comparison, 79 credit unions were accessed $24,744 in penalties in 2017. As required by law, the NCUA remitted all funds collected from late filers to the United States Treasury. For more information on the civil monetary penalties the NCUA can impose, please see the Other Information section of this report.

In 2018, the NCUA issued administrative actions prohibiting 40 individuals from participating in the affairs of any federally insured financial institution, compared to 45 administrative actions issued in 2017.

Provide a Regulatory Framework that is Transparent, Efficient, and Improves Consumer Access

As a prudential regulator, the NCUA's goal is to issue balanced, clear, and straightforward regulations, while addressing emerging adverse trends in a timely manner. The agency also plays a critical role in ensuring that credit unions comply with all federal consumer financial protection laws and regulations. The agency promotes the importance of financial literacy through its consumer website, MyCreditUnion.gov, and participates in national financial literacy initiatives and programs. The NCUA assists in expanding access to affordable financial services through its chartering and field-of-membership inititives, especially to individuals and communities in rural and underserved areas.

Deliver an Effective and Transparent Regulatory Framework

In 2018, the NCUA completed five substantive changes to the NCUA's regulatory structure that strike a balance between safety and soundness while providing credit unions with measures of regulatory relief. A full listing and description of the final and proposed rules approved by the NCUA Board in 2018 is available on the NCUA's website.

- **Capital Planning and Supervisory Stress Testing**—In June, the NCUA Board issued a final rule to amend its regulations regarding capital planning and stress testing for federally insured credit unions with $10 billion or more in assets. The final rule reduces the regulatory burden by removing some of the capital planning and stress testing requirements currently applicable to certain covered credit unions. The rule also makes the NCUA's requirements more efficient by, among other things, authorizing covered credit unions to conduct their own stress tests in accordance with the NCUA's requirements and permitting credit unions to incorporate the stress test results into their capital plans.

- **Involuntary Liquidation of Federal Credit Unions and Claims Procedures**—In June, the NCUA Board amended its rules to update and clarify the procedures that apply to claims administration for federal insured credit unions that enter involuntary liquidation. Specifically, the final rule amends the payout priority provision by specifying the conditions that claims in the nature of severance must meet.

- **Chartering and Field of Membership**—In September, the NCUA Board amended its chartering and field-of-membership rules with respect to applicants for a community-charter approval, expansion or conversion. The rule allows an applicant to submit a narrative to establish the existence of a well-defined local community instead of limiting the applicant to a presumptive statistical community. In addition, the NCUA Board would hold a public hearing for narrative applications where the proposed community exceeds a population of 2.5 million people. Further, for communities that are subdivided into metropolitan divisions, the rule permits an applicant to designate a portion of the area as its community without regard to division boundaries.

- **Risk-based Capital**—In August, the NCUA Board amended the NCUA's previously revised regulations on prompt corrective action. The final rule delays the effective date of the NCUA's 2015 risk-based capital rule for one year, moving the effective date from January 1, 2019, to January 1, 2020. This rule also amends the definition of a "complex" credit union for risk-based capital purposes by increasing the threshold level for coverage from $100 million to $500 million. This amendment exempts an additional 1,026 credit unions — for a total of 90 percent of all credit unions — from the 2015 final rule's risk-based capital requirements. However, approximately 85 percent of the complex assets and liabilities and 76 percent of the total assets in the credit union system would still be subject to the risk-based capital requirement.

- **Bylaws for Voluntary Mergers of Federally Insured Credit Unions**—In October, the NCUA Board revised the procedures a federally insured credit union must follow to merge voluntarily with another federally insured credit union. The changes revise and clarify the contents and format of the member notice; require merging credit unions to disclose certain merger-related financial arrangements for covered persons; increase the minimum member notice period; and provide a method for members and other to submit comments to the NCUA on the proposed merger.

In addition to these final actions, the NCUA Board issued the following proposed rules and advanced notices of proposed rulemaking in 2018 that will modernize the agency's regulatory framework by:

- Providing federal credit unions with additional payday alternative loan options;
- Revising the bylaws for federal credit unions;
- Clarifying the NCUA's loan maturity requirements;
- Clarifying the NCUA's limits on loans to a single borrower or group of associated borrowers; and
- Revising the NCUA's appraisal regulation to reduce its burden on credit unions and make compliance easier.

Cross-Agency Collaboration

The NCUA is involved in numerous cross-agency initiatives and collaborates with other financial regulatory agencies through participation in several councils, including the Financial Stability Oversight Council, the Federal Financial Institutions Examination Council, and the Financial and Banking Information Infrastructure Committee. These councils and their many associated taskforces and working groups contribute to the success of the NCUA's mission by providing the agency with access to critical financial and market information, opportunities to share information on critical issues and threats to the nation's financial infrastructure, and set uniform examination guidelines.

Enforce Federal Consumer Financial Protection Laws and Regulations

In 2018, the NCUA's Office of Consumer Financial Protection spent over 4,700 hours examining 26 credit unions for compliance with fair lending laws and regulations. In addition, agency staff spent approximately 1,000 hours performing 40 offsite supervision contacts to review credit unions' loan policies and, if necessary, provide recommendations to bring them into compliance with fair lending laws.

Another part of the NCUA's enforcement of consumer financial protection laws and regulations is its Consumer Assistance Center, which receives and handles consumer complaints and does its own investigation to determine compliance with applicable federal consumer financial protection laws and regulations. During the year, the Consumer Assistance Center assisted 53,337 consumers, up from 52,635 in 2017, and recorded more than $822,000 in monetary benefits for complainants.[2]

Empower Consumers with Information to Make Independent and Informed Financial Decisions

While credit unions serve the needs of their members and promote financial literacy within the communities they serve, the NCUA reinforces credit union efforts, and raises consumer awareness about the important of saving and having a strong understanding of the concepts of financial literacy and personal finance.

The NCUA participated in 41 events, meetings and conferences in 2018 reaching educators, financial literacy professionals, credit union officials, non-profit leaders and other stakeholders. The NCUA also participated in national financial literacy initiatives, including the Financial Literacy and Education Commission, an interagency group created by Congress to improve the nation's financial literacy and education.

In December 2018, the NCUA launched an updated version of its consumer website, MyCreditUnion.gov, featuring a mobile responsive design, enhanced search functions, and improved navaigation for easy access to consumer financial protection and financial literacy topics. By the end of the year, the English and Spanish-language versions of MyCreditUnion.gov had 865,195 visits, up 14.8 percent from 753,588 visits in 2017.

Expanding Access to Affordable Financial Services

In 2018, the NCUA approved 18 community-charter conversions, the expansion of 53 existing community charters, and 16 expansions into underserved areas. The agency also approved the addition of 9,732 groups to the fields of membership of multiple common-bond credit unions.

[2] This figure includes restitution by the credit union, relief from an alleged monetary obligation imposed by the credit union, and access to disputed credit or financial services products otherwise not available to the member by the credit union.

TYPE	2014	2015	2016	2017	2018
Multiple Common-Bond Expansion	7,536	8,098	9,236	9,632	9,732
Community Expansion	20	30	29	52	53
Community Charter Conversion	22	13	21	21	18
Underserved Area Expansion	13	30	23	20	16

The NCUA issued one new federal credit union charter in 2018 to Everest Federal Credit Union in Jackson Heights, New York.

Facilitate Access to Federally Insured Credit Union Financial Services

Small credit unions, low-income designated credit unions, and minority depository institutions play a critical role in providing affordable financial services to millions of Americans. Often, these credit unions are the only federally insured financial institutions in underserved and rural communities. Yet, they face the challenges of increased competition, stagnant membership, and lagging earnings.

Small credit unions, defined as those with less than $100 million in assets, make up 71 percent of all credit unions in the system. These 3,804 credit unions had 11.6 million members and more than $97.9 billion in assets at year-end 2018.

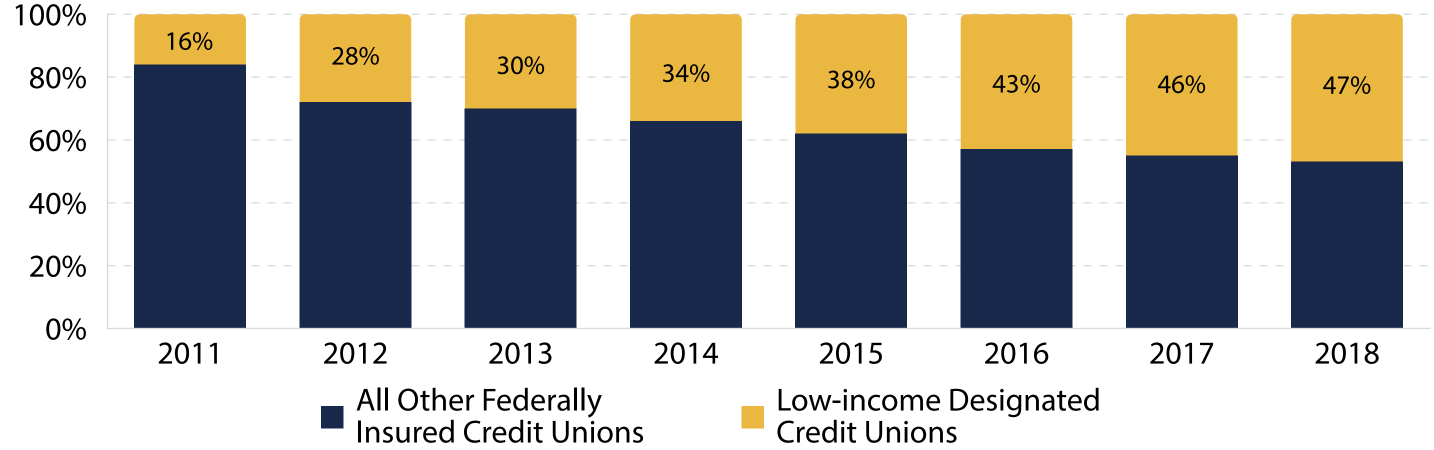
A critical component of NCUA's efforts to support these credit unions is the low-income designation. To qualify as a low-income designated credit union, a majority of a credit union's membership must meet certain low-income thresholds based on data available from the American Community Survey done by the U.S. Census Bureau.

There are several benefits for credit unions that carry a low-income designation, including:

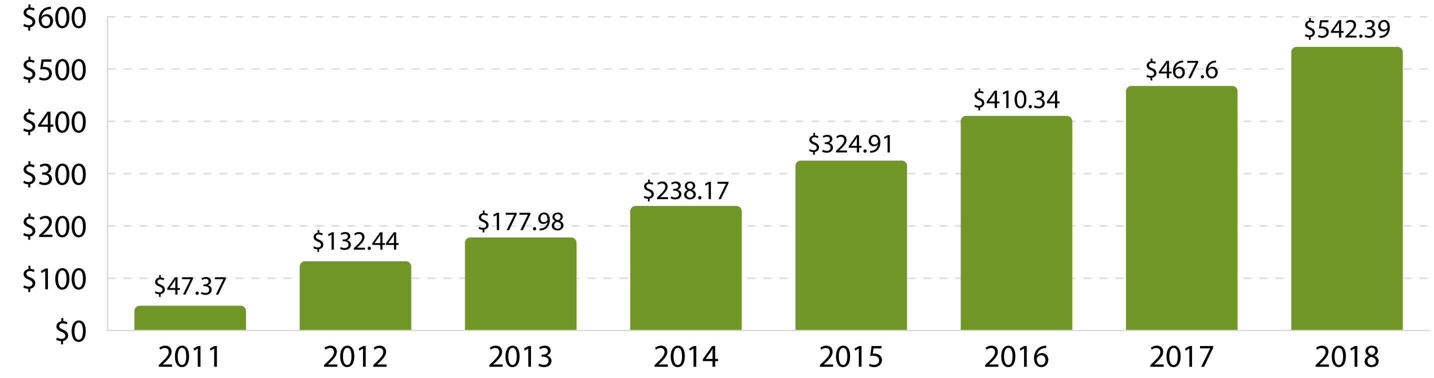
- An exemption from the statutory cap on member business lending, which expands access to capital for small businesses and helps credit unions diversify their portfolios;
- Eligibility for grants and low-interest loans from the Community Development Revolving Loan Fund;
- Ability to accept deposits from non-members;
- An authorization to obtain supplemental capital; and
- Consulting assistance.

By the end of 2018, there were 2,544 low-income credit unions, up from 2,542 at the end of 2017. This means 47 percent of all federally insured credit unions have a low-income designation. Together, low-income credit unions had 48.6 million members and $542.4 billion in assets at the end of 2018, compared to 43.4 million members and $467.6 billion in assets at the end of 2017.

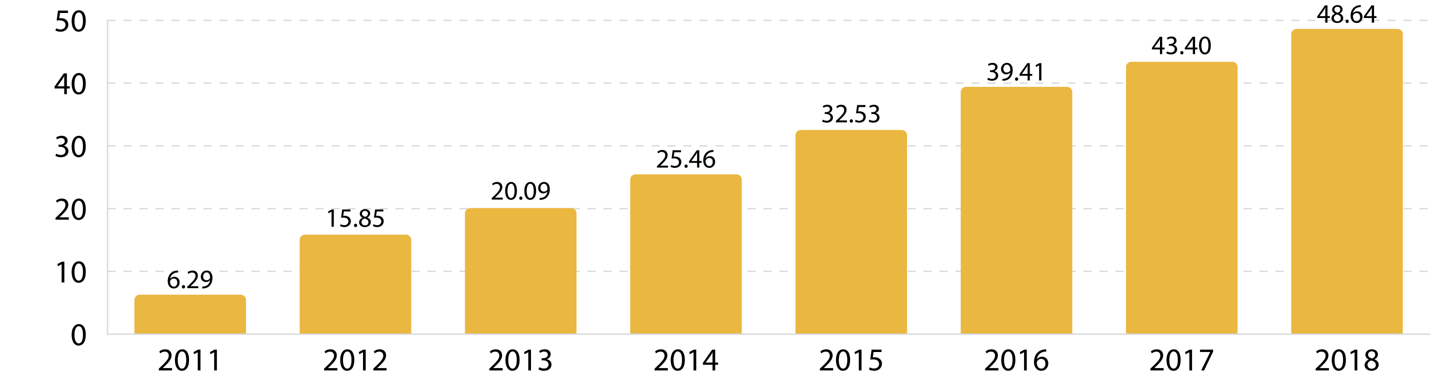
Low-income Designated Credit Unions as a Percentage of all Federally Insured Credit Unions 2011–2018



Low-income Designated Credit Union Assets 2011–2018 (in billions of dollars)



Low-income Designated Credit Union Members 2011–2018 (in millions)



Source: NCUA Call Report Data

Another initiative the NCUA uses to support credit unions is its program to preserve minority depository institutions. These credit unions play an important role in serving the financial needs of historically underserved populations such as African Americans, Hispanic Americans, Native Americans, and Asian Americans.

The NCUA supported these credit unions by:

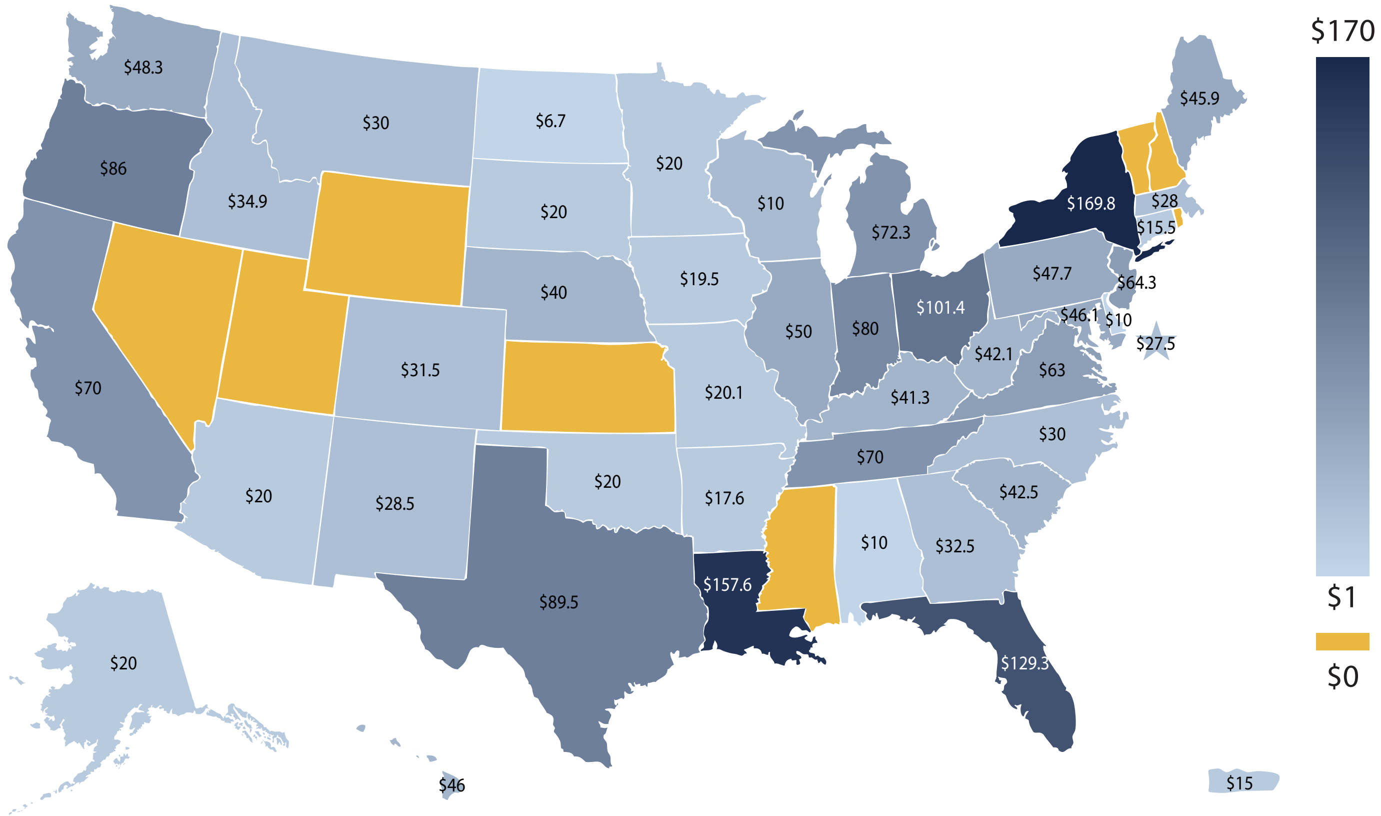
- Offering technical assistance grants and training sessions;
- Facilitating mentor relationships between credit unions;
- Negotiating financial support to sustain minority depository institutions;
- Delivering guidance to groups establishing new minority depository institutions; and
- Approving new charter conversions and field-of-membership expansions to facilitate new opportunities for growth, among other forms of support.

By the end of 2018, 529 federally insured credit unions had self-certified as a minority depository institution. These credit unions served 3.9 million members, held more than $38.5 billion in assets, and represented 9.8 percent of all federally insured credit unions.

The NCUA also supports credit union growth by assisting with certifications for community development financial institutions or CDFIs. CDFI-certified credit unions are eligible to apply for multiple funding programs offered by the U.S. Treasury, including grants and bond guarantees. This funding can lay the foundation for greater access to affordable financial services and more investment in local communities, especially in areas with limited options. During 2018, staff helped 23 credit unions become qualified to use the CDFI Fund's streamlined application process.

The NCUA also provides technical assistance grants and low-interest loans to support credit union growth through the Community Development Revolving Loan Fund. In 2018, the NCUA awarded more than $2.1 million in technical assistance and urgent needs grants to 211 low-income designated credit unions. Recipients of these funds used them to increase their digital services and improve their levels of cybersecurity preparedness, engage in leadership and career development, restore operations following a natural disaster, and improve access to financial services in underserved areas. In addition, five credit unions received $2.0 million in low-interest loans during the year.

Map of Technical Assistance Grants Funding by Dollar Amount (in Thousands)



Maximize Organizational Performance to Enable Mission Success

The NCUA's most important resource is a highly qualified and skilled staff. To maximize staff contributions to the agency's mission, the NCUA's operations must be supported by efficient processes, effective tools, and leading-edge technology. Throughout 2018, the agency took a number of steps to develop its human capital, and improve its systems and processes.

Attract, Engage and Retain a Diverse Workforce and Cultivate an Inclusive Environment

As a financial services regulator, the NCUA requires not only employees with expertise in accounting and finance, but also those who understand commercial and residential lending, consumer financial protection laws and regulations, payment systems, and cybersecurity trends.

The NCUA is committed to recruiting the best-qualified candidates, and uses a number of outreach strategies to reach and attract applicants for its positions. In 2018, the NCUA started using new and innovative assessment tools to recruit highly qualified candidates. These assessments increase the validity of the recruitment process and ensure applicants meet standards in technical and non-technical competencies that are essential for an effective workforce. In 2018, the agency welcomed 83 new employees.

The NCUA prioritizes diversity and inclusion as a strategic business imperative. The NCUA outlined its commitment to diversity and inclusion in its *2018-2022 Diversity and Inclusion Strategic Plan*. Promoting diversity of backgrounds and experiences among the agency's staff helps leverage each employee's unique skillset, while empowering them to pursue opportunities for development and growth. Creating an inclusive work environment ensures that each employee is able to contribute to the NCUA's mission and helps drive innovation and collaboration. A diverse workforce and inclusive work environment in turn, builds a stronger agency.

In 2018, the NCUA increased the percentage of both women and minorities in senior staff positions. The number of women increased by 2.2 percentage points (45.3 percent in 2018 compared to 43.1 percent in 2017), while minorities in the senior staff ranks increased by 3.2 percentage points (18.9 percent in 2018 compared to 15.7 percent in 2017). Overall, the participation rate for minorities in the NCUA workforce was 29.7 percent in 2018, an increase from the 28.0 percent participation rate reported in 2017. Self-reported rates of NCUA employees with disabilities exceeded federal goals in 2018. The federal goal is 12 percent for people with disabilities and 2 percent with targeted disabilities. At the NCUA, 12.8 and 3.1 percent of employees have self-reported as having a disability or targeted disability, respectively.

To promote an inclusive work environment, which is critical to the recruitment and retention of the agency's workforce, the agency chartered employee resource groups (ERGs) in 2018. ERGs facilitate the creation and maintenance of a work culture and environment that recognizes, appreciates, and effectively encourages the use of the talents, skills, and perspectives of all employees in the achievement of the NCUA's mission. New ERGs established in 2018 included:

- **CULTURA** (**C**reating **U**nity, **L**earning **T**o **U**nderstand, **R**ecognizing **A**ll) is the Hispanic employee resource group. CULTURA's goals include: fostering a diverse and inclusive workforce by developing Latino leadership; bridging the connection between field and support staff; providing professional and career development opportunities; building cultural awareness; and positively impacting the retention of Latino employees.

- **NCUA PRIDE** (**P**eople **R**ecognizing **I**ndividual **D**ifferences **E**qually) is the agency's group supporting the LGBTQ community. The resource group is committed to providing a safe and supportive environment for members, providing LGBTQ-relevant informational resources, supporting members' career development, serving as an advocate to help the NCUA become more LGBTQ-inclusive, and supporting outreach efforts both within and outside the agency.

- **Umoja**, which means unity in Swahili, is the Black employee resource group. Umoja's primary purpose is to be an ongoing, reliable resource to the NCUA for talent, innovation, and insight in support of the agency's goals for building and sustaining a diverse and inclusive environment in all aspects of agency business.

In addition to the establishment of the ERGs, the NCUA incorporated other initiatives aimed at fostering inclusion such as monthly diversity talks, diversity newsletters, and a mentorship program. The agency also has an initiative to build inclusive behaviors among all employees, particularly leadership.

The NCUA's Talent Management Council prioritized employee engagement in 2018 as a critical factor in strengthening agency performance. An engaged workforce has increased energy, innovation, and drive for personal growth and is more flexible during times of change. For these reasons, in 2018, each office throughout the organization developed its own workforce engagement action plan to manage and grow its employees' relationship with the NCUA, and will continue implementing these plans in 2019.

Deliver an Efficient Organizational Design Supported by Improved Business Processes and Innovation

In 2016, the NCUA's executive leadership committed to a plan that would invest in the agency's future and make critical organizational changes. The NCUA Board then approved a series of operational actions beginning in 2017 designed to improve the NCUA's efficiency, effectiveness, and focus on its core mission responsibilities.

As part of the agency's 2017 realignment, five regional offices were consolidated to three, and the two former regional offices located in Albany, New York, and Atlanta, Georgia, were closed at the end of 2018. The agency also reassigned field and regional office staff to fit its new three-region structure, which became effective on January 7, 2019.

The NCUA completed other actions during the year as part of this agency-wide realignment. These included:

- Establishing the Office of Credit Union Resources and Expansion to assist credit unions through all the various stages of expansion and strategic development. This office began operations on January 1, 2018;
- Lowering the agency's authorized staffing level from 1,247 positions in the 2016 approved budget, to 1,178 in the 2019 budget, a reduction of 69 positions, or nearly 6 percent;
- Reducing the agency's occupied leased office space by 80 percent; and
- Realigning Asset Management and Assistance Center's staff and transitioning support functions to the central office.

The NCUA's realignment plan positions the agency to meet the ongoing changes in the industry it regulates and insures. The U.S. financial sector is subject to continuing advancements and emerging risks, which necessitate changes in the way the NCUA conducts its safety and soundness mission. Advancements in the types and quantity of supervisory data available also demand a fresh way of thinking about the agency's business model. At the same time, the continuing trend of smaller credit unions merging with larger ones while existing credit unions grow significantly in size and complexity, requires an even more strategic, nimble and innovative way to carry out the NCUA's responsibilities as established in the Federal Credit Union Act.

The agency will continue to examine how best to shape its workforce to meet future needs and look for ways to streamline operating costs to create a more efficient organization.

Implementing Secure, Reliable and Innovative Technology Solutions

In 2018, the NCUA continued its efforts to modernize its technology solutions through its Enterprise Solution Modernization (ESM) Program, which support examination, data collection and reporting functions with a goal to improve key, integrated business processes. Modernizing the NCUA's technology will facilitate greater collaboration and the exchange of information between credit unions, credit union service organizations, state supervisory authorities, and the NCUA. It will also allow the NCUA to more proactively manage risks to the credit union system, adapt to changes in the financial services environment, and create a more effective, less burdensome examination process.

Throughout 2018, the NCUA engaged with various internal and external stakeholders to ensure the modernization considers their needs. The agency meets bi-monthly with a working group made up of state supervisory authority representatives. The Business Innovation team also held meetings with credit union stakeholders to gauge interest and concerns related to the NCUA's member financial data collection. During the year, agency stakeholders had multiple opportunities to engage with the ESM Program team on issues such as analytics, data standardization, and data governance.

The ESM Program in 2018 began implementing a secure, cloud-based, flexible, production platform for all ESM initiatives that will replace NCUA's legacy exam system, AIRES, with a new commercially-available solution. The new examination system, named the Modern Examination and Risk Identification Tool (MERIT), was configured to support new and existing examination processes. Configuration of the system will continue in 2019 with the initial rollout planned for the fourth quarter of 2019.

The NCUA also continued its comprehensive modernization of the Call Report and Credit Union Profile. This includes updating account codes, data fields, forms, and instructions. Known as the Call Report Modernization project, this effort is separate from, but complements, the Enterprise Solution Modernization Program.

The NCUA launched its Secure File Transfer Portal in June 2018 for examiners to use when sharing electronic documents with credit unions, state regulators, NCUA staff, and other external entities. This secure portal is an alternative tool for sharing large files and sensitive information, and is available for use by all NCUA staff. The NCUA also launched the Partner Gateway in 2018, which allows state regulators access to examination system updates, risk reports, and the Secure File Transfer Portal.

At the end of 2018, the NCUA launched a redesigned version of its public website, NCUA.gov. The new website features a mobile-first design to help users access it on a variety of platforms, including smartphones, tablets, laptops and desktops. The website also has new features and improvements that allow the agency's audiences to find the information they need quickly and easily.

Ensure Sound Corporate Governance

Sound corporate governance requires integrity in financial management and appropriate stewardship of the fees paid by the credit union system to finance the NCUA's operations.

It also implements efficient and effective business processes to accomplish the agency's mission and to achieve its strategic goals. The NCUA works to maximize the use of its resources by continually improving its operations and strengthening its internal controls.

A foundation of sound corporate governance is the awareness of risks and the appropriate planning and investment to address those challenges or opportunities. The NCUA employs an Enterprise Risk Management (ERM) program to inform executive leadership of various factors that can affect the agency's performance relative to its mission, vision, and performance outcomes. The NCUA's ERM Council provides oversight of the agency's enterprise risk management activities. Overall, the NCUA's ERM program promotes awareness of risk, which, when combined with rigorous measurement and communication, are central to cost-effective decision-making and risk optimization within the agency. In 2018, the NCUA identified a number of enterprise risks that helped inform the agency's planning and budget processes, and assigned roles and responsibilities for monitoring risks in several specific activities.

The NCUA's budget formulation starts with a review of the agency's goals and objectives set forth in the strategic plan with the actions planned to address risks identified through the ERM program. The strategic plan is a framework that sets the agency's direction and guides resource requests. The ERM process helps senior executives identify priority investments necessary to ensure strategic goals and objectives are met. Budget submissions from individual offices are structured to align resources and workforce to the agency's priorities and initiatives. In 2018, the budget included investments to strengthen agency process management and internal controls, improve tools and facilities for the NCUA staff, and acquire technological enhancements including new systems to improve operational effectiveness and efficiency.

Given the agency's unique financing authorities, the NCUA Board considers both the resources required for the agency to achieve its goals and the impact that these expenditures will have on the credit union system that pays for the agency's operations. The Board balances the needs for robust and effective supervision and insurance operations with the responsibility to be good stewards of fees collected from the credit union system and ultimately paid by credit union members.

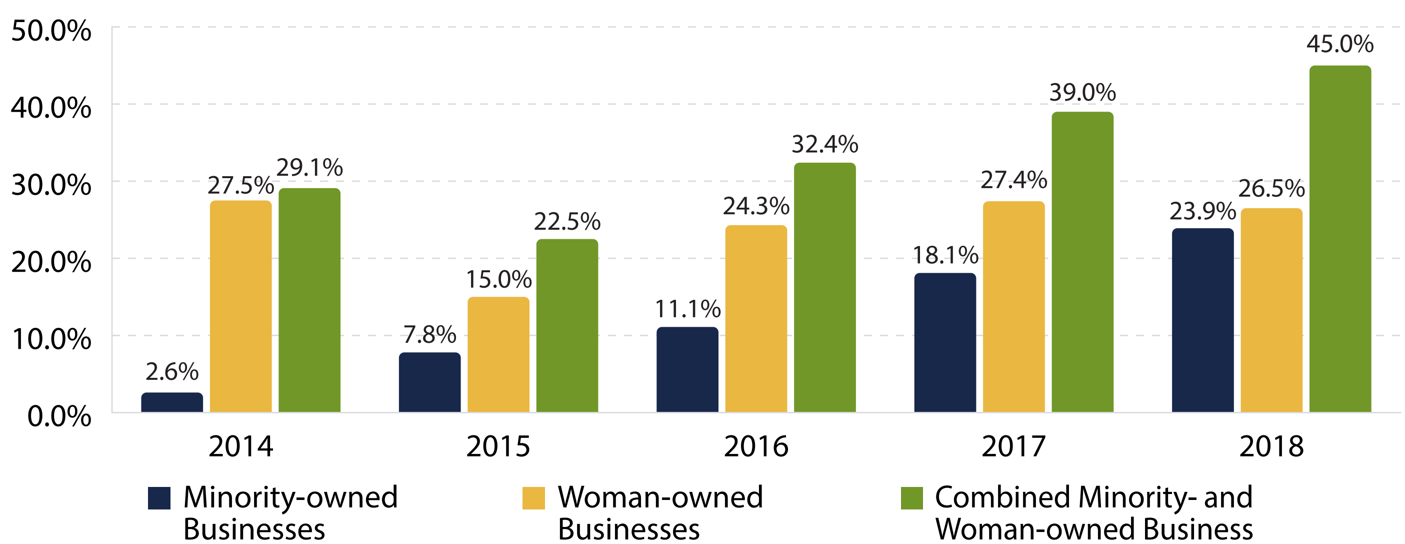
In recent years, the NCUA Board has also emphasized the need for increased transparency of the NCUA's finances and its budgeting processes. In response, the agency has made draft budgets available for public comment through the NCUA's website, and solicited public comments before presenting final budget recommendations for the Board's approval. Furthermore, the Economic Growth, Regulatory Relief, and Consumer Protection Act, enacted May 24, 2018, required the NCUA to "make publicly available and publish in the *Federal Register* a draft of the detailed business-type budget." The NCUA is the only Financial Institutions Reform, Recovery, and Enforcement Act agency that publishes such a detailed, draft budget and solicits public comments at a public meeting with its Board or other agency leadership. The NCUA's budget for 2019 and 2020 was published in the *Federal Register* on October 2, 2018. A public hearing on the draft budget was held on October 17, 2018, and public comments were accepted through October 26, 2018.

Once the NCUA Board reviews and approves the budget, the Chief Financial Officer is responsible for managing the budget as directed by the Board's instruction. The Office of the Chief Financial Officer's (OCFO) operations are critical to ensuring NCUA employees have the resources needed to perform their jobs, and that NCUA employees can fulfill their responsibilities efficiently and effectively. OCFO works to ensure sound corporate governance in its day-to-day financial management and accounting functions, administration of credit union operating fees, Share Insurance Fund operations and capitalization, and management of the agency's acquisitions and procurement processes. In 2018, the NCUA continued to strengthen its processes and procedures to ensure: the soundness of its four funds; the responsible management of its investments, liquidity, liquidated and acquired assets, and other financial resources; the prudent execution of the NCUA's role as a fiduciary; and the agency's compliance with financial management policies and standards.

Annually, the NCUA assesses the effectiveness of its internal controls, noting areas of specific improvement since the previous study and areas that require future focus to preclude negative results. Although the internal control assessment is an OCFO responsibility, the office partners with leadership across the agency to improve the quality of controls and encourages risk self-identification and resolution when improvement opportunities are identified. This enterprise-focused approach to internal controls ensures that all offices within the NCUA are responsible for ensuring sound management practices.

The NCUA also understands the importance of developing and maintaining a base of suppliers and contractors that is well represented by a diverse group of businesses. The agency's supplier diversity efforts promote the inclusion of minority- and women-owned businesses in the NCUA's contracting opportunities. In 2018, 45.0 percent of the agency's reportable contracting dollars were awarded to minority- and women-owned businesses, up 6 percentage points from 39.0 percent in 2017. This performance represents the highest showing for the NCUA since the program's creation, and places us in the company of the top supplier diversity performers among federal financial regulatory agencies.

Supplier Diversity Results 2014–2018 (percentage of total awards)



Source: NCUA Supplier Data

Looking Forward

Both the NCUA and federally insured credit unions achieved much in 2018. However, there are a number of challenges and risks emerging that could potentially effect the credit union system and the Share Insurance Fund. The NCUA also faces a number of complex challenges and issues that it must address to continue to meet its safety and soundness mission. These areas of concern include:

- **Growing Cyber Threats**—The accelerating use of technology makes credit unions and other financial institutions more vulnerable to cyberattacks and disruptions. Cyberattacks will only increase in frequency and severity as worldwide interconnectedness grows, the tools to commit cybercrimes become more readily available, and as criminals, hackers, and terrorists become more sophisticated. With credit unions and other small financial institutions increasingly being targeted, the NCUA must continue to strengthen the resiliency of individual credit unions, the entire credit union system and the agency.

  To improve and standardize supervision related to cybersecurity, the NCUA is implementing the Automated Cybersecurity Examination Tool (ACET). The NCUA is continuing to refine the ACET to ensure it scales properly with the size, complexity, and risk of particular institutions. The ACET incorporates appropriate standards and practices established for financial institutions and across the cybersecurity discipline, and will help credit unions evaluate the evolution of their cyber preparedness more fully using a transparent methodology.

  Additionally, the NCUA will continue to work with the other federal financial institutions regulators to develop and issue updated guidance and information on emerging cyber threats and how best to address them.

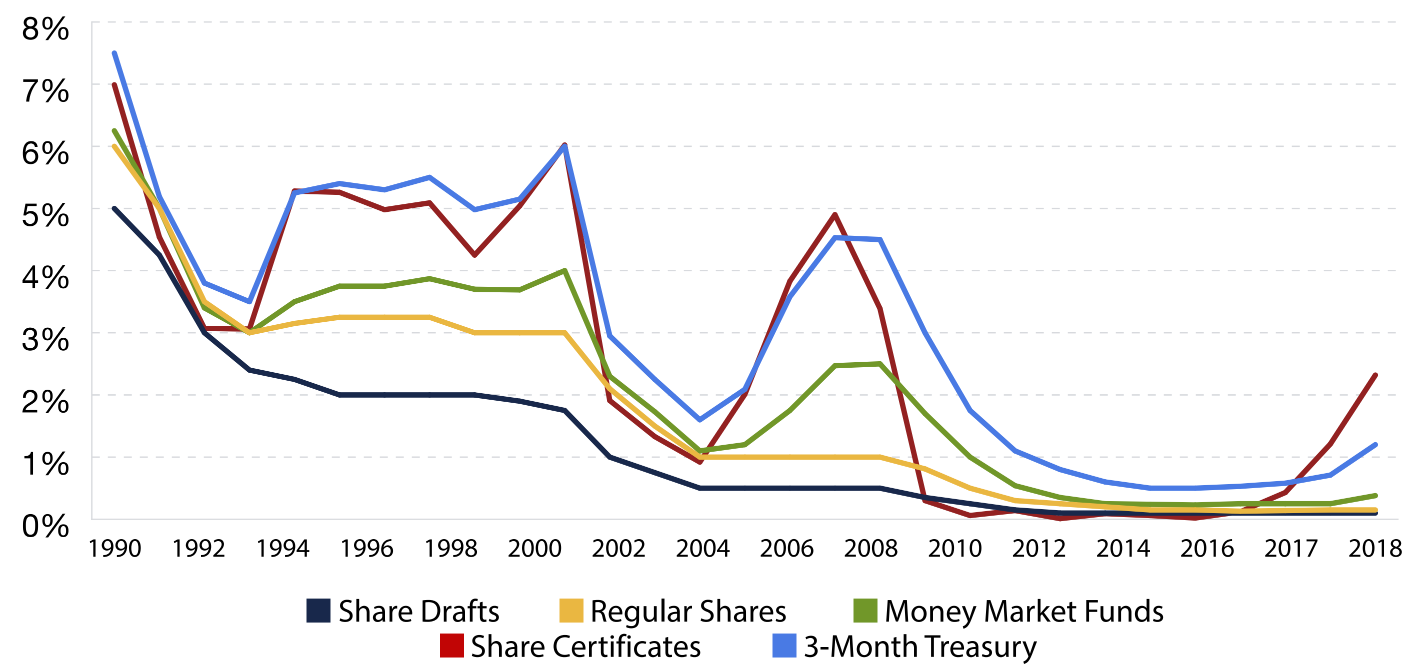
- **Technology-driven Changes to the Financial Landscape**—New financial products that mimic deposit and loan accounts, such as mobile payment systems, pre-paid shopping cards and peer-to-peer lending, are emerging. These new products pose a competitive challenge to credit unions and banks alike. Credit unions also face a range of challenges from financial technology, or fintech, companies in the areas of lending and the provision of other services. For example, underwriting and lending may be automated at a cost below levels associated with more traditional financial institutions, but may not be subject to the same regulations and safeguards that credit unions and other traditional financial institutions face. The emergence and increasing importance of digital currencies may pose both risks and opportunities for credit unions. As these institutions and products gain popularity, credit unions may have to be more active in marketing their products and services, and rethink their business models. In 2018, NCUA convened two working groups to study these issues: the Fintech Working Group and the Blockchain Working Group.

  Technological changes outside the financial sector may also lead to changes in consumer behavior that indirectly affect credit unions. For example, the increase in use of on-demand auto services and the potential for pay-as-you-go, on-demand vehicle rental could reduce purchases of consumer-owned vehicles. That could lead to a potential slowdown or reduction in the demand for vehicle loans, which comprise slightly more than a third of the credit union system's loan portfolio at the end of 2018.

- **Managing Interest Rate Risk and Liquidity Risk**—The NCUA and credit unions will need to continue to manage and mitigate the potential for interest rate risk in 2019. Surveys of economic forecasters suggest the economy will remain relatively strong this year, but grow at a slower pace as the effects of the fiscal stimulus that boosted growth in 2018 disappear. Labor markets will continue to tighten as employment rises and the unemployment rate — which is already below the level associated with full employment — edges downward. Inflation is expected to stabilize near the Federal Open Market Committee's 2-percent target. Their December 2018 forecast points to rising short-term interest rates over the next two years. The median projection for the fed funds target rate indicated it will rise 50 basis points from its December 2018 level of 2.4 percent to 2.9 percent at the end of 2019, and reach 3.1 percent in late 2020. However, policy guidance released after the January 2019 FOMC meeting suggested that it could be some time before the next rate increase is announced.

  In a rising interest rate environment, credit unions may face pressure to raise their deposit rates to retain shares, as regular and money market shares are the most sensitive to interest rate changes. Members may reallocate their savings to higher-yielding products within the credit union, or transfer their money to competitors offering higher rates. The increased prevalence of web-based and mobile banking options available to consumers may reduce the transition costs they face when changing accounts and make them more likely to move their funds, even if rates at other institutions are only slightly higher.

Credit Union Deposit Rates and 3-Month Treasury Bill Rate 1990–2018



Source: NCUA Call Report Data

If realized, the interest rate environment expected by forecasters could be challenging for some credit unions. If short-term rates rise more than long-term rates, the flatter yield curve could reduce net interest margins. While the consensus forecast is for rising rates, slower-than-expected growth could keep rates down or cause them to fall. A continuation of the low interest rate environment also presents risks to credit unions. Credit unions that rely primarily on investment income may find their net income remaining low or falling. In addition, credit unions could resume their "reach for yield," by adding long-term and higher-risk assets to their portfolio. Finally, the sluggish economy that would likely be associated with continued low interest rates could raise credit risk for almost all types of private instruments. Credit union managers will need to take appropriate actions to ensure their balance sheets remain stable in a variety of interest rate environments.

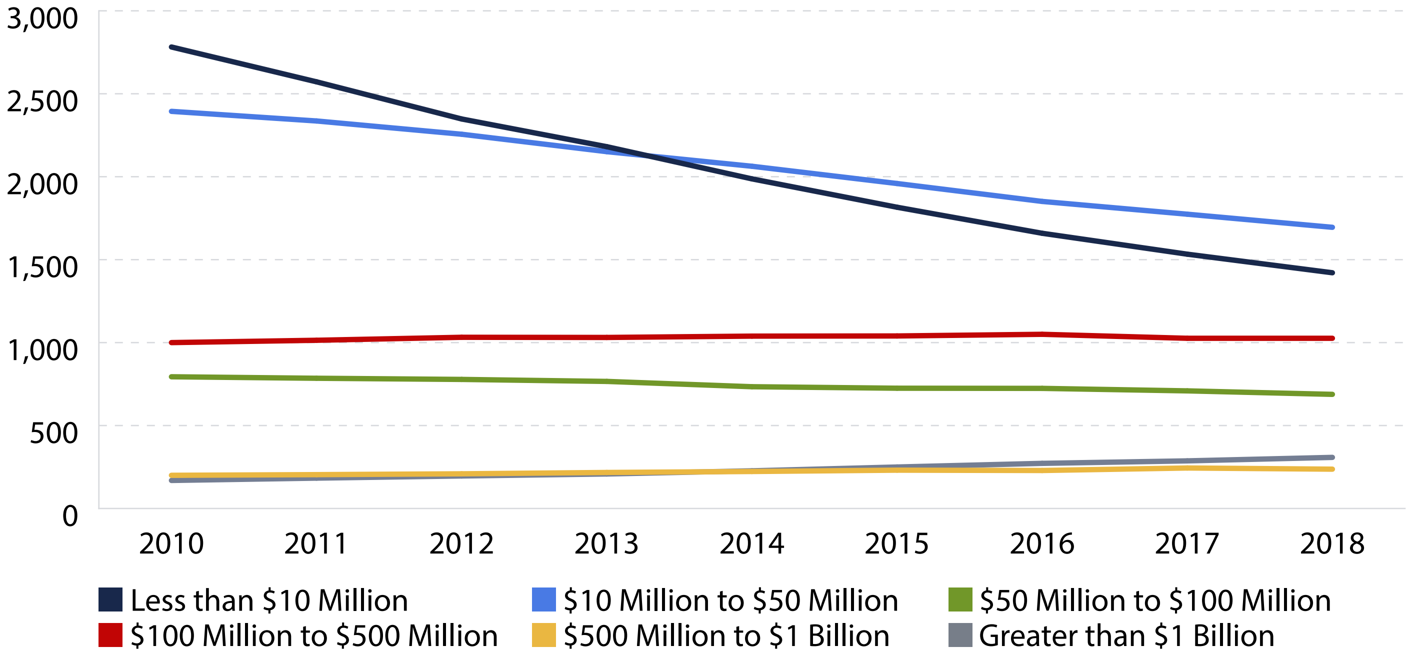
- **Generational Shift in Consumer Preferences**—While overall credit union membership continues to grow strongly, close to half of federally insured credit unions had fewer members at the end of 2018 than a year earlier. Demographic and field-of-membership changes are likely to continue to result in declining membership at many credit unions, especially smaller credit unions that have seen their membership levels decline for several years. All credit unions will need to consider whether their product mix is consistent with their members' needs and demographic profile. For example, in some areas, to be effective, credit unions may need to explore how to meet the needs of an aging population or of a growing Hispanic population.

  The NCUA has taken a number of steps within its authority to address this issue. The recent updates to the agency's field-of-membership rules provide new opportunities for credit union financial and membership growth. Additionally, the creation of the Office of Credit Union Resources and Expansion consolidated many of the agency's functions into a single office that provides an array of technical assistance to credit unions, including chartering and field-of-membership expansions, grants and loans training, and the preservation program for minority credit unions. This action will produce greater efficiencies and will facilitate better growth opportunities for credit unions.

- **Small Credit Unions' Challenges and Industry Consolidation**—Across a variety of economic cycles and regulatory environments, the number of credit unions has fallen at a steady rate for nearly three decades. Small credit unions face challenges to their long-term viability for a variety of reasons, including weak earnings, declining membership, high loan delinquencies, and elevated non-interest expenses. If current consolidation trends persist, there will be fewer credit unions in operation and those that remain will be considerably larger and more complex. Large credit unions offer more complex products, services, and investments. Increasingly complex institutions will pose management challenges for the institutions themselves, as well as for the NCUA because consolidation means the risks posed by individual institutions will become more significant to the Share Insurance Fund.

  All of these trends indicate that credit unions will face increased competition and the longstanding consolidation trend will likely continue. For several years, consolidation has primarily occurred among credit unions with $50 million or less in assets. However, the agency has seen a growing number of larger credit unions use mergers and acquisitions as strategies to grow and increase market share. Increased competition with banks and other financial services providers could also result in more mergers of equals — larger credit unions merging strategically, as opposed to the long-term trend of smaller credit unions merging into larger ones.

Credit Unions by Asset Class at Year-end 2010–2018



Source: NCUA Call Report Data

- **Providing Regulatory Relief**—The NCUA established a Regulatory Reform Task Force in March 2017 to oversee implementation of the agency's regulatory reform agenda, which is consistent with the spirit of Executive Order 13777. Although the NCUA, as an independent agency, is not required to comply with Executive Order 13777, the agency chose to review all of the NCUA's regulations, consistent with the spirit of initiative and the public benefit of periodic regulatory reviews. The task force published and sought comment on its first report in August 2017.

  In 2018, the NCUA's Regulatory Reform Task Force released its second and final report providing an updated blueprint for the agency's regulatory agenda. This document outlined the agency's blueprint for future regulatory reform, established potential priorities for future action by the Board, and developed a mechanism for the public to view the agency's progress in meeting these goals. In 2018, the agency made progress advancing its regulatory reform agenda by issuing ten final rules implementing recommendations made by the task force, including final rules addressing risk-based capital and field-of-membership requirements. The agency also issued proposed regulations as part of its reform agenda including proposals addressing payday alternative loans and appraisals. The NCUA will return to its former practice of conducting three-year rolling reviews of all its regulations and will post progress reports on its reform efforts on NCUA.gov every six months.

- **Enhancing the Examination Program**—Strengthening the agency's data security, IT system safeguards and controls to address emerging threats will continue in 2019 and beyond. In 2018, the NCUA continued to implement future-facing technology solutions for its workforce and business processes. An integral part of these efforts is identifying how quality processes and systems can drive greater efficiency. In 2019, NCUA will continue managing the Examination and Supervision Solution and Data Strategy Framework projects while starting market research and procurement activities related to the NCUA's Data Collection and Sharing Solution project.

  Once implemented, the Examination and Supervision Solution system will improve the examination process and ease burdens on credit unions and staff by reducing the amount of examination and supervision time spent in credit unions. The primary goal of the Examination and Supervision Solution project is to implement a new, secure, and flexible technical foundation to enable current and future NCUA business process modernization initiatives.

- **Building the Workforce to Supervise an Evolving Credit Union Environment**—Like many agencies in the federal government, the NCUA's workforce is changing and evolving. The NCUA needs more than just examiners — it increasingly need cybersecurity specialists, and experts in capital markets, commercial lending and payment systems. The agency has a large percentage of employees who have reached or will soon reach retirement age, including many in senior levels of management. Finding appropriate successors who can lead the agency and employees who have the requisite skills and expertise is essential to ensuring that the NCUA can continue to achieve its mission effectively.

  To address these issues, the NCUA will continue to make critical investments in its human capital. This includes providing the agency's workforce with new training, developing and mentoring the next generation of agency leaders, and continuing to foster a diverse and inclusive environment. To supervise federally insured credit unions properly, all staff must receive the training necessary to develop their skills and abilities for identifying and mitigating risk. In 2019, the NCUA plans to procure a new learning management system to better enable access to on-demand training for all employees. The NCUA will also continue reviewing and revising its training curricula to highlight regulatory and other changes to business context, respond to emergent industry trends, and address employee feedback.

The NCUA took a number of actions in 2018 to meet its safety and soundness mission. As outlined in the *2018–2022 Strategic Plan*, the NCUA will continue to address challenges facing the credit union system, including working with the credit union system and fellow financial institutions regulators to address current and emerging cybersecurity threats. The agency will also continue to make the critical investments in human capital and technology that will improve its operations and programs in the future. In the coming year, the NCUA will continue to ensure that millions of Americans will be able to rely on federally insured credit unions for their financial needs.

Performance Highlights

The performance information contained in this report is organized around the strategic goals and objectives identified in NCUA's *2018–2022 Strategic Plan*. The strategic plan outlines the agency's efforts to provide, through regulation and supervision, a safe and sound credit union system, which promotes confidence in the national system of cooperative credit. The strategic goals and objectives outlined below serve as the foundation for all of the agency's operations.

Managing Performance

The NCUA's performance management process begins with the agency's strategic plan, which is the foundation of the agency's performance management process. The strategic plan defines the NCUA's mission, long-term goals, planned strategies, and the approaches the agency will use to monitor its progress addressing the challenges and opportunities related to its mission.

The annual performance plan functions as the agency's operational plan. It outlines the NCUA annual or short-term objectives, strategies, and corresponding performance goals that contribute to the accomplishment of its established strategic goals.

The NCUA's three strategic goals are supported by eight strategic objectives. These objectives contribute to the broader impact described in the strategic goal, and indicate how the strategic goal will be achieved. These objectives are assessed by 21 performance goals, which are measurable outcomes the NCUA plans to achieve within the performance year. The performance goals include one or more indicators with quantitative levels of performance or targets to be accomplished within a specific timeframe.

The agency routinely measures and reports its progress in meeting its performance goals. During 2018, senior executives submitted quarterly data on the progress made toward achieving the performance measures and targets for which they were accountable. The data was reviewed and analyzed throughout the year to monitor the agency's progress in achieving its planned performance levels. These results are the basis for the performance information presented in the *2018 Annual Report*.

Resource Allocation by Strategic Goal

The NCUA is working to create a stronger link between resources and performance. As part of the agency's continued efforts to strengthen its planning and budgetary processes, the development of the agency's annual performance plan and budget occurs simultaneously. This link helps the NCUA focus on accomplishing its priorities within the context of their costs and benefits. The performance goals outlined in the strategic plan provide a framework for the development of both the budget request and the annual performance indicators and targets.

The NCUA's costs for 2018 totaled $302.7 million. The agency allocated the majority of this cost, $207 million, for Strategic Goal 1-related programs, followed by $66.8 million for Strategic Goal 3-related programs. These goals are largely comprised of our supervision and examination programs, and talent management and information technology programs, respectively.

The NCUA's 2018 Strategic Goals with Resource Allocation

Goal 1: Ensure a Safe and Sound Credit Union System

1.1 Maintain a strong Share Insurance Fund
1.2 Provide high-quality and efficient supervision

Goal 2: Provide a Regulatory Framework that is Transparent, Efficient and Improves Consumer Access

2.1 Deliver an effective and transparent regulatory framework
2.2 Enforce federal consumer financial protection laws and regulations in federal credit unions
2.3 Facilitate access to federally insured credit union financial services

Goal 3: Maximize Organizational Performance to Enable Mission Success

3.1 Attract, engage and retain a highly-skilled, diverse workforce and cultivate an inclusive environment
3.2 Deliver an efficient organizational design supported by improved business processes and innovation
3.3 Ensure sound corporate governance

Source: NCUA Audited Financial Statements

Remaining costs were $28.9 million for Strategic Goal 2-related programs.

For 2018, the NCUA had 1,107 full-time equivalent employees on board. The majority of the agency's workforce, 886 full-time equivalents, supported Strategic Goal 1. Strategic Goal 2 and Strategic Goal 3 were supported by 107 and 114 full-time equivalents, respectively.

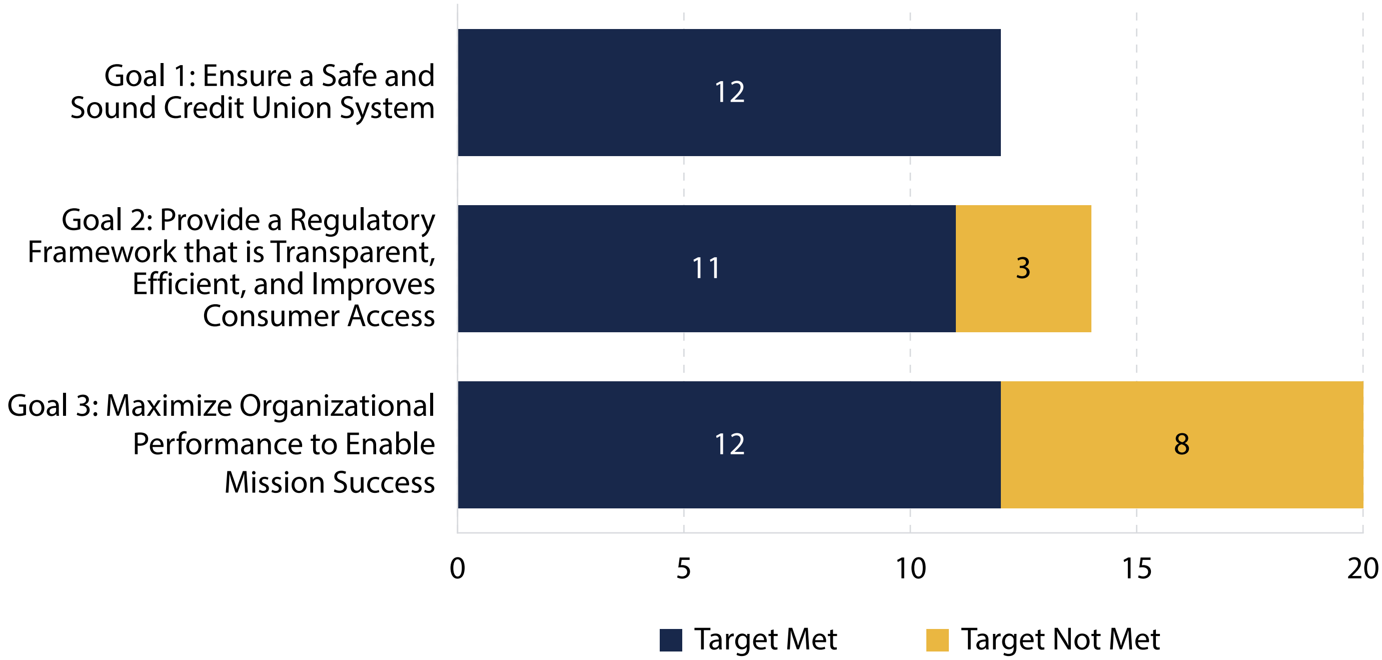
The NCUA allocates costs and full-time equivalents to each strategic goal at the program office level. Costs of the Share Insurance Fund and Central Liquidity Facility are allocated fully to Strategic Goal 1, while costs of the Community Development Revolving Loan Fund and technical assistance grants are allocated fully to Strategic Goal 2. In addition, the NCUA proportionally allocates general and administrative costs across all three strategic goals.

Performance at a Glance

The NCUA identified 46 measures to help evaluate and assess progress towards the goals stated in the *2018–2022 Strategic Plan*. The agency made steady progress against the goals it set for the year, meeting or exceeding the target for 35 performance measures.

A summary of the NCUA's overall performance in 2018 is illustrated in the following chart. The performance measures are grouped below by strategic goals. The Performance Results section of this report includes a complete discussion on the agency's progress toward meeting these goals and objectives, and discusses causes of variance or changes in trends for the performance indicators. This section also discusses the validation and verification of performance data.

2018 Performance by Strategic Goal



Source: NCUA Performance Data

Summary Results of Agency Priority Goals

The NCUA's agency priority goals are a subset of its performance goals with the highest implementation priorities. In 2018, the agency focused on three agency priority goals. Two of these priority goals support Strategic Goal 1 and the third supports Strategic Goal 2. The following tables list each priority goal, its measure, and whether the target was met or not in 2018.

Target Met	NCUA is implementing its plans to achieve the strategic objective. Strategies and activities were executed on or ahead of schedule and the target outcome was achieved.	✔
Target Not Met	Current strategies have not had the intended impact and an increased focus is needed by the agency to improve performance on the strategic objective. Some strategies and activities may have been executed, but more progress is needed to advance the strategic objective.	✘

Goal 1: Ensure a Safe and Sound Credit Union System

Strategic Objective 1.1 – Maintain a strong Share Insurance Fund

To maintain a strong Share Insurance Fund, the NCUA monitors credit union performance, conducts credit union examinations, enforces regulations, and provides guidance to assist credit unions in understanding regulations and emerging risks. Examinations and supervision, and the collection of credit union Call Report data, provide information that helps to identify high-risk credit unions and emerging risks that may affect the entire credit union system. Active risk management, early detection of problems and timely resolution is critical to preserving the system. Risks to the credit union system are managed through a robust, flexible, and risk-focused examination and supervision program, and modern regulations and supervisory guidance. Examiners also use administrative actions as necessary to mitigate risks before they escalate to costly problems for the system.

In 2018, the agency used three performance indicators to gauge its efforts for this priority goal:

Performance Indicators	2013	2014	2015	2016	2017	2018 Target	2018 Result	Status
1.1.1 Fully and efficiently execute the requirements of the agency's examination and supervision program—Agency Priority Goal								
Maintain the corporate credit union leverage ratio above 5 percent, annually	7.1%	7.7%	7.6%	5.6%	7.1%	Greater Than 5%	8.8%	✔
Resolve troubled credit unions within an average of 24 months of initial downgrade	20	21	19	29	22	24	19	✔
At least 98 percent of the total number of credit unions are well capitalized according to prompt corrective action	97.0%	97.6%	97.9%	97.8%	97.7%	98.0%	98.6%	✔

Discussion. The NCUA expects credit unions to identify, measure, monitor and control risks and retain capital levels commensurate with the risk profile of the institution. Adequate capital levels help to ensure credit unions can continue to serve their members during financial difficulties and economic downturns. The NCUA, through the examination and supervision program, works with credit unions to resolve inadequate capital levels.

The average corporate credit union leverage ratio increased 1.7 percent from 7.1 percent in 2017 to 8.8 percent in 2018. All corporate credit union leverage ratios exceeded the 4-percent minimum requirement.

As of December 31, 2018, 98.6 percent of credit unions were well capitalized as defined in NCUA's Rules and Regulations. A credit union is well capitalized if it has a net worth ratio of 7 percent or greater and also meets any applicable risk-based net worth requirements.

The NCUA's examination and supervision program contributes to the safety and soundness of the credit union system. A program priority includes identifying and resolving risk concerns through the examination and supervision process. When warranted, the NCUA will utilize regulatory enforcement and issue timely administrative actions in an effort to minimize the risk troubled institutions present to the Share Insurance Fund. In 2018, the NCUA resolved troubled credit unions within an average of 19 months of an initial CAMEL downgrade, an improvement of two months over 2017 results. Credit unions with a troubled condition generally means those with a CAMEL composite rating of a 4 or 5 or a credit union that has been granted assistance under Section 208 of the Federal Credit Union Act that remains outstanding.

Goal 1: Ensure a Safe and Sound Credit Union System

Strategic Objective 1.2 – Provide high-quality and efficient supervision

Essential to achieving the NCUA's mission is the effective and efficient management and execution of the examination and supervision programs, including the proper allocation of resources and timely resolution of issues. The agency uses an extended examination cycle for well-managed, low-risk federal credit unions with assets of less than $1 billion. Additionally, NCUA examiners follow streamlined examination procedures for financially and operationally sound credit unions with assets less than $50 million. The agency's Office of National Examinations and Supervision is responsible for supervision and oversight of the largest and most complex credit unions, defined as those credit unions with $10 billion or more in assets, and corporate credit unions.

In 2018, the NCUA began piloting a review program for examination and supervision reports issued by examiners. The review program provides increased assurance that the agency addresses all material issues effectively and consistently. Full implementation is planned with deployment of the new Modern Examination and Risk Identification Tool (MERIT) platform in 2020.

In 2018, the agency used three performance indicators to gauge its efforts for this priority goal:

Performance Indicators	2013	2014	2015	2016	2017	2018 Target	2018 Result	Status
1.2.1 Enable continuous risk analysis, identify key trends, and target examinations where most needed —Agency Priority Goal								
Acquire the full range of technical resources, services and products for replacing the NCUA's legacy AIRES solution through a competitive contract competition	--	--	--	--	--	Second Quarter	Achieved	✔
Issue a request for proposals to secure the technological infrastructure for NCUA's data-driven supervision program for corporate credit unions	--	--	--	--	--	Fourth Quarter	Achieved	✔
Publish the *Quarterly U.S. Map Reviews* on the NCUA website to assist with identifying regional and national risks	4	4	4	4	4	4	4	✔

Discussion. Credit unions are becoming larger and more complex. Because of this, it is imperative the NCUA's examination and supervision program continues to evolve with the credit union system. The NCUA must acquire and deploy resources to maintain safety and soundness. In 2018, the NCUA continued to develop and implement a number of critical technology upgrades and replacements.

NCUA's multi-year Enterprise Solution Modernization Program includes the replacement of the primary program exam tool, AIRES, which is currently used to manage credit union supervision and examination functions. This system is a critical and primary information source for documenting the industry's health and its safety and soundness. In 2018, the NCUA awarded a contract for services related to implementing a secure, cloud-based, flexible, production platform for all ESM initiatives; and, replacing the NCUA's legacy exam system with a new commercially-available, highly configurable solution. The agency configured the new MERIT examination system to support new and existing examination processes. Configuration of the system will continue in 2019 with the initial rollout planned for the fourth quarter of 2019.

The NCUA issued a Request for Proposals for the Asset and Liabilities Management (ALM) application in the third quarter. The ALM application will enable the Office of National Examinations and Supervision to build internal analytical capabilities to run supervisory stress testing and conduct regular quantitative risk assessments for the largest and most complex credit unions. Award of the ALM application development contract is anticipated in early 2019, and delivery of the product is expected later in the year.

The NCUA's Office of the Chief Economist provides economic information and enhances the agency's understanding of emerging microeconomic and macroeconomic risks. This office develops and provides economic intelligence including insight to regional and industry specific economics and potential risk impacts to enhance the understanding of emerging risks facing the credit union system and the Share Insurance Fund.

Goal 2: Provide a Regulatory Framework that is Transparent, Efficient, and Improves Consumer Access

Strategic Objective 2.1 – Deliver an effective and transparent regulatory framework

Targeted regulation, accompanied by a thoughtfully tailored supervisory and examination program, will help the credit union community grow, thrive, and prosper. With the goal of empowering innovation and growth within the federally insured credit union system, the NCUA implements meaningful regulatory relief for credit unions through an extensive review of our existing rules and regulations, along with reforming and enhancing our supervision and examination programs.

The NCUA improves the effectiveness and transparency of its regulations by increasing communications with credit unions and examiners to ensure greater transparency and fair application of these regulations. New or revised rules and regulations are generally issued for a minimum of 30 days for public comment, with most issued for 60 days of public comment. The NCUA evaluates and considers comments received from stakeholders to understand the impact regulations may have on credit union operations. In 2018, the agency used one performance indicator to gauge its efforts for this priority goal:

Performance Indicators	2013	2014	2015	2016	2017	2018 Target	2018 Result	Status
2.1.1 Promulgate efficient, targeted regulation tailored to offer meaningful relief without undermining safety and soundness —Agency Priority Goal								
Implement Tier 1 amendments as recommended by the Regulatory Reform Task Force	--	--	--	--	--	Fourth Quarter	Achieved	✔

Discussion. In 2018, the NCUA's Regulatory Reform Task Force released its second and final report providing an updated blueprint for the agency's regulatory reform agenda. The report outlines updated recommendations and prioritizations for the amendment or repeal of regulatory requirements the task force believes are outdated, ineffective, or excessively burdensome.

In 2018, the agency made progress advancing its regulatory reform agenda by issuing ten final rules implementing recommendations made by the task force, including final rules addressing risk-based capital and field-of-membership requirements. The agency also issued proposed regulations as part of its regulatory reform agenda including proposals addressing payday alternative loans and real estate appraisals.

To further the regulatory reform agenda in 2019, the NCUA will also return to its former practice of conducting three-year rolling reviews of its regulations and will post progress reports on its reform efforts on the agency's website. In 2019, the NCUA intends to finish initiating the implementation of Tier 1 amendments and begin the implementation of Tier 2 amendments recommended by the Regulatory Reform Task Force's final report.

Financial Highlights

The NCUA operates four funds: the National Credit Union Share Insurance Fund, the Operating Fund, the Central Liquidity Facility and the Community Development Revolving Loan Fund. The Operating Fund is managed by the NCUA Board and supports the other three funds, which are also managed by the Board. The Operating Fund provides office space, information technology services and supplies, and pays employee salaries and benefits. The Share Insurance Fund and the Central Liquidity Facility reimburse the Operating Fund for administrative support. Support for the Community Development Revolving Loan Fund is not reimbursed. Additional information about each fund's purpose is included in the below sections.

As a federal financial institutions regulator, the NCUA is committed to transparency, accountability, and stewardship. As a demonstration of this commitment, the NCUA once again received unmodified or "clean" audit opinions by an independent auditor on its financial statements for each of these funds for the years ending December 31, 2018, and December 31, 2017.

The following highlights provide an overview of the NCUA's 2018 financial statements. The complete financial statements, including the independent auditors' reports, are located in the Financial Information section of this report.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

The Share Insurance Fund at a Glance:

Assets
- 2018 – $15.8 billion
- 2017 – $16.7 billion

Liabilities
- 2018 – $125.1 million
- 2017 – $935.1 million

Operating Expenses
- 2018 – $187.4 million
- 2017 – $199.0 million

Equity Ratio
- 2018 – 1.39%
- 2017 – 1.46%

Insured Shares
- 2018 – $1.1 trillion
- 2017 – $1.1 trillion

The NCUA administers the National Credit Union Share Insurance Fund. Created by Congress in 1970, the fund insures the deposits of more than 116 million members at federally insured credit unions up to $250,000.[3] The Share Insurance Fund is backed by the full faith and credit of the United States.

As of December 31, 2018, the Share Insurance Fund insured approximately 5,400 credit unions, with insured member shares reaching $1.1 trillion. These federally insured credit unions held nearly $1.5 trillion in total assets at the end of 2018.

The Share Insurance Fund ended 2018 with $15.8 billion in total assets, a decrease of $825.1 million from 2017. The decrease is primarily attributable to $735.7 million in distributions paid to eligible institutions in the third quarter of 2018.

The financial performance of the Share Insurance Fund can be measured by comparing the equity ratio to the normal operating level. The equity ratio is calculated as the ratio of the contributed 1 percent deposit, plus the cumulative results of operations, excluding net cumulative unrealized gains and losses on investments, to the aggregate amount of the insured shares in all insured credit unions. The normal operating level is the desired equity level for the Share Insurance Fund. The NCUA Board sets the normal operating level between 1.20 percent and 1.50 percent. On December 13, 2018, the NCUA Board set the normal operating level at 1.38 percent, lowering it from the previous level of 1.39 percent.

The equity ratio is the overall capitalization of the Share Insurance Fund to protect against unexpected losses from the failure of credit unions. When the equity ratio falls below or is projected within six months to fall below 1.20 percent, the NCUA Board must assess a premium or develop a restoration plan. When the equity ratio exceeds the normal operating level and available assets ratio at year-end, the Share Insurance Fund pays a distribution.

The equity ratio at the end of 2018 was 1.39 percent, which is above the normal operating level. As a result, the NCUA Board may vote in 2019 to declare a distribution based on actual insured shares as of December 31, 2018. As of December 31, 2017, the equity ratio was 1.46 percent, which was above the established normal operating level of 1.39 percent. As a result, the NCUA Board approved a Share Insurance distribution of $735.7 million to eligible financial institutions. This distribution was paid in the third quarter of 2018.

[3] The Share Insurance Fund insures the balance of each members' account, dollar-for-dollar, up to the standard maximum share insurance amount of $250,000, including principal and posted dividends through the date of failure, subject to various rules on account types, rights and capacities.

In accordance with the Federal Credit Union Act, the NCUA invested its capital deposits collected from all member credit unions in U.S. Treasury securities and earned interest revenue of $284.7 million in 2018, an increase of $75.6 million from 2017. The increase in interest income over the prior year was primarily due to the increase in the rate of interest earned on investments. The average interest rate earned for the years ended December 31, 2018 and 2017, was 1.80 percent and 1.51 percent, respectively, and reflects an increase in the weighted average maturity of U.S. Treasury securities from 2.8 years to 2.4 years. Investments in U.S. Treasury securities account for approximately 95 percent of total assets.

The Share Insurance Fund ended 2018 with total liabilities of $125.1 million, a decrease of $810.1 million from 2017. The overall decrease was driven by the decrease in the insurance and guarantee program liabilities balance. During the year, the specific reserve decreased by $811.3 million, and was partially offset by an increase in the general reserve by $4.9 million. Specific reserves decreased based on information acquired through the NCUA's supervisory actions. This information provided additional clarity concerning the probability and amount of estimated insurance losses for certain troubled credit unions. Actual losses could vary and may be materially different from the estimated losses recognized as of December 31, 2018.

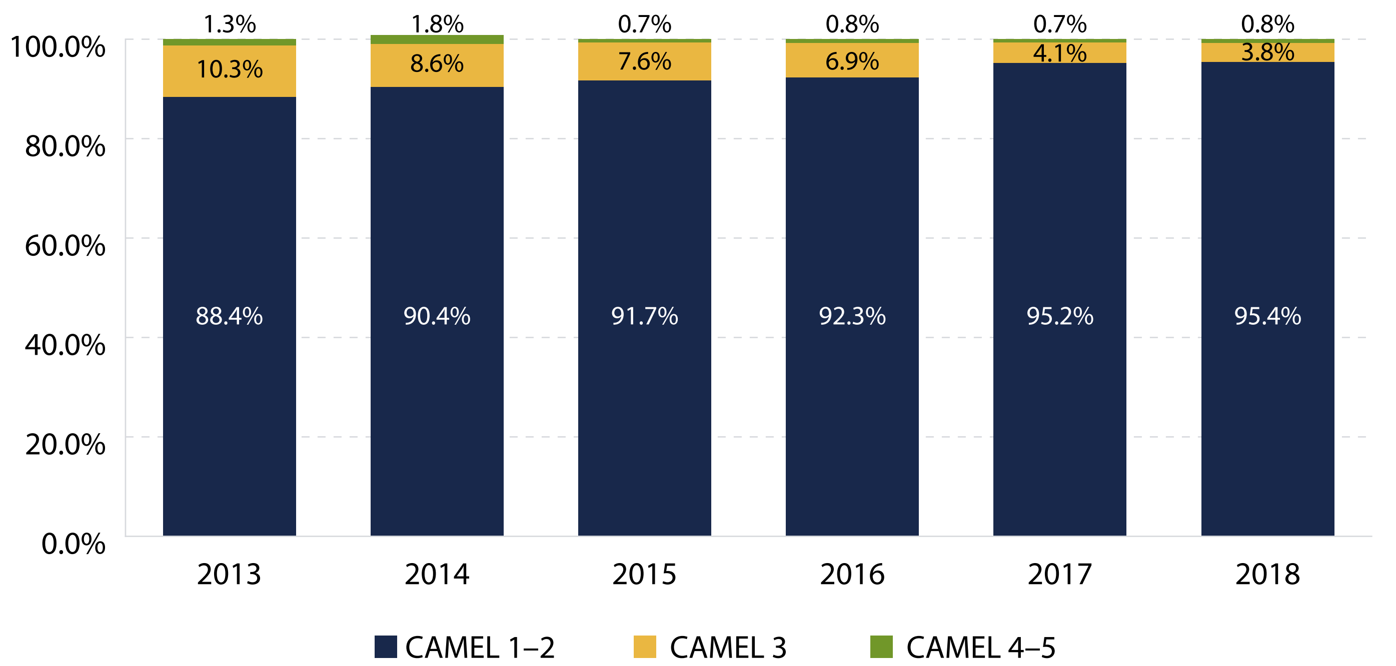
Operating expenses are primarily administrative services provided by the NCUA Operating Fund. Services are charged based on an NCUA Board-approved allocation methodology and derived from a study of insurance and regulatory efforts. The rate determined under the allocation methodology, known as the overhead transfer rate, decreased from 67.7 percent for 2017 to 61.5 percent for 2018. The decrease in the rate is largely due to a change in methodology that first took effect in 2018.

Total insured shares were $1.1 trillion and $1.1 trillion as of December 31, 2018, and 2017, respectively. In 2018, credit union membership grew by 4 percent to 116.2 million members.

The health of the credit union industry remained stable during 2018. Assets in CAMEL 3, 4, and 5 rated credit unions increased slightly to $66.9 billion at the end of 2018 versus $65.5 billion at the end of 2017. The aggregate net worth ratio increased during the year, ending at 11.3 percent, versus 11.0 percent as of December 31, 2017. The ratio has shown overall improvement since 2011.

The NCUA's composite CAMEL rating consists of an assessment of a credit union's capital adequacy, asset quality, management, earnings and liquidity. The CAMEL rating system is designed to take into account and reflect all significant financial, operational, and management factors our field staff assess in their evaluation of a credit union's performance and risk profile. CAMEL ratings range from 1 to 5, with 1 being the best rating. NCUA collectively refers to CAMEL 4 and 5 credit unions as "troubled credit unions."

Distribution of Assets by CAMEL Ratings at Year-end 2013–2018



Source: NCUA Call Report Data

A detailed overview of the Share Insurance Fund, including additional financial statement analysis and more information on equity ratio, contingent liabilities, capital resources and fiduciary activity can be found in the Financial Information section of this report.

NCUA OPERATING FUND

The NCUA Operating Fund conducts activities prescribed by the Federal Credit Union Act, which include:

- Chartering new federal credit unions;
- Approving field-of-membership applications of federal credit unions;
- Promulgating regulations and providing guidance;
- Performing regulatory compliance and safety and soundness examinations;
- Implementing and administering enforcement actions, such as prohibition orders, orders to cease and desist, and orders of conservatorship and liquidation; and
- Administering the Share Insurance Fund.

Operating Fund at a Glance:

Assets
- 2018 – $136.6 million
- 2017 – $110.1 million

Liabilities
- 2018 – $52.5 million
- 2017 – $46.7 million

Fund Balance
- 2018 – $84.1 million
- 2017 – $63.3 million

Total Revenues
- 2018 – $133.5 million
- 2017 – $108.4 million

Total Expenses
- 2018 – $112.8 million
- 2017 – $90.3 million

Excess of Revenues over Expenses
- 2018 – $20.7 million
- 2017 – $18.1 million

In 2018, the NCUA chartered one new federal credit union. At year-end, the total number of federal credit unions was 3,376 with $753.6 billion in total assets.

Funding for the NCUA's operations comes through operating fees levied on all federal credit unions and through reimbursements from the Share Insurance Fund. The Office of the Chief Financial Officer administers the methodology approved by the NCUA Board for calculating operating fees and setting the fee schedule each budget cycle. The fee is designed to cover the costs of providing administration and services to the federal credit union system. Each federally chartered credit union is assessed an annual fee based on its assets as of the preceding year-end. The Operating Fund also charges the Share Insurance Fund for administrative services based on an annual allocation methodology called the overhead transfer rate.

The Operating Fund ended 2018 with total assets of $136.6 million, an increase of $26.5 million from 2017. This change was attributed primarily to an increase in cash and cash equivalents, due to actual expenses being less than budgeted for the year.

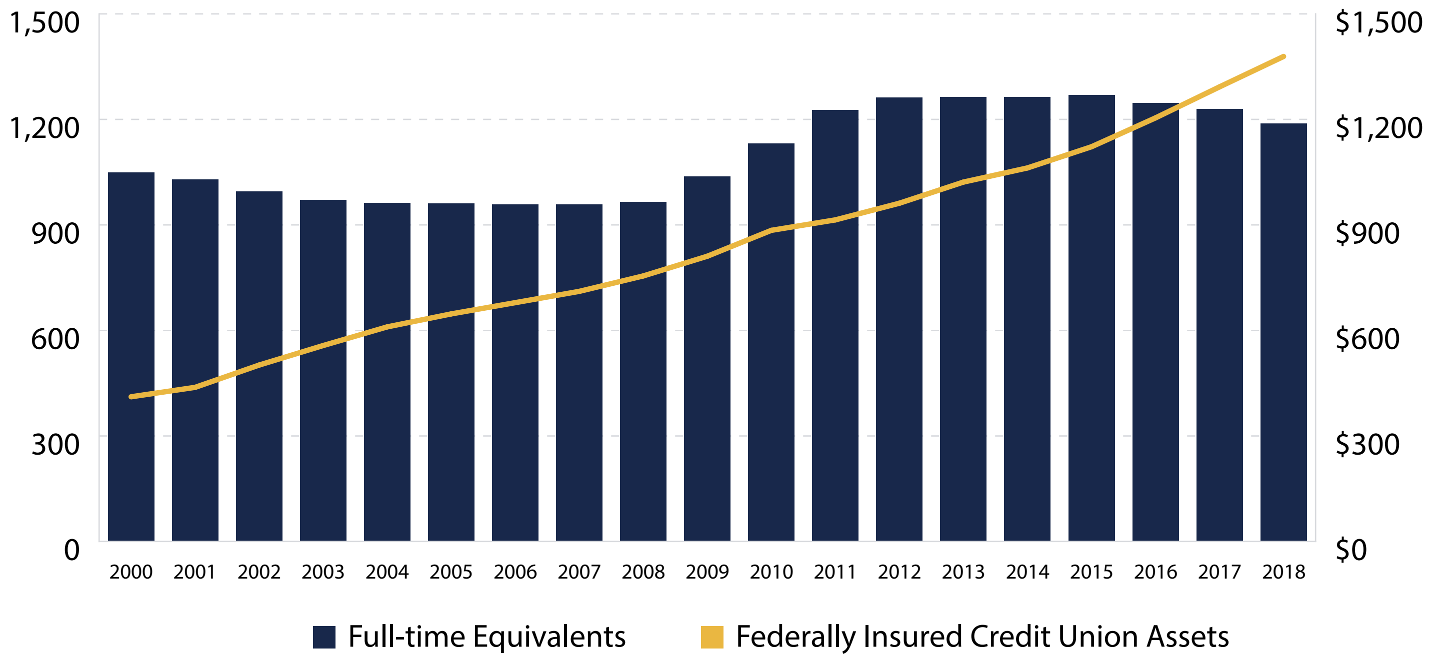
Total liabilities at December 31, 2018, were $52.5 million, an increase of $5.8 million from 2017. The change was attributed primarily to an increase in accrued wages and benefits, as well as accounts payable.

The NCUA ensures all office budget requirements were justified and consistent with the agency's overall strategic plan. All office budget submissions within the agency underwent reviews by the responsible regional and central office directors, the Chief Financial Officer, and the Executive Director. Additionally, mid-year budget reviews occur each year to identify possible cost reductions in program execution.

As part of our 2018 mid-session budget analysis presented to the Board, the NCUA estimated that its spending would be $8.5 million below the approved operating budget level.[4] Nearly all of this reduction was because of lower spending on pay and benefits resulting from lower than planned staffing levels. At mid-session, we projected the level of full-time equivalents paid from the operating budget would be 1,113 in 2018. The actual year-end result was 1,107 compared to the Board-approved level of 1,183.

[4] Spending includes incurred financial obligations, such as the value of a contractual agreement to purchase goods or services from an outside vendor, and outlays, such as amounts paid for employee salaries and benefits.

NCUA Staffing Levels Compared to Credit Union System Assets at Year-end 2000–2018 (in billions of dollars)



Source: NCUA Annual Budgets, Call Reports

In 2018, the NCUA spent $284 million of its operating budget, which was $14.1 million, or 4.7 percent, less than the Board-approved level for the year. Employee pay and benefits were below the approved budget level by $10.6 million, or 4.8 percent. Travel spending was $2.0 million less than the budgeted level, or 7.6 percent. Combined, spending for the remaining budgetary categories were below the approved budget levels by $1.5 million, or 3.0 percent. As discussed in the mid-session analysis, the agency's relatively high vacancy rate in 2018 was the primary driver of reduced spending on personnel compensation and travel. Other spending below the budgeted levels reflect, in part, the NCUA's efforts to administer its programs in a cost-efficient manner.

The NCUA also maintains a discrete capital budget. In 2018, the Board approved $15.4 million for a variety of projects related to information technology and NCUA-owned facilities. Of this amount, the agency spent $13.5 million, or 87.7 percent. Many of the agency's capital projects require multiple years of planning and implementation before completion. The NCUA expects that any unspent capital funding available at the end of 2018 will be utilized in future years to complete planned projects.

CENTRAL LIQUIDITY FACILITY

The Central Liquidity Facility's purpose is to improve the general financial stability of credit unions by serving as a liquidity lender to credit unions experiencing unusual or unexpected liquidity shortfalls. The Central Liquidity Facility accomplishes its purpose by lending funds, subject to certain statutory limitations, when a liquidity need arises. The two primary

Central Liquidity Facility Capital Stock Accounts at a Glance:

Shares
- 2018 – 5,491,692
- 2017 – 5,152,317

Amount
- 2018 – $274.6 million
- 2017 – $257.6 million

sources of funds for the Central Liquidity Facility are stock subscriptions from credit unions and borrowings from the Federal Financing Bank.

A credit union becomes a member by purchasing shares of capital stock of the Central Liquidity Facility. As of December 31, 2018, the Central Liquidity Facility had 270 members that contributed $274.6 million of capital stock.

Investments totaled $303.3 million at year-end and investment income totaled $5.2 million, which funded operations and paid $3.4 million in dividends to members. For 2018, the dividend rates were $0.50 per share for the first quarter, $0.625 per share for the second and third quarters, and $0.75 per share for the fourth quarter.

The borrowing authority as of December 31, 2018, is $7.0 billion. Investments are the Central Liquidity Facility's primary asset and are restricted to obligations of the U.S. government and its agencies, deposits in federally insured financial institutions, and shares and deposits in credit unions. The Central Liquidity Facility's borrowing arrangement is exclusively with the Federal Financing Bank. The NCUA maintains a note purchase agreement with the Federal Financing Bank with a current maximum principal amount of $2.0 billion.

COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

Congress established the Community Development Revolving Loan Fund under Section 130 of the Federal Credit Union Act to assist credit unions serving low-income communities in:

- Providing financial services to their communities;
- Stimulating economic activities in their communities, resulting in increased income and employment; and
- Operating more efficiently.

The Revolving Loan Fund supports a revolving loan program and a technical assistance program and is the only NCUA fund that receives an annual appropriation from Congress.

Since the initial loan program appropriation in 1979, Congress has appropriated $13.4 million for the Revolving Loan Fund program. Congress also provides funding for the technical assistance program through annual discretionary appropriations. Credit unions use the loan and technical assistance funds to increase financial services to their communities, including financial counseling, new products and enhanced electronic services.

Community Development Revolving Loan Fund at a Glance:

Revolving Loans

- 2018 – 26 outstanding loans
- 2017 – 23 outstanding loans

- 2018 – $9.7 million
- 2017 – $8.1 million

Technical Assistance Grants

- 2018 – 203 grants
- 2017 – 275 grants

- 2018 – $2.0 million
- 2017 – $2.4 million

As of December 31, 2018, the Revolving Loan Fund loan portfolio had $9.7 million in outstanding loans — 26 loans outstanding to 26 credit unions. In addition, Congress granted multi-year appropriations of $2.0 million in both 2018 and 2017 for the technical assistance program. In 2018, the fund made 203 technical assistance awards totaling $2.0 million from the multi-year appropriations received.

Management Assurances and Compliance with Laws

National Credit Union Administration

Office of the Chairman

February 14, 2019

The President
The White House
1600 Pennsylvania Avenue, N.W.
Washington, DC 20500

Dear Mr. President:

The National Credit Union Administration (NCUA) management is responsible for managing risks and maintaining effective internal control to meet the objectives of Section 2 and 4 of the *Federal Managers' Financial Integrity Act*. The NCUA conducted its assessment of risk and internal control in accordance with Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, NCUA can provide reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of December 31, 2018.

In addition, the NCUA conducted an assessment of the effectiveness of eternal control over financial reporting, which includes the safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A to OMB Circular A-123, *Internal Control Over Financial Reporting*. Based on the results of this evaluation, the NCUA can provide reasonable assurance that its internal controls over financial reporting as of December 31, 2018 were operating effectively and no material weakness were found in the design or operation of internal control over financial reporting.

Respectfully,

J. Mark McWatters
Chairman

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act establishes management's responsibility to annually assess controls in accordance with prescribed guidelines and provide a Statement of Assurance to the President and Congress on the effectiveness of controls. The Federal Managers' Financial Integrity Act further requires agencies to establish controls that reasonably ensure obligations and costs comply with applicable laws; assets are safeguarded against waste, loss, unauthorized use, and misappropriation; and revenues and expenditures are properly recorded and accounted for to maintain accountability of the assets. The Office of Management and Budget (OMB) provides guidance for implementing the act through OMB Circular A-123.

The NCUA continued to demonstrate its commitment to maintain a strong internal control environment. Enterprise risk management and internal controls are embedded in the agency's management of activities and operations that achieve strategic goals and objectives. In 2018, NCUA management conducted reviews including annual internal control assessments to verify that controls effectively mitigated programmatic risks to ensure effective and efficient operations, reliable reporting, compliance with laws, and safeguarding of assets. While no material weaknesses in the agency's internal controls were identified in the assessment, the NCUA remains committed to enhancing and improving its systems of internal controls and operational efficiencies. As a result of these assessments and annual internal reviews, the NCUA Board Chairman can provide reasonable assurance that the NCUA has no material weaknesses.

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act requires certain agencies and executive branch departments to report on their substantial compliance with federal financial management system requirements, federal accounting standards, and the U.S. Standard General Ledger at the transaction level. The purpose of the Federal Financial Management Improvement Act is to advance federal financial management by verifying that financial management systems provide accurate, reliable, and timely information in order to manage daily operations, produce reliable financial statements, maintain effective internal control, and comply with legal and statutory requirements. Although NCUA is exempt from the requirement to determine substantial compliance with the Federal Financial Management Improvement Act, the agency assesses its financial management systems annually for conformance with the requirements of OMB Circular A-123, Appendix D, "Compliance with the Federal Financial Management Improvement Act."

Management's Assessment Of Internal Control

Internal control is an essential component of effective management, providing reasonable assurance regarding the achievement of objectives, in three categories — effectiveness and efficiency of operations, reliability of reporting, and compliance with laws and regulations. The NCUA's internal control program is designed to achieve compliance with the objectives and requirements of the Federal Managers' Financial Integrity Act and other applicable federal laws and regulations.

NCUA managers routinely monitor and assess internal controls and report on the results of the assessment annually. Office directors perform internal control assessments that support the central and regional offices and the Asset Management and Assistance Center's assurance statements of compliance. Although some offices noted deficiencies, these did not rise to the level of a material weakness, either individually or collectively. The NCUA offices are addressing these issues through corrective action plans and the NCUA will monitor each offices' development and implementation of mitigating controls through the next reporting year.

In addition to the results of the assurance statements noted above, the NCUA considered the following other sources of information when assessing the agency's internal control environment:

- An entity-level control survey;
- Results of internal control testing under OMB Circular A-123, Appendix A, "Management of Reporting and Data Integrity Risk;"
- Qualitative and quantitative risk assessments in accordance with OMB Circular A-123, Appendix C, "Requirements for Payment Integrity Improvement;"
- Process cycle reviews;
- Results of independent evaluations performed by the Government Accountability Office and the NCUA's Office of Inspector General;
- Corrective action taken to enhance controls or mitigate process risk;
- Reports pursuant to the Federal Information Security Management Act and OMB Circular A-130, "Managing Information as a Strategic Resource;" and
- Other internal management reviews or assessments performed.

With respect to internal controls over financial reporting, the NCUA conducted a risk-based assessment over the most material financial statement line items across the four funds, in accordance with OMB Circular A-123, Appendix A, "Management of Reporting and Data Integrity Risk." The NCUA documented the end-to-end processes, identified key controls, and conducted tests of design and effectiveness. The NCUA examined deficiencies, both individually and in the aggregate, to determine if material weaknesses existed in the financial reporting processes. No deficiencies, or combination of deficiencies, rose to the level of a material weakness.

Throughout 2018, NCUA's management continued to strengthen the agency's acquisition-management process to include revisions to policies and procedures related to information technology acquisitions and the development of requirements for an asset-management system to support the property management life cycle. Management anticipates that the NCUA Office of Inspector General will issue a report on the agency's information technology inventory process later in 2019 with recommendations related to strengthening policies and enhancing process controls. The agency does not anticipate these conditions to rise to the level of a material weakness.

The Chairman's assurance statement is supported by the processes and reviews described above, which were carried out in 2018. The assurance statements from all NCUA office directors (which are supported by the offices' internal control assessments), the evaluation of other sources of information described above, and the results of the internal controls over financial reporting and testing serve as support for senior management to advise the Chairman as to whether the NCUA has deficiencies in internal control significant enough to be reported as a material weakness.

The Chairman's 2018 assurance statement for the Federal Managers' Financial Integrity Act and internal controls over financial reporting provides reasonable assurance that the necessary objectives (efficient and effective operations, reliability of reporting and compliance with applicable laws and regulations) were achieved. Included in this report is a Summary of Financial Statement Audits and Management Assurances in the Other Information section, as required by OMB Circular A-136, "Financial Reporting Requirements."

Federal Information Security Modernization Act

As required by the Federal Information Security Management Act, the NCUA developed, documented, and implemented an agency-wide information security program for the information and systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source. The act also requires federal agencies to conduct annual assessments, develop and implement remediation efforts for identified weaknesses and vulnerabilities, and report compliance with the act to the Office of Management and Budget.

The NCUA Chief Information Officer, Inspector General and Senior Agency Official for Privacy conducted a joint annual assessment using the CyberScope automated system as required by the OMB Memorandum 18-02, "Fiscal Year 2017–2018 Guidance on Federal Information Security and Privacy Management Requirements." The NCUA submitted the annual Federal Information Security Management Act report for fiscal year 2018 to the Office of Management and Budget on October 31, 2018.

As prescribed by the act, the Office of Inspector General performs an annual independent evaluation of the NCUA information security and privacy management programs and controls for compliance with the Federal Information Security Management Act. The Office of Inspector General completed the fiscal year 2018 audit in November 2018 and reported that NCUA effectively addressed and resolved 13 out of 14 prior year recommendations, and strengthened its information security program during 2018. The report also identified 10 recommendations for further improvement in information security continuous monitoring, configuration management, personnel security, and risk management.

Financial Management System Strategy

The NCUA partners with the Enterprise Services Center within the U.S. Department of Transportation to provide the agency with financial operations support services. Through this shared-service agreement, the agency uses the Oracle-based Delphi Financial Management system, which meets the requirements of the Federal Financial Management Improvement Act.

As part of its continuous quality improvement, the NCUA proceeds to enhance financial management systems and strengthen process controls aimed to ensure operational efficiencies, transparency, production of reliable and useful data to decision makers and stakeholders, and compliance with applicable laws and regulations.

Fraud Reduction And Data Analytics Act

The Fraud Reduction and Data Analytics Act of 2015 requires agencies to implement the Government Accountability Office's *A Framework to Managing Fraud Risks in Federal Programs*. The GAO framework details four components agencies should implement as part of their overall fraud risk management:

- Commit to creating an organizational culture conducive to managing fraud risk;
- Plan regular fraud risk assessments and use these assessments to develop a fraud risk profile;
- Design controls that mitigate risks of fraud, with a particular emphasis on fraud prevention and develop a collaborative environment to ensure effective implementation of those controls; and
- Evaluate outcomes using a risk-based approach and adapt fraud risk-management activities accordingly based on those evaluations.

Further, the Fraud Reduction and Data Analytics Act of 2015 requires agencies to report on efforts to reduce fraud. The NCUA's approach to fraud prevention and detection starts with the agency's leadership. The NCUA has a leadership culture that fosters integrity; training to increase awareness and to identify and report fraud; an active, independent Inspector General; sound internal controls; appropriate segregation of duties; risk and internal control assessments; and quality assurance and control activities. In addition, the NCUA's Enterprise Risk Management Council, which consists of senior leadership throughout the agency's offices and regions, evaluates fraud risk as part of the enterprise risk management program. Further, the NCUA has multiple ways to receive anonymous information about potential fraud and insider abuse such as surveys and a confidential fraud hotline.

The NCUA understands that a fraud risk management program is a continuous process that requires ongoing assessment, evaluation, and adaptation in order to build and improve an overall anti-fraud environment. In 2018, the agency continued to mature documentation of the agency's fraud risk management plan to include current practices and to identify targeted opportunities to strengthen the program. Further, the NCUA evaluated certain processes for fraud risk and utilized risk-based sampling to detect fraud using data analytics. The agency plans to expand the scope of this evaluation as its fraud program matures.

While no instances of fraud in the NCUA's programs surfaced through management's internal identification and reporting mechanisms or from internal and external auditors, the NCUA will continue to assess the design of process controls to evaluate their efficacy to reduce fraud risk.

Digital Accountability And Transparency Act

The Digital Accountability and Transparency Act (DATA Act) was enacted in 2014 to increase the availability and accuracy of federal spending information and to standardize government-wide reporting standards for such data. The DATA Act expands on reforms over federal awards reporting that began with the Federal Funding Accountability and Transparency Act of 2006 by requiring agencies to disclose expenditure information, including contracts, loans, and grants by submitting information for inclusion at USASpending.gov. The act does not apply to funding received outside of congressionally approved appropriations.

The NCUA, an independent agency, receives a limited annual appropriation from Congress to administer the Community Development Revolving Loan Fund. Congress created the Community Development Revolving Loan Fund to stimulate economic development in low-income communities through the issuance of technical assistance grants and low-interest loans to qualifying credit unions (Public Law 96-123, November 20, 1979). As the funding for the Revolving Loan Fund stems from an appropriation, information regarding the Revolving Loan Fund is subject to the DATA Act. For the remaining funds the NCUA administers, the agency is authorized to collect annual operating funding through fees paid by federal credit unions and other sources outside of congressional appropriations. The operating fees collected do not fall under the requirements of the act.

The NCUA successfully submitted quality financial and award data for publication on USASpending.gov that was complete, timely, and accurate. The Office of Inspector General conducted an audit and reported in November 2017, that the NCUA's internal controls over source systems and the DATA submission were managed effectively and in accordance with the act.

Improper Payment Elimination And Recovery Improvement Act

The Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012, requires federal agencies to review all programs and activities they administer and to identify those that may be susceptible to significant improper payments. Agencies must estimate the amount of erroneous payments for programs and activities for which the risk of improper payments is determined to be significant. Significant improper payments are defined as gross annual improper payments in a program exceeding both 1.5 percent of program outlays and $10 million of all program payments made during the year, or $100 million. Detailed information on improper payments for the U.S. government is available online at paymentaccuracy.gov. Data from NCUA is not included on this website because it does not have any programs that the OMB considers susceptible to significant improper payments.

The NCUA annually assesses improper payment risks covering all programs, as required by OMB Circular A-123, Appendix C, "Requirements for Payment Integrity Improvement." Based on the risk assessments, the agency has concluded that it does not have programs that are risk-susceptible to the threshold amounts in Appendix C.

Prompt Payment Act

The Prompt Payment Act requires federal agencies to make timely payments to vendors, including any interest penalties for late invoice payments. During 2018, the NCUA paid $6,559 in interest penalties, a decrease of $4,311 or 39.7 percent from 2017.

Debt Collection Improvement Act

The Debt Collection Improvement Act of 1996 sets forth standards for the administrative collection, compromise, suspension and termination of federal agency collection actions and referrals to the proper agency for litigation. The NCUA monitors, administers and collects on debts from active and separated employees.

Federal Civil Penalties Inflation Adjustment Act

The NCUA has authority to assess civil penalties for violations specified in the Federal Credit Union Act and other laws the NCUA enforces. The Federal Civil Penalties Inflation Adjustment Act of 1990 requires agencies to adjust penalty amounts periodically for inflation. Specific details about the civil penalties, the authority for the penalty, adjustment dates, and current penalty amount can be found in the Other Information section of this report.

Government Charge Card Abuse Prevention

The Government Charge Card Abuse Prevention Act of 2012 requires agencies to establish and maintain safeguards and internal controls for purchase cards, travel cards, integrated cards, and centrally billed accounts. As part of its effective internal control structure, the NCUA implemented sound controls to mitigate the risk of fraud, waste, and abuse. These controls are documented in the NCUA's charge card procedures. As required, the NCUA provided the Office of Management and Budget with the agency's Charge Card Management Plan, Charge Card Narrative, and Performance Metrics Report.

As required by the Government Charge Card Abuse Prevention Act, the NCUA Inspector General conducted a risk assessment on the agency's charge card programs and concluded, in its *March 2018 report*, that programs pose a low risk of illegal, improper, or erroneous purchases and payments. The Inspector General's report and others are available on the NCUA's website.

Source: Shutter Stock

Performance Results

Throughout 2018, the NCUA implemented strategies and initiatives designed to achieve its mission to provide, through regulation and supervision, a safe and sound credit union system that promotes confidence in the national system of cooperative credit.

The Performance Results section of the *2018 Annual Report* includes:

- An overview of NCUA's performance structure and its planning and review process;
- A brief discussion of each strategic goal, the performance measures, and their related targets;
- The results of the performance measures for 2018 and, when available, five years of historical trend data;
- Factors describing why certain performance measures were not met; and
- The NCUA's plan to improve performance, where appropriate.

This section concludes with discussions of the ways in which performance data are verified and the completeness and reliability of the data contained within this part of the Annual Report.

Performance Structure

The Performance Results section is organized by strategic goals to describe NCUA's efforts to meet the objectives defined in the *2018–2022 Strategic Plan*. This strategic plan outlines three strategic goals that are supported by eight strategic objectives, 21 performance goals and 46 performance indicators.

- **Strategic goals** are general, outcome-oriented, long-term goals for the major functions and operations of the agency. Strategic goals represent how the agency's actions fulfill its mission.
- **Strategic objectives** break down the broader strategic goals to a level that reflects specific outcomes or impacts the agency is working to achieve. They represent key aspects of each strategic goal, while also demonstrating how the strategic goal will be achieved.
- **Performance goals** are the actions the agency will undertake and measure to gauge progress achieving each strategic objective. Each performance goal is supported by one or more indicators or measures.
- **Performance indicators** or measures present a quantitative level of performance, or a target to be accomplished, within a specific timeframe.
- **Strategies** are plans the agency will implement to make progress toward its strategic objectives. This includes steps to strengthen or revise operational processes, human capital, skills development, technology, information management, and other resources critical to mission delivery.
- **Values** are statements that articulate the beliefs that support the agency's culture and provide a framework for decision-making.

The diagram below illustrates the relationship between these performance components:

Performance Planning and Process

The *2018 Annual Performance Plan* sets out performance measures and targets in support of the goals and objectives of the strategic plan. Developing the performance plan is a collaborative process that includes all of the NCUA's central and regional offices. Senior leaders develop performance measures, as well as the means and strategies that describe how the agency will assess progress towards its objectives. The NCUA Board reviews and approves the *Annual Performance Plan*.

The NCUA holds program offices accountable for setting meaningful and realistic targets that also challenge the agency to leverage its resources efficiently and effectively. Each designated goal owner is responsible for the progress in meeting his or her assigned goals, reporting the results and making operational adjustments as needed. When targets are not met, goal owners are required to explain what led to the shortfall and how they will improve performance in the future. Each goal owner provided his or her analysis and support for the performance results found in this report.

The NCUA uses a data-driven review process, which includes substantiating results reported whenever those results reveal significant discrepancies or variances from the target. For each goal, the Office of the Chief Financial Officer coordinates reviews to address data availability and reliability, clarify questions, and, if applicable, discuss corrective actions and strategies for any performance measures that are not on target. This office also delivers performance summary reports to the NCUA's Executive Director throughout the year.

Program Evaluation and Review

The NCUA periodically reviews its performance framework and focuses on tracking and reporting the most appropriate and meaningful outcome performance goals to show efficiency, effectiveness, and results. The agency uses the results of these data-driven reviews and its annual performance report as data points for future development of strategies, goals, measures, and targets.

Targets and Historical Data

The NCUA provides five years of historical trend data for each performance measure when available. Several performance goal indicators in this report are new for 2018. Therefore, historical data is not available. Results for prior years for these indicators are marked as "- -" in the performance results indicator and target tables. Baseline data collected in 2018 will be used to formulate performance goal targets for future years.

As part of the agency's collaborative performance planning process, the Office of the Chief Financial Officer works closely with the NCUA Chief Economist and subject matter experts across the agency to consider external factors and risks to the credit union system when developing meaningful, challenging, and realistic targets. In the case of select performance measures, NCUA's Rules and Regulations, formal instructions, or policy statements guide the agency's target selection.

Measure Quality

The NCUA has not developed outcome performance goals in all cases, and in certain instances uses input and output measures that support outcomes, lead to outcomes, or provide valuable indicators of how the agency is progressing toward achieving its strategic goals and objectives.

Enterprise Risk Management

Through NCUA's Enterprise Risk Management program, the agency is proactively managing risks to achieving its mission, as well as maximizing opportunities across the agency. The program considers risks systemically across major program areas. The Enterprise Risk Management program, including its Enterprise Risk Management Council, looks at the full spectrum of the agency's risks related to achieving its strategic objectives and provides the NCUA's leadership with a portfolio view of risk to help inform decision-making.

The foundational elements of the Enterprise Risk Management program were established at the program's start in 2015 and include an enterprise risk appetite statement, risk taxonomy, and risk rating criteria. In 2018, the Enterprise Risk Management Council prioritized the agency's enterprise-level risks, finalized documentation of its approach to enterprise risk management, provided training to senior leaders, developed a series of podcasts covering the foundational elements of the program, and began to develop risk response plans for its highest priority risk areas. In 2019, the NCUA will continue to refine its risk response plans, progress the integration of risk response plans in financial and operational decision-making, and continue to communicate with and train targeted groups of agency employees.

Cross-Agency Priority Goals

The NCUA is involved in numerous cross-agency initiatives by collaborating with the other financial regulatory agencies through several councils such as the Financial Stability Oversight Council, the Federal Financial Institutions Examination Council, and the Financial and Banking Information Infrastructure Committee. These councils and their many associated task forces and working groups contribute to the success of the NCUA's mission.

The GPRA Modernization Act of 2010 requires federal agencies that contribute to cross-agency priority goals to address these goals in their strategic plan, annual performance plan and annual performance report. The NCUA does not directly contribute to national-level cross-agency priority goals, located at www.Performance.gov.

Performance Results by Strategic Goal

The agency made progress across all three strategic goals in 2018, meeting or exceeding 35 performance indicators. Each strategic goal and the supporting strategic objectives and performance goals are presented in the subsequent sections, including detailed results for each indicator used to measure agency performance.

Target Met	NCUA is implementing its plans to achieve the strategic objective. Strategies and activities were executed on or ahead of schedule and the target outcome was achieved.	✔
Target Not Met	Current strategies have not had the intended impact and an increased focus is needed by the agency to improve performance on the strategic objective. Some strategies and activities may have been executed, but more progress is needed to advance the strategic objective.	✘

Strategic Goal 1: Ensure a Safe and Sound Credit Union System

Strategic Objectives	Performance Goals
1.1 Maintain a strong Share Insurance Fund	1.1.1 Fully and efficiently execute the requirements of the agency's examination and supervision program 1.1.2 Effectively manage losses to the Share Insurance Fund
1.2 Provide high-quality and efficient supervision	1.2.1 Enable continuous risk analysis, identify key trends, and target examinations where most needed 1.2.2 Effectively identify and evaluate risk in complex credit union portfolios 1.2.3 Improve the quality control and consistency of examinations

The Federal Credit Union Act assigns the NCUA statutory responsibility to establish and maintain the Share Insurance Fund and oversee the credit union system. A stable cooperative system is the foundation that allows credit unions to provide services to their members, and introduce new products and services to meet member needs in the future. Identifying and managing risk in credit unions is the NCUA's core mission. Essential to achieving this strategic objective is the efficient and effective management and execution of the agency's examination and supervision programs, including the proper allocation of resources and timely resolution of issues.

Strategic Goal 1 is supported by two strategic objectives, five performance goals and 12 performance indicators. NCUA performed well, meeting its targets for all 12 indicators.

Strategic Objective 1.1 – Maintain a strong Share Insurance Fund

The NCUA minimizes losses to the Share Insurance Fund by managing risks in the credit union system. NCUA's Office of the Chief Economist provides economic information and enhances the agency's understanding of emerging microeconomic and macroeconomic risks. The office also delivers insight into regional economies and industry specific trends and their potential risk impacts. Future risks to credit unions include escalating cybersecurity threats, interest rate and liquidity challenges and rapid changes in technology. Each risk requires continual monitoring and, where prudent, risk-mitigation strategies to protect the overall credit union system from preventable losses or failures.

The agency has implemented a flexible exam schedule that extends examination cycles up to 20 months, reducing the agency's presence in well-capitalized and well-managed credit unions, and enabling resources to be focused towards higher risk credit unions.

The NCUA's asset management program, administered by our Asset Management and Assistance Center, ensures members are paid promptly after any necessary liquidation, and limits losses to the Share Insurance Fund and other creditors through the effective liquidation of failed credit union assets. Staff from the Asset Management and Assistance Center also assist with conducting examinations of large, complex loan portfolios, and participate in conservatorships.

Performance Indicators	2013	2014	2015	2016	2017	2018 Target	2018 Result	Status
1.1.1 Fully and efficiently execute the requirements of the agency's examination and supervision program - Agency Priority Goal								
Maintain the aggregate corporate credit union leverage ratio above 5 percent, annually	7.1%	7.7%	7.6%	5.6%	7.1%	Greater than 5%	8.8%	✔
Resolve troubled credit unions within an average of 24 months of initial downgrade	20	21	19	29	22	24	19	✔
98 percent of credit unions are well capitalized according to prompt corrective action	97.0%	97.6%	97.9%	97.8%	97.7%	98%	98.6%	✔
1.1.2 Effectively manage losses to the Share Insurance Fund								
The equity ratio is the ratio of the Share Insurance Fund equity to the amount of insured shares. The normal operating level is maintained between 1.33 percent and 1.39 percent.	1.30%	1.29%	1.26%	1.24%	1.46%	Between 1.33% and 1.39%	1.39%	✔
Following a credit union failure, within three business days, issue payments to members for the balance of their verified insured funds or ensure members have access to their funds	1.7	1.4	1.5	3.2	0[1]	3 days	3	✔

[1] All 2017 liquidations had a purchase and assumption agreement and members had access to their funds immediately through the continuing credit union.

Strategic Objective 1.2 – Provide high-quality and efficient supervision

The NCUA works continuously to improve its supervision program and operate more efficiently. In 2018, the NCUA initiated several activities to support this objective including an alternating examination pilot program with select state regulators and an enhanced quality assurance pilot program for examination and supervision reports. In 2018, the NCUA completed cyber reviews using the Automated Cybersecurity Examination Toolbox (ACET) for over 85 percent of federally insured credit unions with assets greater than $1 billion. The NCUA intends to finish cyber reviews in all federally insured credit unions with assets greater than $250 million by December 31, 2023. The NCUA revised training courses for field staff in 2018 to ensure examiners are well trained and to improve the consistency of examinations across the credit union system.

To keep pace with the growing complexities of the credit union system, the NCUA is investing in a number of critical technology upgrades and replacements. The NCUA's multi-year Enterprise Solution Modernization program includes the replacement of the primary examination tool used as part of the agency's supervision and examination functions. This system is essential to the NCUA's operations because it is used for assessing and documenting the industry's safety and soundness levels.

Performance Indicators	2013	2014	2015	2016	2017	2018 Target	2018 Result	Status
1.2.1 Enable continuous risk analysis, identify key trends, and target examinations where most needed - Agency Priority Goal								
Acquire the full range of technical resources, services, and products for replacing NCUA's legacy AIRES solution through a competitive contract competition	--	--	--	--	--	Second Quarter	Achieved	✔
Issue a request for proposals to secure the technological infrastructure for NCUA's data driven supervision program for corporate credit unions	--	--	--	--	--	Fourth Quarter	Achieved	✔
Publish the *Quarterly U.S. Map Reviews* on the NCUA website to assist with identifying regional and national risks	4	4	4	4	4	4	4	✔

Performance Indicators	2013	2014	2015	2016	2017	2018 Target	2018 Result	Status
1.2.2 Effectively identify and evaluate risk in complex credit union portfolios								
Review and assess all capital plans and stress tests for credit unions with assets greater than $10 billion within timelines outlined in regulation	--	Regulation Established	Achieved	Achieved	Achieved	Achieve	Achieved	✔
Implement a collection tool and supervisory process for cybersecurity reviews	--	--	--	--	--	Fourth Quarter	Achieved	✔
1.2.3 Improve the quality control and consistency of examinations								
Revise existing examiner training courses or develop new courses to meet the training needs of all examiners	--	--	--	--	9	8	13	✔
Pilot an enhanced review program for examination and supervision reports issued by examiners	--	--	--	--	--	Third Quarter	Achieved	✔

Strategic Goal 2: Provide a Regulatory Framework that is Transparent, Efficient, and Improves Consumer Access

Strategic Objectives	Performance Goals
2.1 Deliver an effective and transparent regulatory framework	2.1.1 Promulgate efficient, targeted regulation tailored to offer meaningful relief without undermining safety and soundness 2.1.2 Increase awareness of regulatory activities
2.2 Enforce federal consumer financial protection laws and regulations in federal credit unions	2.2.1 Assess compliance with consumer lending and deposit laws and regulations 2.2.2 Empower consumers with information to make independent and informed financial decisions
2.3 Facilitate access to federally insured credit union financial services	2.3.1 Efficiently administer viable credit union charters and expansion requests 2.3.2 Support small, low-income, minority, and newly chartered credit unions

Strategic Goal 2 strives to effectively manage the balance between regulatory flexibility and responsible oversight. The NCUA's goal is to issue balanced, clear, and straightforward regulations while addressing emerging adverse trends in a timely manner. The goal also seeks to improve consumer access, ensure compliance with consumer financial protection laws, and improve consumer financial education.

The Office of Consumer Financial Protection is responsible for assessing compliance with federal consumer financial protection laws and regulations. This office implements the NCUA's fair lending examination program, oversees general consumer compliance initiatives and operates the Consumer Assistance Center. This office also provides consumer financial protection and financial literacy information directly to consumers through the agency's consumer website, MyCreditUnion.gov.

In 2018, the NCUA established the Office of Credit Union Resources and Expansion to support credit union growth and development. The office's primary mission is to assist credit unions through all the various stages of expansion and strategic development. It also provides access to online training and resources, as well as grants and loans through the Community Development Revolving Loan Fund.

The NCUA uses three strategic objectives, six performance goals and 14 indicators to support this strategic goal. The NCUA met the target for 11 performance indicators that support strategic goal two. An explanation is provided for the indicators that did not meet their targets during the year.

Strategic Objective 2.1 – Deliver an effective and transparent regulatory framework

The NCUA has statutory responsibility for a wide variety of regulations that protect the credit union system, credit union members, and the Share Insurance Fund. The NCUA Board and program staff continue to create an environment that allows credit unions to serve their members better while maintaining the safety and soundness of the system. The NCUA's goal is to issue straightforward regulations that address emerging issues before they become major problems.

In 2018, the NCUA's Regulatory Reform Task Force, established in 2017 to oversee the development of the agency's regulatory reform agenda, issued its second and final report. The task force undertook an exhaustive review of the NCUA's regulations and developed a comprehensive agenda for reviewing and revising these regulations in the future. The report outlines recommendations for the amendment or repeal of regulatory requirements the task force believes are outdated, ineffective, or excessively burdensome.

New or revised rules and regulations are issued for public comment for a minimum of 30 days, though most have a 60-day comment period. The NCUA evaluates and considers all comments received from stakeholders to understand the effects regulations may have on credit union operations.

A full listing and description of the NCUA's recent final and proposed rules are found on its website.

Performance Indicators	2013	2014	2015	2016	2017	2018 Target	2018 Result	Status
2.1.1 Promulgate efficient, targeted regulation tailored to offer meaningful relief without undermining safety and soundness - Agency Priority Goal								
Implement Tier 1 amendments as recommended by the Regulatory Reform Task Force	--	--	--	--	Task Force Created	Fourth Quarter	Achieved	✔
2.1.2 Increase awareness of regulatory activities								
Communicate updates on rule changes and regulatory activities to an increased digital audience through media coverage, share voice, online and social media engagement	--	--	--	--	--	Establish Baseline	Achieved	✔

Strategic Objective 2.2 – Enforce federal consumer financial protection laws and regulations in federal credit unions

The NCUA's fair lending examination program is designed to ensure credit unions comply with the rules and regulations established to protect consumers. In 2018, the Division of Consumer Compliance Policy and Outreach spent over 4,700 hours examining 26 credit unions for compliance with fair lending laws and regulations. In addition, agency staff spent approximately 1,000 hours performing 40 offsite supervisory contacts to review credit unions' loan policies and, if necessary, provide recommendations to bring them into compliance with fair lending laws.

The NCUA coordinates with other financial services regulators to develop policy, regulations, and guidance. As part of the Federal Financial Institutions Examination Council's Taskforce on Consumer Compliance, and the Financial Literacy and Education Commission, the NCUA contributes to the development of balanced regulations and policy statements related to consumer financial protection and financial literacy.

The NCUA's Office of Consumer Financial Protection is focused on empowering consumers to make informed financial decisions by developing and promoting financial literacy education. Through its Consumer Assistance Center, the office also responds to inquiries from credit unions, credit union members, and consumers involving consumer financial protection and share insurance matters. Additionally, it handles consumer complaints filed against credit unions. In 2018, the NCUA assisted more than 53,000 consumers.

The NCUA also promotes the importance of making smart financial decisions through its consumer-focused website, MyCreditUnion.gov. This site, available in both English and Spanish, is a valuable resource for personal finance information for individuals of all ages. In 2018, visits to the site reached approximately 865,000, with 42 percent of visits coming from a mobile device. Additionally, 24 percent of visitors viewed the Spanish version of the site espanol.MyCreditUnion.gov.

Performance Indicators	2013	2014	2015	2016	2017	2018 Target	2018 Result	Status
2.2.1 Assess compliance with consumer lending and deposit laws and regulations								
Complete 25 fair lending examinations, annually	25	25	25	24	26	Greater than or Equal to 25	26	✔
Complete 40 offsite fair lending supervision contacts, annually	45	50	50	50	49	Greater than or Equal to 40	40	✔
Conduct quarterly reviews of top 10 consumer complaints to ensure existing and planned education programs align with complaint trends	--	--	--	4	4	4	4	✔
2.2.2 Empower consumers with information to make independent and informed financial decisions								
Produce events, videos, or materials related to consumer financial protection	5	4	7	2	2	2	5	✔
Increase the number of visitors to MyCreditUnion.gov	332,596	564,970	742,613	829,064	753,588	800,000	865,195	✔
Conduct annual webinar with the credit union industry on consumer financial protection law matters	--	1	1	1	1	1	1	✔

Strategic Objective 2.3 – Facilitate access to federally insured credit union financial services

The NCUA works to expand access to affordable financial services. The Office of Credit Union Resources and Expansion provides support to any credit union seeking assistance with chartering, charter conversions, bylaw amendments, field-of-membership expansion requests and low-income designations. The office develops online training, manages the minority depository preservation program, and administers the grants and loans program, the Community Development Financial Institutions certification streamlined application, as well as other initiatives. The office is also responsible for chartering new credit unions, and providing guidance and advice on the effectiveness of policies and procedures related to the operations of new and developing credit unions.

During the year, the agency approved approved 18 community-charter conversions, the expansion of 53 existing community charters and 16 expansions into underserved areas as part of its chartering and field-of-membership responsibilities.

Performance Indicators	2013	2014	2015	2016	2017	2018 Target	2018 Result	Status
2.3.1 Efficiently administer viable credit union charters and expansion requests								
Make a determination on completed field-of-membership expansion applications within an average of 60 days	--	--	42 days	40 days	54 days	Average 60 days	57 days	✔
Modernize the Field of Membership Internet Application processing system to provide improved communications on the status of pending applications	--	--	--	Delayed	Delayed	Third Quarter	Not Met	✘
2.3.2 Support small, low-income, minority, and newly chartered credit unions								
Notify credit unions newly qualifying for low-income status of their eligibility, semi-annually	1	3	2	2	2	2	1	✘
Award funds to 40 percent of the minority depository institutions applying for grants	--	--	72%	40%	69%	40%	91%	✔
Preserve the number of CDFI-certified credit unions to at least 28 percent of the total number of CDFIs	--	--	--	27%	28%	28%	27%	✘
Increase the number of registered users of the Learning Management Service training tool by 25 percent	--	--	--	--	--	25%	37%	✔

Discussion.

The NCUA did not modernize the Field of Membership Internet Application processing system in 2018.

Modernization of the Field of Membership Internet Application processing system did not take place in 2018. The NCUA reprioritized resources to the agency's other modernization efforts. The legacy Field of Membership Internet Application processing system remains available for credit unions seeking charter expansions. The NCUA reviewed and updated the instructions for the existing processing system in June 2018. The NCUA will continue to use the existing system to process qualifying charter-expansion requests. Generally, the application is available for credit unions seeking approval for groups (occupational or associational) that do not exceed 2,999 primary potential members.

The NCUA did not notify credit unions newly qualifying for low-income status of their eligibility, semi-annually in 2018.

To qualify as a low-income credit union, a majority of the credit union's membership (50.01 percent) must meet certain low-income thresholds, based on data from the Census Bureau and requirements outlined in NCUA's Rules and Regulations. The NCUA provided one notification in 2018. Specifically, the agency notified state regulators of newly qualified federally insured, state-chartered credit unions in April 2018. The NCUA postponed the second notification of the year to qualifying federal credit unions until after the conclusion of the agency's regional reorganization in 2019. Despite the postponement, a credit union can request assistance in determining whether it qualifies for a low-income designation at any time by contacting the NCUA's Office of Credit Union Resources and Expansion.

The NCUA did not meet its target to preserve the number of Community Development Financial Institution (CDFI)-certified credit unions to at least 28 percent of the total number of CDFIs.

The U.S. Department of the Treasury's Community Development Financial Institutions Fund designates organizations that provide financial services to low-income communities and to people who lack access to financing and that meet certain criteria as Community Development Financial Institutions. Credit unions certified as CDFIs are eligible to apply for awards through a variety of competitive programs administered by the CDFI Fund. In 2018, the number of CDFI-certified credit unions declined 1 percentage point from 2017 to 27 percent of the total number of CDFIs. Two contributing factors were: 1) 27 credit unions had their CDFI certification terminated for failure to submit the required Annual Certification Report to the CDFI Fund and, 2) The CDFI Fund paused the acceptance of new certification applications from August to October 2018; therefore, the NCUA canceled the final intake period for 2018. Looking forward, the NCUA intends to continue to promote the CDFI designation and its benefits to the credit union system.

Strategic Goal 3: Maximize Organizational Performance to Enable Mission Success

Strategic Objectives	Performance Goals
3.1 Attract, engage, and retain a highly skilled, diverse workforce and cultivate an inclusive environment	3.1.1 Deliver timely and relevant training, and leadership development programs for all staff 3.1.2 Promote inclusive leadership that values diverse perspectives and maximizes employees' contributions 3.1.3 Apply employee feedback that measures engagement to support continuous improvement of the workplace
3.2 Deliver an efficient organizational design supported by improved business processes and innovation	3.2.1 Implement a human capital plan to support strategic and business priorities 3.2.2 Protect NCUA staff, facilities, and critical infrastructure 3.2.3 Implement secure, reliable, and innovative technology solutions 3.2.4 Gain efficiencies through quality processes, systems, and project management
3.3 Ensure sound corporate governance	3.3.1 Foster an effective risk management and internal control environment 3.3.2 Align NCUA's resources to focus on executing and supporting the core mission 3.3.3 Promote sound financial management and stewardship principles

Strategic Goal 3 encompasses fundamental business processes and management responsibilities within the NCUA: human capital, employee and operational security, information technology systems and assets, financial management, and employee engagement. This goal emphasizes organizational excellence through effective, efficient, and inclusive recruiting, hiring, training, and career development processes that support and promote diversity within the workplace. It also includes efforts to establish reliable and effective technology solutions, innovative business processes, robust security programs, and sound financial stewardship.

The NCUA made progress in 2018 on the three strategic objectives, ten performance goals and 20 indicators supporting this strategic goal. The agency met its target for 12 performance indicators. An explanation is provided for each indicator that did not meet its target.

Strategic Objective 3.1 – Attract, engage, and retain a highly skilled, diverse workforce and cultivate an inclusive environment

Developing a highly qualified workforce begins with the recruitment and assessment of candidates. The NCUA is committed to filling positions with the best-qualified applicants. The NCUA has a number of outreach strategies to reach and attract applicants and is using new and innovative assessment tools to recruit the highest quality candidates possible.

The NCUA prioritizes diversity and inclusion as a strategic business imperative. The NCUA has outlined its commitment to employee diversity in its *2018–2022 Diversity and Inclusion Strategic Plan*. A diverse workforce and an inclusive work environment build a stronger agency.

To supervise federally insured credit unions properly, staff must be trained to have the requisite skills and abilities to identify and mitigate risk. The NCUA will continue reviewing and revising its training curricula to highlight regulatory and other changes to, respond to emerging industry trends, and address employee feedback.

The NCUA's Talent Management Council prioritized employee engagement as a critical factor for strengthening agency performance. The overarching focus within the NCUA is the commitment to employee satisfaction, mission accomplishment, and work-life balance.

Performance Indicators	2013	2014	2015	2016	2017	2018 Target	2018 Result	Status
3.1.1 Deliver timely and relevant training, and leadership development programs for all staff								
Obtain at least an 88 percent average rating in training class evaluations	82%	89%	88%	88%	85%	88%	85%	✘
3.1.2 Promote inclusive leadership that values diverse perspectives and maximizes employees' contributions								
Improve NCUA's score for the Partnership for Public Service's Support for Diversity Indicator (Employee Viewpoint Survey Questions 34, 45, and 55) by 1 percentage point	64.2	65.8	68.0	67.3	65.7	66.7	65.0	✘
Improve NCUA's score for OPM's Inclusion Quotient by 1 percentage point. The Inclusion Quotient identifies behaviors that help create an inclusive environment	66	67	67	67	65	66	63	✘
3.1.3 Apply employee feedback that measures engagement to support continuous improvement of the workplace								
Improve NCUA's Federal Employee Viewpoint Survey Employee Engagement Index by 2 percentage points	70%	72%	72%	73%	69%	Greater than or Equal to 71%	67%	✘
Conduct post-program reviews of management and executive development programs in coordination with oversight committees and participant supervisors at the conclusion of each program	--	--	Achieved	Achieved	Achieved	Fourth Quarter	No programs concluded in 2018	✘

Discussion.

NCUA did not meet its target to obtain at least an 88 percent average rating in our training class evaluations.

The average rating of training class evaluations remained unchanged at 85 percent from 2017 to 2018. Two contributing factors were: 1) a significant number of pilot offerings and varying instructor knowledge and experience levels, and 2) the structure of the current evaluation process.

Looking forward, the NCUA will address discrepancies in the delivery of the new course curriculum at the individual course level and through coaching and feedback to offices responsible for delivering training. The NCUA is also developing a course for internal NCUA instructors to help improve the course preparation and delivery skills. The NCUA is assessing the current evaluation process to identify opportunities for improvement. The agency also plans to assess the results of training class evaluations separately for state and NCUA examiners to understand better and address the specific needs of each group.

NCUA did not improve its score by 1 percentage point in the "Support for Diversity" indicator measured by the Partnership for Public Service using the Federal Employee Viewpoint Survey, which was administered by the Office of Personnel Management in 2018.

Our score dropped 0.7 percentage points, from 65.7 in 2017 to 65.0 in 2018. The indicator is measured by the responses to three questions in the Federal Employee Viewpoint Survey. There was an improvement in positive responses for question 34 (Policies and programs promote diversity in the workplace). However, declines in the score when compared to last year for survey questions 45 (My supervisor is committed to a workforce representative of all segments of society) and 55 (Supervisors work well with employees of different backgrounds) primarily contributed to the agency's overall lower score.

The NCUA did not improve its score for OPM's Inclusion Quotient by 1 percentage point in 2018.

Our score dropped two points from 65 in 2017 to 63 in 2018. There was no change to the agency's "Fair and Supportive" sub-indices. However, declines in the "Open, Cooperative and Empowering" sub-indices contributed to the decline in the overall score.

The NCUA went through a significant reorganization in 2017 and 2018, which created some apprehension and uncertainty within the workforce. As such, there was likely an increase in negative responses to the questions comprising each sub-index. However, the NCUA continues its efforts to create a strong foundation for success with respect to its diversity and inclusion efforts in the future. In 2018, the agency chartered new employee resource groups (ERGs) to foster a more inclusive work culture and environment that recognizes, appreciates, and effectively encourages the use of the talents, skills, and perspectives of all employees in the achievement of the NCUA's mission. In addition to the establishment of the ERGs, the NCUA incorporated other initiatives aimed at fostering inclusion such as monthly diversity talks, monthly diversity newsletters, and a mentorship program. In addition, the agency has a robust initiative to build inclusive behaviors in its leadership team.

Looking forward, the agency's Diversity Advisory Council, a sub-committee of the agency's Talent Management Council, is seeking new members in 2019. The council members play an important role in assisting the agency's achievement of the goals and priorities set forth in the NCUA's *2018–2022 Diversity and Inclusion Strategic Plan* and crafting the initiatives that help create an inclusive workplace for all NCUA employees.

The NCUA did not improve its Federal Employee Viewpoint Survey Employee Engagement Index by 2 percentage points in 2018.

The agency's score dropped 2 percentage points from 69 in 2017 to 67 in 2018. There was no change to the agency's "Supervisors" sub-index; however, declines in the "Leaders Lead" and "Intrinsic Work Experience" sub-indices contributed to the decline in the overall score. In 2018, the agency implemented a nation-wide reorganization that may have negatively impacted the Employee Engagement index. Looking forward, the agency is implementing NCUA-wide and office-level workforce engagement plans to improve agency-wide employee engagement results. The Executive Director will also hold quarterly all staff webinars to keep the workforce apprised of agency activities and provide the opportunity for staff to ask questions directly to the agency's leadership team.

The NCUA did not conduct post-program reviews of management and executive development programs in 2018.

The NCUA did not complete any of its management and executive development programs in 2018; therefore, the NCUA did not conduct any post-program reviews. Looking forward, the agency will continue to conduct post-program reviews of both internal and external leadership development programs and implement enhancements to the programs based on the results of the reviews.

Strategic Objective 3.2 – Deliver an efficient organizational design supported by improved business processes and innovation

The NCUA's Office of the Chief Information Officer is committed to delivering secure, innovative information technology services and solutions to the NCUA workforce, credit unions, and other stakeholders. Staff relies heavily on technology to perform their duties and the responsibilities associated with the agency's mission. To create additional efficiencies, administrative tasks need to be streamlined using technology. The NCUA's Information Technology Prioritization Council, which is comprised of office and regional directors, reviews and prioritizes software initiatives and aligns information technology investments with the agency's mission.

The NCUA's planned information technology modernization, the Enterprise Solution Modernization Program, will improve the examination process and ease burdens on credit unions and staff by reducing the amount of time spent in credit unions through new technology. This program is a multi-year effort created to manage modernization programs across the agency in such areas as examinations, workflow management, resource and time management, data integration and analytics, data governance, document management and customer relationship management. The Office of Business Innovation, established as a new, stand-alone office in 2019, is partnered with the agency's Office of the Chief Information Officer to implement the Enterprise Solution Modernization Program and other future-facing technology solutions for the NCUA's workforce and business processes.

The NCUA is dedicated to strengthening its security program and communications. The agency's Office of Continuity and Security Management is responsible for continuity of operations and emergency management, physical security, personnel security, and national security and intelligence. This office provides an important link between the intelligence community and the credit union system by managing NCUA's threat-analysis processes and working with the intelligence community and other partners to provide information on threats to the credit union system.

Performance Indicators	2013	2014	2015	2016	2017	2018 Target	2018 Result	Status
3.2.1 Implement a human capital plan to support strategic and business priorities								
Develop a workforce and succession plan that will address the changing needs of the agency	--	--	--	--	--	Second Quarter	Achieved	✔
3.2.2 Protect NCUA staff, facilities, and critical infrastructure								
Deliver relevant, quality security and continuity of operations trainings to all staff annually. Measured in percent of staff trained	--	--	100%	100%	100%	100%	99%	✘
Obtain a score of 70 percent or above on the NCUA's Federal Employee Viewpoint Survey Question 36 "My organization has prepared employees for potential security threats"	60%	63%	76%	82%	76%	Greater than or Equal to 70%	76%	✔

Performance Indicators	2013	2014	2015	2016	2017	2018 Target	2018 Result	Status
3.2.3 Implement secure, reliable and innovative technology solutions								
Redesign and rebrand the NCUA.gov website	--	--	--	--	--	Fourth Quarter	Achieved	✔
Deploy the Business Partner Gateway solution to enable secure access and sharing of information with external NCUA stakeholders	--	--	--	--	--	Fourth Quarter	Achieved	✔
Replace AMAC's legacy servicing system	--	--	--	--	--	Fourth Quarter	Not Achieved	✘
Establish an Enterprise Data Management Strategy and Preliminary Architecture for the agency's core mission and administrative data analytics requirements	--	--	--	--	--	Fourth Quarter	Achieved	✔
3.2.4 Gain efficiencies through quality processes, systems, and project management								
Baseline the customer experience for delivered IT services and solutions against industry benchmark metrics	--	--	--	--	--	Establish Baseline	Achieved	✔
Modernize NCUA's procurement program with improved policies and procedures, controls and enhanced reporting	--	--	--	--	--	Fourth Quarter	Achieved	✔

Discussion.

The NCUA did not meet its target to deliver relevant, quality security and continuity of operations trainings to all staff in 2018.

In 2018, the agency fell just short of its goal of providing active shooter training to all staff and continuity of operations training to all essential continuity personnel and national security clearance holders. While the NCUA achieved the latter measure, it trained 98 percent of staff in active shooter training, not 100 percent. In 2019, the agency will continue to offer relevant and quality security training, including active shooter training, to all current and newly-hired staff.

The NCUA did not replace AMAC's legacy servicing system within the established timeframe.

The agency was not able to replace the legacy servicing system for AMAC in 2018. The NCUA performed an analysis of alternatives to determine if pursuing a core processor replacement was still the proper technological solution, which delayed issuance of the formal solicitation to vendors. The agency issued a request for proposals to potential vendors in December 2018, and anticipates awarding a product and services contract in 2019.

Strategic Objective 3.3 – Ensure sound corporate governance

The NCUA maximizes its use of agency resources by continually improving its operations and strengthening internal controls. The agency has reliable structures and processes in place to ensure sound management of its four funds; sound management of its investments, liquidity, liquidated and acquired assets, and other financial resources; prudent execution of the NCUA's role as a fiduciary; and compliance with financial management policies and standards.

Performance Indicators	2013	2014	2015	2016	2017	2018 Target	2018 Result	Status
3.3.1 Foster an effective risk management and internal control environment								
Evaluate and prioritize risks across NCUA and the credit union system through an established ERM process.	--	--	ERM Program Established	--	--	Fourth Quarter	Achieved	✔
Complete at least 90 percent of corrective actions on OIG and GAO audit recommendations within established timeframes	--	--	--	--	--	90%	76%	✘

Performance Indicators	2013	2014	2015	2016	2017	2018 Target	2018 Result	Status
3.3.2 Align NCUA's resources to focus on executing and supporting the core mission								
Baseline total NCUA costs relative to credit union insured shares regulated	--	--	--	--	--	0.026%	0.026%	✔
Integrate ERM, performance and budget activities and direct resources towards the highest priority areas	--	--	--	--	--	Third Quarter	Achieved	✔
3.3.3 Promote sound financial management and stewardship principles								
Receive an unmodified opinion on the NCUA financial statement audit of all four funds	Achieved	Achieved	Achieved	Achieved	Achieved	Achieve	Achieved	✔
Award at least 70 percent of total eligible contract dollars as competitive actions	N/A	N/A	N/A	N/A	N/A	70%	79%	✔

Discussion.

The agency did not meet its target to complete at least 90 percent of corrective actions on OIG and GAO audit recommendations within established timeframes

The agency strives to implement the recommendations resulting from OIG and GAO audits within the established timeframes and made great progress toward this goal. The agency completed 76 percent of OIG and GAO audit recommendations planned for implementation in 2018. The agency is committed to continuous improvement, leading to self-identification of additional actions the agency can take to further address the audit recommendations. Recommendations remain open until all actions are completed to the satisfaction of the OIG and GAO.

Validation and Verification of Performance Data

The agency's 2018 performance results are based on reliable and valid data that are complete as of the end of the calendar year. The Office of Chief Financial Officer reviews all performance data to assess the effectiveness of programs and the completeness and accuracy of the data. The office also evaluates how risks and opportunities affect the achievement of our strategic goals and objectives.

Data management and data reliability are important when determining performance outcomes. Currently, the Offices of Examination and Insurance, National Examinations and Supervision, the Chief Economist, and our regional offices review the data. These offices, with support provided by the Office of the Chief Information Officer, monitor and maintain automated systems and databases that collect, track, and store performance data.

In addition to the general controls the NCUA has in place, which ensure only authorized staff can access key systems, each application or system incorporates internal validation edits to ensure the accuracy of data contained therein. These application edits include checks for reasonableness, consistency, and accuracy. Crosschecks between other internal automated systems also provide assurances of data accuracy and consistency.

Data provided by the NCUA during the financial statement audits provides another level of assurance. The NCUA Board deems the data as current, reliable, and accurate to support the NCUA's performance results.

This page is intentionally left blank.

Source: Shutter Stock

Financial Information

Message from the Chief Financial Officer

Rendell Jones
Chief Financial Officer

This report provides an assessment of the National Credit Union Administration's (NCUA) detailed financial status and demonstrates how the resources entrusted to us were used to support our important mission. I am pleased to present the NCUA's 2018 financial statements for NCUA's four funds:

- The National Credit Union Share Insurance Fund;
- The Operating Fund;
- The Central Liquidity Facility; and
- The Community Development Revolving Loan Fund.

Our independent auditor issued unmodified opinions on the four funds and identified no significant issues. This sustained achievement underscores our commitment to transparency, accountability, and stewardship to the American people, the President of the United States, the United States Congress and federally insured credit unions and their members.

We continue to be responsible stewards of agency funds and remain dedicated to sound financial management practices. In 2018, the NCUA distributed $735.7 million in Share Insurance Fund dividends to more than 5,700 eligible institutions — the largest distribution in the fund's history. This distribution was made possible by closing the Temporary Corporate Credit Union Stabilization Fund in 2017 and transferring its assets and obligations to the Share Insurance Fund. The Office of the Chief Financial Officer was integral to this significant effort for NCUA, providing essential financial management expertise and ensuring the health and strength of the Share Insurance Fund.

The NCUA has also continued to increase transparency and public input into its annual budgeting processes. On October 2, 2018, the NCUA budget was published in the *Federal Register* pursuant the Economic Growth, Regulatory Relief, and Consumer Protection Act, P.L.115-174. Members of the public were also invited to provide statements to the NCUA Board at a public presentation of the draft budget, and to submit written comments in response to the *Federal Register* filing. The NCUA is the only financial institutions regulator that publishes such a detailed draft budget and solicits public comments at a meeting with its Board or other agency leadership.

Looking forward, we are committed to sustaining progress in the financial statement audits, strengthening internal controls, reducing manual processes, and improving data quality and reporting. We will continue to build out a robust internal controls program that allows us to identify and mitigate financial, operational, and compliance risks early. In addition, we will also continue to mature our enterprise risk management program to provide agency leadership with a portfolio view of risk to inform decision-making and effectively allocate resources to achieve the NCUA's mission.

I appreciate the NCUA professionals who plan, execute, and account for the agency's resources. Their commitment to ensuring sound financial management provides the foundation for our strong stewardship and ensures that reliable financial information is delivered to our stakeholders.

Sincerely,
Rendell L. Jones
Chief Financial Officer

Message from the Office of Inspector General

National Credit Union Administration

Office of Inspector General

February 15, 2019

The Honorable J. Mark McWatters, Chairman
The Honorable Rick Metsger, Board Member
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314

Dear Chairman McWatters and Board Member Metsger:

I am pleased to transmit KPMG LLP's (KPMG) report on its financial statement audit of the National Credit Union Administration's (NCUA) financial statements, which includes the Share Insurance Fund, the Operating Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund, as of and for the years ending December 31, 2018 and 2017. The NCUA prepared financial statements in accordance with the Office of Management and Budget (OMB) Circular No. A-136 Revised, *Financial Reporting Requirements*, and subjected them to audit.

Under a contract monitored by the NCUA OIG, KPMG, an independent certified public accounting firm, performed an audit of NCUA's financial statements as of December 31, 2018. The contract required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States, Office of Management and Budget audit guidance, and the *Government Accountability Office/President's Council on Integrity and Efficiency Financial Audit Manual*.

KPMG's audit report for 2018 includes: (1) an opinion on the financial statements, (2) conclusions on internal control over financial reporting, and (3) a section addressing compliance and other matters. In its audit of NCUA, KPMG found:

- The financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles;
- There were no material weaknesses in internal controls;[1]

[1] A material weakness is defined as a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

- There were no significant deficiencies related to internal controls;[2] and
- No instances of reportable noncompliance with laws and regulations it tested or other matters that are required to be reported under Government Auditing Standards or OMB guidance.

To ensure the quality of the audit work performed, we reviewed KPMG's approach and planning of the audit, evaluated the qualifications and independence of the auditors, monitored the progress of the audit at key points, and reviewed and accepted KPMG's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on the NCUA's financial statements or conclusions about the effectiveness of internal control or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditor's reports dated February 14, 2019, and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.

We would like to extend our thanks to the NCUA management and staff involved in issuing the financial statements within the established milestones. In addition, we appreciate the professionalism, courtesies, and cooperation extended to KPMG throughout the audit and our oversight of the audit process.

Management and Performance Challenges

The Inspector General is required by law to provide a summary statement on management and performance challenges facing the agency. Below I provide a brief overview of the NCUA's organizational structure, its mission, and vision, as well as what I believe are the key challenges to agency management in the coming year.

<u>Organizational Structure</u>

Created by Congress, NCUA is an independent federal agency with the unique role of insuring deposits at all federal and most state-chartered credit unions, protecting the members who own credit unions, and regulating federally chartered credit unions. A three member politically appointed Board oversees the NCUA's operations by setting policy, approving budgets, and adopting rules. As of December 31, 2018, over 116 million members have $1.1 trillion in insured deposits at approximately 5,400 federally insured credit unions. These credit unions have approximately $1.5 trillion in assets.

<u>Agency Mission and Vision</u>

Throughout 2019, the NCUA will implement initiatives to continue meeting its mission to

[2] A significant deficiency is defined as a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

"provide, through regulation and supervision, a safe and sound credit union system which promotes confidence in the national system of cooperative credit," and its vision to ensure that the "NCUA will protect consumer rights and member deposits."

Agency Challenges

NCUA will face several risks that continue to threaten the safety and soundness of the credit union system and the Share Insurance Fund, as well as a number of complex challenges that could potentially impact its operations in the future. Over the last several years, I have discussed areas where the NCUA must remain diligent in its supervisory efforts. This included areas such as cybersecurity, interest rate risk, managing concentration risk, growing performance disparities between large and small credit unions, changing demographics, and increasing competition and continuing consolidation.

For 2019, I believe many of these same risks remain significant agency challenges, as well as two additional risks—technology-driven changes in the financial landscape and challenges faced by smaller credit unions—both of which will provide unique challenges to the agency that could potentially affect the safety and soundness of the credit union system and the Share Insurance Fund if not adequately managed.

Cybersecurity—Just as I stated last year, cyber threats continue to pose significant dangers to the stability and soundness of the credit union industry and are expected to increase in frequency and severity as worldwide interconnectedness grows, and as criminals, hackers, and terrorists become more sophisticated. Cybersecurity, therefore, remains a pressing concern for all financial institutions, including credit unions. With credit unions and other small financial institutions increasingly targeted, credit unions must continue to enhance the security of their systems, and the NCUA must continue to strengthen the resiliency of the entire credit union system and the agency.

Technology-driven Changes—New financial products that mimic deposit and loan accounts, such as mobile payment systems, pre-paid shopping cards, and peer-to-peer lending, are emerging. These new products pose a competitive challenge to credit unions, as does the emergence and increasing importance of digital currencies. Although these new financial products and digital monetary systems may pose both risks and opportunities for credit unions as they gain popularity, credit unions and the NCUA will need to work to manage the risks such new products and systems create.

Interest Rate Risk—As I noted in previous years, a rising interest rate environment may prove challenging for those credit unions that hold either high concentrations of long-term assets funded with short-term liabilities, or have rate-sensitive deposits and fixed-rate assets. The Federal Open Market Committee's (FOMC) December 2018 forecast points to rising short-term interest rates over the next two years. The median projection for the fed funds target rate indicated it will rise 50 basis points from its December 2018 level of 2.4 percent to 2.9 percent at the end of 2019 and reach 3.1 percent in late 2020. Although policy guidance released after the January 2019 FOMC meeting suggested that it could be some time before the next rate increase is announced, the

NCUA and credit unions will need to continue to work to manage interest rate risk in 2019 and beyond.

Smaller Credit Unions' Challenges—Across a variety of economic cycles and regulatory environments, the number of credit unions has fallen at a steady rate for nearly three decades. Small credit unions face challenges to their long-term viability for a variety of reasons, including weak earnings, declining membership, high loan delinquencies, and elevated non-interest expenses. If current consolidation trends persist, there will be fewer credit unions in operation and those that remain will be considerably larger and more complex. Large credit unions tend to offer more complex products, services, and investments. Increasingly complex institutions will pose management challenges for the institutions themselves, as well as the NCUA; consolidation means the risks posed by individual institutions will become more significant to the Share Insurance Fund. The NCUA will need to continue to monitor these trends to ensure that the continued consolidation of credit unions and system assets does not create new potential risks to the Share Insurance Fund.

Changing Demographics—I noted the last several years that the NCUA and credit unions face the challenge of an aging demographic. Although overall credit union membership continues to grow strongly, close to half of federally insured credit unions had fewer members at the end of the third quarter of 2018 than a year earlier. Demographic and field of membership changes are likely to continue to result in declining membership at many credit unions. As more Americans retire, and as new and diverse populations continue to grow and enter into the financial system, credit unions may see shifting growth trends and changing demand for products and services. Credit unions may need to explore how to meet the needs of an aging population and marketplace trends, and adjust their business plans accordingly.

The NCUA has taken action that will allow for continued growth, including for example, the recent updates to the agency's field-of-membership rules, which provide new opportunities for credit union financial and membership growth. In addition, the Office of Credit Union Resources and Expansion consolidated many of the NCUA's functions into a single office that provides technical assistance to credit unions, including chartering, field of membership, grants and loans training, and the preservation programs for minority credit unions. These actions should produce greater efficiencies, allowing the NCUA to facilitate better growth opportunities for credit unions.

Continuing Consolidation—The number of banks and credit unions has fallen at a steady rate for nearly three decades, a trend that will likely continue. For several years, consolidation has primarily occurred among credit unions with $50 million or less in assets. However, a growing number of larger credit unions are using mergers and acquisitions as a strategy to grow and increase market share. Increased competition with banks and other financial services providers could also result in more mergers of equals, where larger credit unions strategically merge, as opposed to the long-term trend of smaller credit unions merging into larger ones. I encourage the NCUA to continue to monitor these trends and consider whether to make further adjustments to its examination and supervision program to protect the Share Insurance Fund.

Respectfully,

James W. Hagen
Inspector General

cc: Executive Director Mark Treichel
Deputy Executive Director (Audit Follow-up Official) John Kutchey
General Counsel Michael McKenna
PACA Director (Acting) Joy Lee
Chief Financial Officer Rendell Jones
Chief Information Officer Rob Foster
CURE Director Martha Ninichuk
Regional Director and AMAC President Keith Morton
E&I Director Larry Fazio
E&I, Division of Capital and Credit Markets, Director J. Owen Cole, Jr.

National Credit Union Share Insurance Fund

Financial Statements as of and for the Years Ended December 31, 2018 and 2017, and Independent Auditors' Report

Overview

I. Mission and Organizational Structure

NCUSIF Mission

The National Credit Union Administration (NCUA) administers the National Credit Union Share Insurance Fund (NCUSIF or Fund).[1] Congress created the NCUSIF in 1970 to insure members' shares (deposits) in credit unions. The NCUSIF is backed by the full faith and credit of the United States. As of December 2018, the NCUSIF insures $1.1 trillion in member shares in approximately 5,400 credit unions.

The NCUSIF protects members' accounts in insured credit unions in the event of a credit union failure. The NCUSIF insures the balance of each members' accounts, dollar-for-dollar, up to at least the standard maximum share insurance amount of $250,000, including principal and posted dividends through the date of a failure, subject to various rules on account types, rights, and capacities.

The NCUSIF also provides funding when the NCUA Board determines that some form of assistance to troubled credit unions is necessary, consistent with the Federal Credit Union Act (FCU Act). Examples of assistance include, but are not limited to, the following:

- a waiver of statutory reserve requirements;
- a guaranteed line of credit; and
- cash assistance, including subordinated notes, to arrange a merger or purchase and assumption.

When a credit union is no longer able to continue operating and assistance alternatives, including an assisted merger, are not practical, the credit union will be liquidated and the NCUSIF will pay members' shares up to at least the standard maximum insurance amount.

Organizational Structure

The NCUA's Executive Director is responsible for the agency's daily operation. The Director of the Office of Examination and Insurance (E&I) is responsible for the NCUA's supervision programs, which ensure the safety and soundness of federally insured credit unions. The E&I Director is also responsible for managing the NCUSIF. Regional offices and the Office of National Examinations and Supervision are responsible for the examination and supervision of federally insured credit unions. Other NCUA offices provide operational and administrative services to the NCUSIF.

The Asset Management and Assistance Center (AMAC) is responsible for conducting credit union liquidations. Upon liquidation, a credit union is closed and becomes an Asset Management Estate (AME), for which AMAC collects the obligations due to the liquidated credit union, monetizes assets and distributes amounts to claimants, including the NCUSIF, according to their respective

[1] The NCUSIF is one of four funds established in the U.S. Treasury and administered by the NCUA Board as of December 31, 2018. The four permanent funds include the NCUSIF, the Operating Fund, the Central Liquidity Facility (CLF) and the Community Development Revolving Loan Fund. All four funds report under separate financial statements.

regulatory payout priorities. AMEs include assets and liabilities from failed natural person credit unions (NPCU AMEs), as well as the corporate credit unions (Corporate AMEs).

II. Performance Goals, Objectives, and Results

Performance measures are designed to enable management and our stakeholders to assess programs and financial performance. In measuring the performance of the NCUSIF for 2018 and 2017, the following additional measures should be considered:

2018 and 2017 Performance Measures		
	December 31, 2018	December 31, 2017
Equity Ratio	1.39%	1.46%
Insurance and Guarantee Program Liabilities (Contingent Liability)	$119.1 million	$925.5 million
Net Position	$15.7 billion	$15.7 billion
Insured Shares	$1.1 trillion	$1.1 trillion
Number of Credit Union Involuntary Liquidations and Assisted Mergers	8	10
Assets in CAMEL 3, 4 and 5 rated Credit Unions	$66.9 billion	$65.5 billion

Equity Ratio and Normal Operating Level
The financial performance of the NCUSIF can be measured by comparing the equity ratio to the Normal Operating Level (NOL). The equity ratio is calculated as the ratio of the one-percent (1.00%) contributed capital deposit plus cumulative results of operations, excluding net cumulative unrealized gains and losses on investments, to the aggregate amount of insured shares in all federally insured credit unions. The NOL is the Board's target equity level for the NCUSIF. Pursuant to the FCU Act, the NCUA Board sets the NOL between 1.20% and 1.50%. On December 13, 2018, the Board set the NOL at 1.38%, lowering it from the previous level of 1.39%.

By statute, when the equity ratio falls below 1.20%, the NCUA Board must take action to restore the NCUSIF's equity ratio above 1.20%. When the NCUA Board projects that the equity ratio will, within six months, fall below 1.20%, the NCUA Board must establish and implement a restoration plan to rebuild the equity ratio, which may include a premium assessment to each insured credit union. The NCUSIF pays a distribution when the year-end equity ratio exceeds the NOL and the available assets ratio exceeds 1.00% at year-end.

As of December 31, 2018, the equity ratio was 1.39%, which is above the NOL. The NCUA Board will convene in 2019 and may declare a distribution based on actual insured shares as of December 31, 2018. Previously, the equity ratio was 1.46% as of December 31, 2017, which was above the established NOL of 1.39%. As a result, the NCUA Board approved a Share Insurance distribution of $735.7 million to eligible, federally insured credits unions. This distribution was paid during the third quarter of 2018.

Insurance Losses (Contingent Liabilities)
The NCUA employs the CAMEL rating system as a tool to measure risk and allocate resources for supervisory purposes. The CAMEL system, which applies a rating to the credit union ranging from "1" (strongest) to "5" (weakest), is based upon an evaluation of five critical elements of a credit union's operations: **C**apital Adequacy, **A**sset Quality, **M**anagement, **E**arnings, and **L**iquidity/

Asset-Liability Management (CAMEL). These criteria ensure that credit union examiners assess all significant financial, operational, and management factors when evaluating a credit union's performance and risk profile.

The NCUA identifies credit unions at risk of failure through the supervisory and examination process. Estimated losses are based on economic trends and each credit union's financial condition and operations. The NCUA also evaluates overall credit union trends and monitors potential system-wide risk factors, such as increasing levels of consumer debt, bankruptcies, and delinquencies.

The NCUA's supervisory actions may result in the conservatorship of federally insured credit unions. As of December 31, 2018, there were no credit unions operating under the NCUA's conservatorship. Estimated losses related to conserved credit unions are determined as part of the fund's reserve methodology and are contained within the Insurance and Guarantee Program Liabilities in the Balance Sheets.

The NCUSIF's year-end contingent liability for insurance losses is derived using an internal econometric model that applies estimated probability of failure and loss rates that take into account historical losses, CAMEL ratings, credit union level financial ratios, and other economic measures. The NCUSIF ended 2018 with Insurance and Guarantee Program Liabilities of $119.1 million to cover probable losses as compared with $925.5 million for the previous year-end, a decrease of $806.4 million.

The credit union industry remained stable during 2018. Assets in CAMEL 3, 4 and 5 rated credit unions increased slightly to $66.9 billion at the end of 2018 versus $65.5 billion at the end of 2017. The aggregate net worth ratio increased during the year ending at 11.3% versus 11.0% at December 31, 2017.

For 2018, there were eight credit union failures compared to 10 failures in 2017. The cost of these failures, or the estimated cost of resolution at the time of liquidation, for the current year is $785.0 million compared to $24.4 million for failures that occurred in 2017.

III. Financial Statement Analysis

The NCUSIF ended 2018 with an decrease in Total Assets and its Net Position. Insurance and Guarantee Program Liabilities also decreased from the prior year. Net Cost of Operations decreased to $58.2 million, primarily as a result of decreases in the Reserve Expense within the Provision for Insurance Losses, partially offset by a decrease in overall Interest Revenue due to the one-time partial recovery of $480.0 million in interest income recognized in 2017. These changes are explained in further detail below.

Summarized Financial Information (in thousands)		
	December 31, 2018	December 31, 2017
Total Assets	$15,846,682	$16,671,818
Investments, Net	15,072,202	16,106,500
Receivables from Asset Management Estates, Net	698,215	495,021
Insurance and Guarantee Program Liabilities	119,053	925,487
Contributed Capital	11,327,234	10,765,320
Net Position	15,721,626	15,736,687
Operating Expenses	187,395	199,016
Provision for Insurance Losses, Reserve Expense (Reduction)	(13,967)	747,777
Provision for Insurance Losses, AME Receivable Bad Debt Expense (Reduction)	(99,859)	(21,482)
Interest Revenue – Other	-	(480,000)
Total Net Cost of Operations	58,197	438,340
Cumulative Results of Operations	4,394,392	4,971,367
Interest Revenue – Investments	284,716	209,137
Transfers In from the TCCUSF	-	2,562,069

Balance Sheet Highlights

Total Assets decreased by $825.1 million in 2018. The decrease is primarily attributable to $735.7 million in distributions paid to credit unions in the third quarter of 2018.

Investments, Net decreased by $1,034.3 million during 2018, primarily driven by $735.7 million in distributions paid to credit unions in the third quarter of 2018 and net claims paid for liquidation activities of $856.2 million, offset by net additions to Contributed Capital of $561.9 million. During 2018, U.S. Treasury yields have continued to increase in Treasury securities while the NCUSIF portfolio yield has increased, resulting in an overall decrease in the market value of U.S. Treasury securities.

Receivables from Asset Management Estates, Net increased $203.2 million during 2018 due primarily to the net increase in the gross AME receivable for claims paid on liquidated credit unions of $856.2 million, offset by charter cancellations of $54.2 million and allowance adjustments of $598.8 million that reflect the overall collectability of the Receivables from AMEs.

Insurance and Guarantee Program Liabilities, referred to as contingent liabilities, were $119.1 million and $925.5 million as of December 31, 2018 and 2017, respectively. The overall decrease in the Insurance and Guarantee Program Liabilities balance is due to the decrease in the specific reserve of $811.3 million, partially offset by an increase in the general reserve of $4.9 million. Specific reserves are identified for those credit unions where failure is probable and additional information is available to make a reasonable estimate of losses associated with these credit unions. The general reserve reflects overall risk of loss due to potential credit union failures of federally insured credit unions taken as a whole.

Contributed Capital increased by a net $561.9 million during 2018 due to the growth of insured shares in credit unions. Each insured credit union deposits one percent (1.00%) of its insured shares as Contributed Capital. In 2018, credit union insured shares grew by 4.9%.

Statements of Net Cost Highlights
Total Net Cost of Operations was $58.2 million for 2018 as compared to $438.3 million for 2017. The overall decrease in Net Cost of Operations is attributable to a decrease in the overall Provision for Insurance Losses of $840.1 million. Additionally, there was a $11.6 million reduction in Operating Expenses attributable to a change to the allocation factor (Overhead Transfer Rate) for expenses from the NCUA Operating Fund that decreased from 67.7% in 2017 to 61.5% for 2018. Within the Provision for Insurance Loss for 2018, the Reserve Expense was a $14.0 million expense reduction, reflecting the overall risk of losses due to potential credit union failures for the credit union industry, while the AME Receivable Bad Debt Expense was a $99.8 million expense reduction, reflecting recoveries and increases in net realizable values of assets managed. The overall change in Provision for Insurance Losses of $840.1 million is the result of an expense reduction of $113.8 million for 2018 compared to an expense of $726.3 million for 2017.

Statements of Changes in Net Position Highlights
Cumulative Results of Operations decreased by $577.0 million in 2018. This decrease was primarily driven by a distribution to credit unions of $735.7 million, Net Cost of Operations of $58.2 million, and unrealized losses from Investments of $67.8 million, primarily offset by Interest Revenue of $284.7 million.

Statements of Budgetary Resources Highlights
Activity impacting budget totals of the overall federal government is recorded in the NCUSIF's Statements of Budgetary Resources. The NCUSIF had net cash outflow of $953.0 million for 2018 and a net cash inflow of $1.5 billion for 2017. This decrease is primarily the result of the distribution to credit unions of $735.7 million paid in the third quarter of 2018 and net claims paid for liquidation activities of $856.2 million.

Fiduciary Activity Highlights
The financial results of the NPCU AMEs and Corporate AMEs with the NGN Trusts in the NCUA Guaranteed Notes (NGN) Program are not presented in the results of the NCUSIF as described above, but are presented as fiduciary activities of the NCUSIF in accordance with the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standard (SFFAS) No. 31, *Accounting for Fiduciary Activities*, and are included in the notes to the NCUSIF financial statements.

NGN Program
The outstanding principal balance of the NGNs was $4.4 billion and $5.4 billion as of December 31, 2018 and 2017, respectively. This amount represents the maximum potential future guarantee payments that the NCUA could be required to make. The losses from the guarantees of NGNs are expected to be significantly less than the above maximum potential exposure. The NCUA's estimate of the expected recovery from the Corporate AMEs is derived using an external model and reflects the NCUA's expectations and assumptions about the estimated cash flows of the Corporate AMEs' assets.

As of December 31, 2018 and 2017, the NCUA Board, as liquidating agent of the Corporate AMEs, held approximately $1.1 billion and $1.8 billion in post-securitized assets, respectively. Generally, post-securitized assets are the Legacy Assets that are no longer secured by the NGNs.

The table below represents the composition of Legacy Assets collateralizing the remaining nine NGNs with an aggregate unpaid principal balance of $6.5 billion and recovery value of approximately $5.2 billion as of December 31, 2018. There were nine NGNs with an aggregate unpaid principal balance of $7.5 billion and recovery value of approximately $6.3 billion as of December 31, 2017.

Composition of Legacy Assets Collateralizing the NGN Trusts

		Based on Recovery Value				Based on Unpaid Principal Balance			
Asset Type and Credit Rating [1]		December 31, 2018		December 31, 2017		December 31, 2018		December 31, 2017	
RMBS	AAA	88%	1%	90%	1%	87%	1%	88%	0%
	AA		2%		1%		2%		1%
	A		3%		2%		2%		2%
	BBB		3%		3%		2%		3%
	Below Investment Grade		85%		91%		87%		92%
	NA		6%		2%		6%		2%
CMBS	AAA	2%	0%	2%	0%	1%	0%	1%	0%
	AA		0%		0%		0%		0%
	A		4%		4%		4%		4%
	BBB		0%		1%		0%		1%
	Below Investment Grade		96%		95%		96%		95%
	NA		0%		0%		0%		0%
ABS [2]	AAA	5%	63%	4%	56%	7%	33%	7%	31%
	AA		2%		4%		1%		2%
	A		0%		0%		0%		0%
	BBB		13%		16%		7%		9%
	Below Investment Grade		21%		23%		49%		49%
	NA		1%		1%		10%		9%
Agency		4%	100%	4%	100%	3%	100%	3%	100%
Corporate	AAA	1%	0%	0%	0%	2%	0%	1%	0%
	AA		0%		0%		0%		0%
	A		0%		0%		0%		0%
	BBB		0%		0%		0%		0%
	Below Investment Grade		0%		0%		0%		0%
	NA		100%		100%		100%		100%

Percentages may not total 100% due to rounding.

[1] The rating is based on the lowest published rating by S&P, Moody's, or Fitch.

[2] The collateral underlying the ABS included in the table above is primarily student loans.

Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the NCUSIF. While the statements have been prepared from the books and records of the NCUSIF in accordance with U.S. generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Liquidity Risk and Capital Resources

For liquidity, the NCUSIF maintains cash in its Fund Balance with Treasury (FBWT) account as well as investments in U.S. Treasury securities. Investments in U.S. Treasury securities include overnight investments, which are available to meet urgent liquidity needs of the NCUSIF.

2018 and 2017 Fund Balance with Treasury and Investments		
	December 31, 2018	December 31, 2017
Fund Balance with Treasury	$ 5.0 million	$ 3.2 million
U.S. Treasury Securities		
Overnight	1,218.5 million	2,849.2 million
Available-for-Sale	13,853.7 million	13,257.3 million

During 2018, the NCUSIF's FBWT and Investments decreased overall primarily due to payment of a $735.7 million distribution to eligible credit unions and other amounts expended for the purposes of the share insurance program, partially offset by capital contributions of $561.9 million from credit unions.

The NCUSIF has multiple funding sources to include:

- capitalization deposits contributed by insured credit unions, as provided by the *Federal Credit Union Act*, Public Law 73-467, as amended (FCU Act);
- guarantee fees;
- cumulative results of operations retained by the NCUSIF;
- premium assessments on insured credit unions, as necessary;
- borrowings from the U.S. Treasury; and
- borrowings from the Central Liquidity Facility (CLF).

The NCUSIF is a revolving fund in the U.S. Treasury and has access to sufficient funds to meet its obligations, including its Insurance and Guarantee Program Liabilities.

Contributed Capital
Each insured credit union must deposit and maintain in the NCUSIF 1.00% of its insured shares. For the years ended December 31, 2018 and 2017, the NCUSIF's contributed capital from insured credit unions increased by $561.9 million and $778.0 million, respectively. Total insured shares were reported at $1.1 trillion and $1.1 trillion as of December 31, 2018 and 2017, respectively. The NCUA has estimated the total insured shares, subject to certified reporting of insured share amounts.

Cumulative Results of Operations
The NCUSIF ended 2018 and 2017 with a total of $4.4 billion and $5.0 billion in Cumulative Results of Operations, respectively. Interest Revenue from Investments is currently the primary source of funds for operations.

Assessments
The NCUA Board may assess premium charges to all insured credit unions, as provided by the FCU Act. During the years ended December 31, 2018 and 2017, the NCUA Board did not assess any premium charges to insured credit unions.

Borrowing Authority from the U.S. Treasury
The NCUSIF has $6.0 billion in borrowing authority from the U.S. Treasury. As of December 31, 2018 and 2017, the statutory amount of cash available to borrow based on the current borrowing authority was $6.0 billion.

Borrowing Authority from the CLF
The NCUSIF also has the ability to borrow from the CLF as provided in the FCU Act. At December 31, 2018 and 2017, the NCUSIF did not have any outstanding borrowing from the CLF.

IV. Systems, Controls, and Legal Compliance

The NCUSIF was created by Title II of the FCU Act, 12 U.S.C. §1781 *et seq*., as amended. In January 2011, the *National Credit Union Authority Clarification Act*, Public Law 111-382, amended the definitions of "equity ratio" and "net worth" in the FCU Act. The NCUA, including the NCUSIF, is exempt from requirements under the *Federal Credit Reform Act of 1990* (2 U.S.C. § 661 *et seq*.).

Internal controls should be designed to provide reasonable assurance regarding prevention or prompt detection of unauthorized acquisition, use, or disposition of assets. The *Federal Managers' Financial Integrity Act*, Public Law 97–255 (FMFIA), requires agencies to establish management controls over their programs and financial systems. Accordingly, NCUA management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of FMFIA, which include safeguarding assets and compliance with applicable laws and regulations. NCUA management monitors and assesses its relevant internal controls and reports on its assessment. This allows NCUA management to provide reasonable assurance that internal controls are operating effectively. The NCUA is in compliance with FMFIA as well as all applicable laws such as the *Prompt Payment Act*, Public Law 97-177, and the *Debt Collection Improvement Act*, Public Law 104–134.

The *Improper Payments Information Act of 2002*, Public Law 107–300 (IPIA), as amended by the *Improper Payments Elimination and Recovery Act of 2010*, Public Law 111-204 (IPERA), and the *Improper Payments Elimination and Recovery Improvement Act of 2012*, Public Law 112-248 (IPERIA), requires federal agencies to review all programs and activities they administer to identify those that may be susceptible to significant improper payments. We have determined that the NCUSIF's programs are not susceptible to a high risk of significant improper payments.

As required by the *Federal Information Security Management Act*, Public Law 107-347, as amended (FISMA), the NCUA develops, documents, and implements an agency-wide program to provide information privacy and security (management, operational, and technical security controls) for the information and information systems that support the operations of the agency, including those provided or managed by another agency, contractor, or other source.

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General, National Credit Union Administration and
the National Credit Union Administration Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Share Insurance Fund (NCUSIF or Fund) which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of net cost, changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Share Insurance Fund as of December 31, 2018 and 2017, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Overview and Required Supplementary Information sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2018, we considered the NCUSIF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NCUSIF's internal control. Accordingly, we do not express an opinion on the effectiveness of the NCUSIF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the NCUSIF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-01.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the NCUSIF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
February 14, 2019

NATIONAL CREDIT UNION SHARE INSURANCE FUND

BALANCE SHEETS
As of December 31, 2018 and 2017
(Dollars in thousands)

	2018	2017
ASSETS		
INTRAGOVERNMENTAL		
Fund Balance with Treasury (Note 2)	$ 5,000	$ 3,162
Investments, Net - U.S. Treasury Securities (Note 3)	15,072,202	16,106,500
Accounts Receivable - Inter-Agency	35	-
Accrued Interest Receivable (Note 3)	62,454	54,635
Note Receivable - Note due from the National Credit Union Administration Operating Fund (Note 5)	6,369	7,710
Total Intragovernmental Assets	15,146,060	16,172,007
PUBLIC		
Accounts Receivable - Due from Insured Credit Unions, Net (Note 4)	-	1,941
Accounts Receivable - Guarantee Fee on National Credit Union Administration Guaranteed Notes, Net (Note 4)	1,050	1,275
Accounts Receivable - Other	150	2
General Property, Plant and Equipment, Net (Note 6)	212	562
Other - Receivables from Asset Management Estates (AMEs), Net (Note 7)	698,215	495,021
Other Assets	995	1,010
Total Public Assets	700,622	499,811
TOTAL ASSETS	$ 15,846,682	$ 16,671,818
LIABILITIES		
INTRAGOVERNMENTAL		
Accounts Payable - Due to the National Credit Union Administration Operating Fund (Note 10)	$ 4,023	$ 5,153
Total Intragovernmental Liabilities	4,023	5,153
PUBLIC		
Accounts Payable	1,804	4,491
Other - Insurance and Guarantee Program Liabilities (Note 8)	119,053	925,487
Other - Capital Lease Liability (Note 9)	176	-
Total Public Liabilities	121,033	929,978
TOTAL LIABILITIES	125,056	935,131
Commitments and Contingencies (Note 8)		
NET POSITION		
Contributed Capital (Note 13)	11,327,234	10,765,320
Cumulative Result of Operations	4,394,392	4,971,367
Total Net Position	15,721,626	15,736,687
TOTAL LIABILITIES AND NET POSITION	$ 15,846,682	$ 16,671,818

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

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF NET COST
For the Years Ended December 31, 2018 and 2017
(Dollars in thousands)

	2018	2017
GROSS COSTS		
Operating Expenses	$ 187,395	$ 199,016
Provision for Insurance Losses		
Reserve Expense (Reduction) (Note 8)	(13,967)	747,777
AME Receivable Bad Debt Expense (Reduction) (Note 7)	(99,859)	(21,482)
Total Provision for Insurance Losses	(113,826)	726,295
Other Costs	2,786	-
Total Gross Costs	76,355	925,311
LESS EARNED REVENUES		
Interest Revenue on Note Receivable from the National Credit Union Administration Operating Fund (Note 5)	(123)	(128)
Guarantee Fee Revenue - National Credit Union Administration Guaranteed Notes	(16,982)	(5,077)
Insurance and Guarantee Premium Revenue	(1,051)	(1,765)
Interest Revenue - Other (Note 1)	-	(480,000)
Other Revenue	(2)	(1)
Total Earned Revenues	(18,158)	(486,971)
NET COST	$ 58,197	$ 438,340

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

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF CHANGES IN NET POSITION

For the Years Ended December 31, 2018 and 2017
(Dollars in thousands)

	2018	2017
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 4,971,367	$ 2,679,430
BUDGETARY FINANCING SOURCES		
Non-Exchange Revenue		
Interest Revenue - Investments	284,716	209,137
Distribution to Credit Unions	(735,679)	-
Transfers-In Without Reimbursement		
Nonexpenditure Financing Sources - Transfers-In	-	1,888,075
Other		
Gains On Disposition of Assets	-	132
OTHER FINANCING SOURCES		
Non-Exchange Revenue		
Net Unrealized Gain/(Loss) - Investments (Note 3)	(67,815)	(41,061)
Transfers-In Without Reimbursement		
Financing Sources Transferred In Without Reimbursement	-	673,994
Total Financing Sources	(518,778)	2,730,277
Net Cost of Operations	(58,197)	(438,340)
Net Change	(576,975)	2,291,937
CUMULATIVE RESULTS OF OPERATIONS	4,394,392	4,971,367
CONTRIBUTED CAPITAL (Note 13)		
Beginning Balances	10,765,320	9,987,363
Change in Contributed Capital	561,914	777,957
CONTRIBUTED CAPITAL	11,327,234	10,765,320
NET POSITION	$ 15,721,626	$ 15,736,687

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

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended December 31, 2018 and 2017
(Dollars in thousands)

	2018	2017
BUDGETARY RESOURCES (Notes 11, 12 and 15)		
Unobligated balance from prior year budget authority, net	$ 16,127,894	$ 14,610,222
Borrowing authority (mandatory)	-	-
Spending authority from offsetting collections (mandatory)	1,279,038	2,249,175
TOTAL BUDGETARY RESOURCES	$ 17,406,932	$ 16,859,397
STATUS OF BUDGETARY RESOURCES		
New obligations and upward adjustments (total)	$ 2,220,613	$ 731,503
Unobligated balance, end of year:		
Exempt from apportionment	15,186,319	16,127,894
Total unobligated balance, end of year	15,186,319	16,127,894
TOTAL BUDGETARY RESOURCES	$ 17,406,932	$ 16,859,397
OUTLAYS, NET		
Outlays, net (discretionary and mandatory)	$ 953,043	$ (1,534,324)
Distributed offsetting receipts	-	-
AGENCY OUTLAYS, NET (DISCRETIONARY AND MANDATORY)	$ 953,043	$ (1,534,324)

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

NATIONAL CREDIT UNION SHARE INSURANCE FUND

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The National Credit Union Share Insurance Fund (NCUSIF) was created by Title II of the *Federal Credit Union Act*, Public Law 73-467, as amended (FCU Act), 12 U.S.C. § 1781 *et seq*. The NCUSIF was established as a revolving fund in the Treasury of the United States (U.S. Treasury), under management of the National Credit Union Administration (NCUA) Board (NCUA Board) for the purpose of insuring member share deposits in all Federal Credit Unions (FCUs) and in qualifying state-chartered credit unions requesting insurance.

The NCUA exercises direct supervisory authority over FCUs and coordinates supervisory involvement with the state chartering authorities for state-chartered credit unions insured by the NCUSIF. Federally insured (insured) credit unions are required to report certain financial and statistical information to the NCUA on a quarterly basis and are subject to periodic examination by the NCUA. Information derived through the supervision and examination process provides the NCUA with the ability to identify insured credit unions experiencing financial difficulties that may require assistance from the NCUSIF.

Assistance from the NCUSIF, pursuant to the FCU Act, may be in the form of a waiver of statutory reserve requirements, liquidity assistance in the form of a guaranteed line of credit, cash assistance in the form of a subordinated note, or other such form. In some cases, a merger partner for the credit union may be sought. Mergers between financially troubled credit unions and stronger credit unions may also require NCUSIF assistance. Merger assistance may be in the form of cash assistance, purchase of certain assets by the NCUSIF, and/or guarantees of the values of certain assets (e.g., primarily loans). When a credit union is no longer able to continue operating and the merger and assistance alternatives are not practical, the NCUSIF or the appropriate state supervisory authority may liquidate the credit union. In the event of a credit union liquidation, the NCUSIF pays members' shares up to the maximum insured amount and monetizes the credit union's assets.

Temporary Corporate Credit Union Stabilization Fund Closure

On September 28, 2017, the NCUA Board voted unanimously to close the TCCUSF effective October 1, 2017. As required by statute, the TCCUSF's remaining funds, property, and other assets were distributed to the NCUSIF. Through the distribution, the NCUSIF assumed the activities and obligations of the TCCUSF, including the NCUA Guaranteed Notes (NGN) Program, and will report on such going forward.

Fiduciary Responsibilities
Fiduciary activities are the collection or receipt, management, protection, accounting, investment, or disposition by the federal government of cash or other assets, in which non-

federal individuals or entities have an ownership interest that the federal government must uphold.

The NCUA's Asset Management and Assistance Center (AMAC) conducts liquidations and performs management and recovery of assets for failed credit unions. Assets and liabilities of liquidated credit unions reside in Asset Management Estates (AMEs). AMEs include assets and liabilities from failed natural person credit unions (NPCU AMEs), as well as the corporate credit union (CCU) AMEs (Corporate AMEs). These assets and liabilities are held in part for the primary benefit of non-federal parties and are considered fiduciary in accordance with Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 31, *Accounting for Fiduciary Activities*. Fiduciary assets are not assets of the federal government and are not recognized on the Balance Sheet. Additionally, the NCUA entity assets are non-fiduciary.

On September 24, 2010, the NCUA Board announced the Corporate System Resolution Program (CSRP). The CSRP was a multi-stage plan for stabilizing the corporate credit union system, providing short-term and long-term funding to resolve a portfolio of residential mortgage-backed securities, commercial mortgage-backed securities, other asset-backed securities and corporate bonds (collectively referred to as the Legacy Assets) held by the failed CCUs, and establishing a new regulatory framework for CCUs. Under the CSRP, the NCUA created a re-securitization program (the NGN Program) to provide long-term funding for the Legacy Assets through the issuance of the NGNs by trusts established for this purpose (NGN Trusts). The NGN Trusts are guaranteed by the NCUA, and backed by the full faith and credit of the United States.

Sources of Funding
Deposits insured by the NCUSIF are backed by the full faith and credit of the United States. The NCUSIF has multiple sources of funding. Each insured credit union is required to deposit and maintain in the NCUSIF 1.00% of its insured shares. The NCUA Board may also assess premiums to all insured credit unions, as provided by the FCU Act.

In addition, the NCUSIF may receive investment interest income, guarantee fees, and recoveries from the AMEs including proceeds recovered from legal claims and asset sales. The NCUSIF also has authority to borrow from the U.S. Treasury and the ability to borrow from the NCUA's Central Liquidity Facility (CLF).

Basis of Presentation

The NCUSIF's financial statements have been prepared from its accounting records in accordance with standards promulgated by FASAB. FASAB is designated by the American Institute of Certified Public Accountants as the source of generally accepted accounting principles (GAAP) for federal reporting entities. The format of the financial statements and footnotes is in accordance with the form and content guidance provided in Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, revised July 30, 2018.

Consistent with SFFAS No. 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, the NCUA considers and where appropriate, applies Financial Accounting Standards Board (FASB) guidance for those instances where no applicable FASAB guidance is available. Any such significant instances are identified herein.

Basis of Accounting

In its accounting structure, the NCUSIF records both proprietary and budgetary accounting transactions. Following the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to the actual collection or payment of cash.

Federal budgetary accounting recognizes the obligation of appropriations, borrowing authorities, and other fund resources upon the establishment of a properly documented legal liability, which may be different from the recording of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal controls over the use of federal funds and compliance with budgetary laws.

The NCUA, including the NCUSIF, is exempt from requirements under the *Federal Credit Reform Act of 1990* (2 U.S.C. § 661 et seq.).

The Statement of Net Cost, the Statement of Changes in Net Position and the Statement of Budgetary Resources cover the twelve-month period ended December 31, 2017. Effective October 1, 2017, these statements include the last three months of the year for receivables and liabilities that were formerly administered by the TCCUSF. For the year ended December 31, 2018, all financial activities of the NCUSIF and the former TCCUSF are included in the twelve-month period. Accordingly, comparability differences will exist between the two periods presented.

Use of Estimates

The preparation of financial statements in conformity with GAAP for the federal government requires management to make estimates and assumptions that affect the following:

- reported amounts of assets and liabilities;
- disclosure of contingent assets and liabilities at the date of the financial statements; and
- the amounts of revenues and expenses reported during that period.

Actual results could differ from estimates. Significant items subject to those estimates and assumptions include (i) reserves for probable losses and contingencies related to Insurance and Guarantee Program Liabilities; (ii) the amount and timing of recoveries, if any, related to any claims paid and settlement of the guarantee liabilities; (iii) allowance amounts established for loan losses related to cash assistance provided to insured credit unions; and (iv) allowance amounts for losses on the receivables from AMEs for claims paid on their behalf.

Fund Balance with Treasury

Fund Balance with Treasury (FBWT) is the aggregate amount of the NCUSIF's accounts with the federal government's central accounts, from which the NCUSIF is authorized to make expenditures and pay liabilities. The entire FBWT is a revolving fund type.

Investments, Net

Investment securities primarily consist of market-based U.S. Treasury securities of varying maturities (debt securities). The NCUSIF also holds non-marketable U.S. Treasury overnight securities purchased and reported at par value, which are classified as held-to-maturity. All marketable securities are carried as available-for-sale, in accordance with FASB Accounting Standards Codification (ASC) 320, *Investments – Debt and Equity Securities*.

Interest earned and unrealized holding gains and losses on U.S. Treasury securities are excluded from net costs and reported as components of non-exchange revenue. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis.

All U.S. Treasury securities that are in an unrealized loss position are reviewed for other-than-temporary impairment (OTTI). The NCUSIF evaluates its U.S. Treasury securities on a monthly basis. An investment security is deemed impaired if the fair value of the investment is less than its amortized cost. Amortized cost includes adjustments (if any) made to the cost basis of an investment for accretion, amortization, and previous OTTI. To determine whether impairment is an OTTI, the NCUA takes into consideration whether it has the intent to sell the security. The NCUA also considers available evidence to assess whether it is more likely than not that it will be required to sell the debt security before the recovery of its amortized cost basis. If the NCUA intends to sell, or more likely than not will be required to sell the security before recovery of its amortized cost basis, an OTTI shall be considered to have occurred.

Premiums and discounts are amortized or accreted over the life of the related available-for-sale security as an adjustment to yield using the effective interest method.

Accrued Interest Receivable

The NCUSIF recognizes accrued interest receivable for amounts of interest contractually earned but not yet received.

Accounts Receivable

Accounts Receivable represents the NCUSIF's claims for payment from other entities. Gross receivables are reduced to net realizable value by an allowance for doubtful accounts as further discussed below. Public accounts receivable represent accounts receivable between the NCUSIF and a non-federal entity and are categorized as follows:

Capitalization Deposits from Insured Credit Unions
Each insured credit union pays to and maintains with the NCUSIF a capitalization deposit amount equal to 1.00% of its insured shares. Receivables and associated non-exchange revenue are recognized upon invoicing.

Guarantee Fee on NCUA Guaranteed Notes
Guarantee Fee accounts receivable represents outstanding balances of guarantee fees associated with the NGNs as described herein.

Premium Assessments from Insured Credit Unions
The NCUA Board has the statutory authority under Section 202 of the FCU Act to assess a premium charge to insured credit unions. The NCUA Board may assess each insured credit union a premium charge in an amount stated as a percentage of insured shares only if the equity ratio is less than 1.30% and the premium charge does not exceed the amount necessary to restore the equity ratio to 1.30%. When the NCUA Board projects that the equity ratio will, within six months, fall below 1.20%, the NCUA Board must establish and implement a restoration plan within 90 days, which meets the statutory requirements and any further conditions that the NCUA Board determines appropriate. In order to meet statutory requirements, the plan must provide that the equity ratio will meet or exceed the minimum amount specified of 1.20% before the end of the eight-year period beginning upon the implementation of the plan (or such longer period as the NCUA Board may determine to be necessary due to extraordinary circumstances).

The NCUA Board did not assess premiums for 2018 and 2017.

Allowance for Doubtful Accounts
An allowance for doubtful accounts is the NCUA's best estimate of the amount of losses in an existing NCUSIF receivable. Based on an assessment of collectability, the NCUSIF calculates an allowance on an individual account basis for public accounts receivable. An account may be impaired or written off if it is probable that the NCUSIF will not collect all amounts contractually due. No allowance is calculated for intragovernmental accounts receivable, as these are deemed to be fully collectible.

General Property, Plant and Equipment, Net

General Property, Plant and Equipment, Net consists of internal-use software and assets under capital lease, and is recognized and measured in accordance with SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, as amended by SFFAS Nos. 10, 23, 44, and 50.

Costs incurred for internal use software during the software development phase are capitalized in accordance with SFFAS No. 10, *Accounting for Internal Use Software*. General Property, Plant and Equipment is subject to depreciation and carried at net cost once placed into service. Depreciation and amortization are recognized over the useful life of the asset.

Other - Receivables from Asset Management Estates, Net

The NCUA records a receivable from AMEs when claims are paid by the NCUSIF in order to satisfy obligations to insured shareholders and other guaranteed parties, as well as to pay administrative expenses on behalf of AMEs. Assets held by the AMEs are the main source of repayment of the NCUSIF's receivables from the AMEs. As the assets are monetized, recoveries from the assets are paid to the NCUSIF to reduce the receivable from AMEs.

The gross AME receivable is reduced by an allowance for loss. This allowance represents the difference between the funds disbursed and obligations incurred and the expected repayment, when recognized, from the AMEs pursuant to the liquidation payment priorities set forth in 12 C.F.R. §709.5(b). The NCUA records the allowance amount for loss on receivables from AMEs based on expected asset recovery rates. Expected asset recovery rates are evaluated during the year, but remain subject to uncertainties because of potential changes in economic and market conditions. The asset recovery rates are based on several sources including:

- actual or pending AME asset disposition data;
- asset valuation data based upon the performance, quality, and type of the assets in the portfolio;
- estimated liquidation costs based on information from similar recently failed credit unions; and
- estimated AME specific administrative expenses based upon complexity and expected duration of the AME.

Insurance and Guarantee Program Liabilities

In accordance with SFFAS No. 5, all federal insurance and guarantee programs, except social insurance and loan guarantee programs, should recognize a liability for:

- unpaid claims incurred, resulting from insured events that have occurred as of the reporting date;
- a contingent liability when an existing condition, situation, or set of circumstances involving uncertainty as to possible loss exists, and the uncertainty will ultimately be resolved when one or more probable future events occur or fail to occur; and
- a future outflow or other sacrifice of resources that is probable.

The NCUSIF records a contingent liability for probable losses relating to insured credit unions and the NGNs. The NCUA employs the CAMEL rating system as a tool to measure risk and allocate resources for supervisory purposes. The CAMEL system, which applies a rating to the credit union ranging from “1” (strongest) to “5” (weakest), is based upon an evaluation of five critical elements of a credit union’s operations: **C**apital Adequacy, **A**sset Quality, **M**anagement, **E**arnings, and **L**iquidity/Asset-Liability Management (CAMEL). These criteria ensure that credit union examiners assess all significant financial, operational, and management factors when evaluating a credit union’s performance and risk profile.

The year-end contingent liability for insurance losses is derived using an internal econometric model that applies estimated probability of failure and loss rates that take into account historical losses, CAMEL ratings, credit union level financial ratios, and other economic measures. Management routinely reviews the internal econometric model and refines the parameters as more information becomes available which allows for improved estimates. In addition, credit union specific analysis is performed on those credit unions where failure is probable and additional information is available to make a reasonable estimate of losses. In such cases, specific reserves are established.

Liabilities for loss contingencies also arise from claims, assessments, litigation, fines, penalties, and other sources. These loss contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Capital Lease Liability

In accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government,* and SFFAS No. 6, the NCUSIF records a depreciable asset and liability for all capital leases at the present value of the rental and other minimum lease payments during the lease term.

Net Position and Contributed Capital

Each insured credit union pays to and maintains with the NCUSIF a capitalization deposit in the amount equal to 1.00% of its insured shares. The NCUSIF reports the capitalization deposits from insured credit unions as contributed capital. This amount is included in the NCUSIF's Balance Sheets and Statements of Changes in Net Position.

Revenue Recognition

Exchange Revenue
Exchange revenues arise and are recognized when a federal government entity provides goods and services to the public or to another federal government entity for a price. Exchange revenue, which primarily consists of premium assessments, guarantee fee income, and interest revenue, is used to recover the losses of the credit union system.

Guarantee Fees on NCUA Guaranteed Notes
For a fee, the NCUA guarantees the timely payment of principal and interest on the NGNs.

Interest Revenue – Other
In 2009, the NCUSIF issued a $1.0 billion capital note to U.S. Central Federal Credit Union (USCFCU), which was subsequently liquidated by AMAC in the same year. Upon liquidation, the note was transferred to the TCCUSF as a held-to-maturity debt security. In September 2017, the TCCUSF recognized $520.0 million as a partial recovery of the capital note from USCFCU. In December 2017, the NCUSIF recognized the remaining $480.0 million as interest revenue. The principal balance of the capital note was fully recovered as of December 31, 2017.

Premium Assessments from Insured Credit Unions
The NCUA Board may assess each insured credit union a premium charge for insurance in an amount stated as a percentage of insured shares.

Non-Exchange Revenue
Non-exchange revenues are inflows of resources that the federal government demands or receives by donation. Such revenues are recognized when a specifically identifiable, legally enforceable claim to resources arises, to the extent that collection is probable (more likely than not) and the amount is reasonably estimable. The NCUSIF recognizes non-exchange revenue as described below.

Each insured credit union pays to and maintains with the NCUSIF a capitalization deposit amount equal to 1.00% of its insured shares. This amount is recognized as non-exchange revenue when invoiced. In accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting,* interest revenue on investments in U.S. Treasury securities is recognized as non-exchange revenue because the main source of funds for investments comes from capital deposits. Additionally, the related unrealized holding gains and losses on investments in U.S. Treasury securities are excluded from net costs and reported as a component of non-exchange revenue.

Tax-Exempt Status

The NCUA, as a government entity, is not subject to federal, state, or local income taxes. Accordingly, no provision for income taxes is recorded for the NCUSIF.

Disclosure Entities

The NCUA adopted SFFAS No. 47, *Reporting Entity* during 2018. The purpose of SFFAS No. 47 is to provide clarity on reporting entities and the criteria for including components in a reporting entity, including the establishment of principles to guide preparers of federal agency financial statements in determining the types of organizations that should be included in the reporting entity's financial statements. SFFAS No. 47 requires that our financial statements reflect the balances and activities of the fund and any other reporting entities that meet the following "principles for inclusion" as a whole:

- the entity is included in the Budget of the United States (also known as the President's Budget);
- the U.S. government holds "majority ownership interest";
- the U.S. government has "control with risk of loss or expectation of benefit"; or
- if it would be misleading to exclude such entity.

SFFAS No. 47 also provides guidance for assessing whether an organization meeting the inclusion principles is reported within the NCUSIF financial statements as a consolidation entity, or within the notes of the financial statements as a disclosure entity or a related party. Additionally, entities that are owned and/or controlled by the NCUA as a result of a regulatory action are generally classified as disclosure entities if the relationship with such entities is not expected to be permanent. Pursuant to SFFAS No. 47, the NCUA identifies receiverships and conservatorships as disclosure entities.

Receiverships
An AME is a receivership-type entity that is established to oversee assets and other property acquired from a failed credit union. As previously mentioned, AMAC conducts liquidations and oversees the management and recovery of assets for failed credit unions. The NCUA has two types of AMEs: 1) Natural person AMEs from the resolution of failed natural-person credit unions, and 2) Corporate AMEs from the resolution of failed corporate credit unions. These activities are considered fiduciary activities in accordance with SFFAS No. 31, *Accounting for Fiduciary Activities*, and are disclosed under Note 14, Fiduciary Activities.

Conservatorships
From time to time, the NCUA places a credit union into conservatorship in order to resolve operational problems that could affect that credit union's safety and soundness. Conservatorship means the NCUA has taken control of the credit union. During a conservatorship, the credit union remains open, members may transact business, and accounts remain insured by the NCUSIF. For federally chartered credit unions, the NCUA takes this action on its own; in the case of a state-chartered credit union, the state supervisory authority initiates the conservatorship

and in many cases appoints the NCUA as agent for the conservator. Conservatorships can have three outcomes: 1) the credit union can resolve its operational problems and be returned to member ownership; 2) the credit union can merge with another credit union; or 3) the NCUA can liquidate the credit union. The NCUA lists credit unions currently under conservatorship on its website.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation. The NCUSIF's Statements of Budgetary Resources were condensed to present budgetary resources, status of budgetary resources, and net outlays, while removing the presentation of the change in obligated balance to conform to guidance issued by OMB Circular A-136, *Financial Reporting Requirements*, revised July 30, 2018.

2. FUND BALANCE WITH TREASURY

FBWT balances and status at December 31, 2018 and 2017, consisted of the following (in thousands):

	2018	2017
Status of Fund Balance with Treasury:		
Unobligated Balance - Available	$ 15,186,319	$ 16,127,894
Obligated Balances Not Yet Disbursed	6,794	10,409
Non-Budgetary Investment Accounts	(15,125,624)	(16,080,506)
Non-FBWT Budgetary Accounts	(62,489)	(54,635)
Total	$ 5,000	$ 3,162

As a revolving fund, the FBWT account is used for continuing business-like activities. The NCUSIF collects capitalization deposits, guarantee fees, AME recoveries and premiums, which in turn may be invested in U.S. Treasury securities. The proceeds are primarily held to cover insurance losses and guarantee payments, and are also used for merger assistance, liquidations, and other administrative expenses, without requirement for annual appropriations. The FBWT account contains monies available for future obligations as well as monies obligated for current activities. Non-Budgetary Investment Accounts, which consist of U.S. Treasury investments, reduce the status of fund balance. Non-FBWT Budgetary Accounts may consist of budgetary receivables, borrowing authority, and non-expenditure transfers. Funds not needed for immediate liquidity are invested in overnight U.S. Treasury securities.

On October 1, 2017, $1.9 billion was distributed in cash from the TCCUSF to the NCUSIF through the closing of the TCCUSF.

As of December 31, 2018 and 2017, there were no unreconciled differences between U.S. Treasury records and balances reported on the NCUSIF's general ledger.

3. INVESTMENTS

The FCU Act, Section 203(c), 12 U.S.C. § 1783(c), as amended, provides guidance regarding U.S. Treasury security investments. All investments at the NCUSIF pertain to market-based (available-for-sale) U.S. Treasury securities of varying maturities and non-marketable (held-to-maturity) U.S. Treasury daily overnight securities. Premiums or discounts on available-for-sale securities are amortized using the effective interest method.

As of December 31, 2018 and 2017, the carrying amount, gross unrealized holding gains, gross unrealized holding losses, and fair value of U.S. Treasury securities were as follows (in thousands):

	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net (Par)	Net Unrealized Gain/(Loss)	Carrying/ Fair Value
As of December 31, 2018:						
U.S. Treasury Securities						
Available-for-Sale	$ 14,106,883	$ (68,914)	$ 62,454	$ 14,000,000	$ (184,266)	$ 13,853,703
Held to Maturity	1,218,499	-	-	1,218,499	-	1,218,499
Total	$ 15,325,382	$ (68,914)	$ 62,454	$ 15,218,499	$ (184,266)	$ 15,072,202
As of December 31, 2017:						
U.S. Treasury Securities						
Available-for-Sale	$ 13,449,547	$ (75,758)	$ 54,635	$ 13,300,000	$ (116,450)	$ 13,257,339
Held to Maturity	2,849,161	-	-	2,849,161	-	2,849,161
Total	$ 16,298,708	$ (75,758)	$ 54,635	$ 16,149,161	$ (116,450)	$ 16,106,500

Maturities of U.S. Treasury securities as of December 31, 2018 and 2017 were as follows (in thousands):

	2018 Fair Value	2017 Fair Value
Held to Maturity (Overnights)	$ 1,218,499	$ 2,849,161
Available-for-Sale:		
Due in one year or less	2,775,562	2,341,183
Due after one year through five years	9,363,016	7,675,250
Due after five years through ten years	1,715,125	3,240,906
	$ 15,072,202	$ 16,106,500

For the years ended December 31, 2018 and 2017, there were realized gains from sales of Treasury securities of $0 and $131.6 thousand, respectively.

The following table includes gross unrealized losses on investment securities, for which an OTTI has not been recognized, in addition to the fair values of those securities, aggregated by investment classification and length of time the investments have been in a loss position, at December 31, 2018 and 2017 (in thousands):

	Losses Less than 12 months		Losses 12 months or more		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
As of December 31, 2018:						
Available-for-Sale:						
U.S. Treasury Securities	$ (7,574)	$ 1,479,125	$ (182,366)	$ 10,133,734	$ (189,940)	$ 11,612,859
As of December 31, 2017:						
Available-for-Sale:						
U.S. Treasury Securities	$ (52,278)	$ 9,542,745	$ (64,769)	$ 3,023,844	$ (117,047)	$ 12,566,589

4. ACCOUNTS RECEIVABLE

Public – Accounts Receivable

Accounts Receivable Due from Insured Credit Unions
As of December 31, 2018 and 2017, accounts receivable due from insured credit unions were $0 and $1.9 million, respectively.

NGN Guarantee Fee Receivable
For a fee, the NCUA guarantees the timely payment of principal and interest on the NGNs. Guarantee fees on each NGN Trust are 35 basis points per year, payable monthly, on the outstanding balance of the NGNs. As of December 31, 2018 and 2017, the NGN guarantee fee receivable was $1.1 million and $1.3 million, respectively.

As none of these amounts were deemed uncollectible, the allowance for doubtful accounts on public accounts receivable as of December 31, 2018 and 2017 was $0.

5. NOTES RECEIVABLE

Intragovernmental – Notes Receivable

Note Due from the NCUA Operating Fund
In 1992, the NCUSIF entered into a commitment to lend $42.0 million to the NCUA Operating Fund, pursuant to a 30-year note secured by the NCUA premises in Alexandria, Virginia. Interest income recognized was approximately $123.1 thousand and $127.6 thousand for the years ended December 31, 2018 and 2017, respectively. The note receivable balance as of December 31, 2018 and 2017 was approximately $6.4 million and $7.7 million, respectively.

The variable rate on the note is equal to the NCUSIF's prior-month yield on investments. The average interest rate for the years ended December 31, 2018 and 2017 was 1.80% and 1.51%, respectively. The interest rate as of December 31, 2018 and 2017 was 2.01% and 1.59%, respectively.

As of December 31, 2018, the above note requires principal repayments as follows (in thousands):

Years Ending December 31	Secured Term Note
2019	$ 1,341
2020	1,341
2021	1,341
2022	1,341
2023	1,005
Thereafter	-
Total	$ 6,369

6. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

The components of General Property, Plant and Equipment as of December 31, 2018 and 2017 were as follows (in thousands):

	Cost	Accumulated Depreciation	Net Book Value
As of December 31, 2018:			
Assets under Capital Lease	$ 176	$ (4)	$ 172
Internal-Use Software	2,017	(1,977)	40
Total General Property, Plant and Equipment	$ 2,193	$ (1,981)	$ 212
As of December 31, 2017:			
Assets under Capital Lease	$ 471	$ (435)	$ 36
Internal-Use Software	2,017	(1,491)	526
Total General Property, Plant and Equipment	$ 2,488	$ (1,926)	$ 562

Assets under capital lease are depreciable over 36 months, which corresponds with the life of the underlying capital lease. Internal use software has a useful life of three years per the NCUA capitalization policy.

7. OTHER – RECEIVABLES FROM ASSET MANAGEMENT ESTATES

AMEs include assets and liabilities from failed natural person credit unions (NPCU AMEs) and corporate credit union AMEs (Corporate AMEs). The components of the Receivable from AME, Net as of December 31, 2018 and 2017 were as follows (in thousands):

	2018			2017		
	NPCU AMEs	Corporate AMEs	Total	NPCU AMEs	Corporate AMEs	Total
Gross Receivable from AME	$ 1,868,736	$ 2,895,652	$ 4,764,388	$ 796,436	$ 3,165,931	$ 3,962,367
Allowance for Loss, beginning balance	787,497	2,679,849	3,467,346	867,820	-	867,820
Transfer-In of Allowance for Loss from TCCUSF, effective 10/1/2017	-	-	-	-	2,681,036	2,681,036
AME Receivable Bad Debt Expense (Reduction)	(26,315)	(73,544)	(99,859)	(20,295)	(1,187)	(21,482)
Increase in Allowance	752,902	-	752,902	18,376	-	18,376
Write-off of Cancelled Charters	(54,216)	-	(54,216)	(78,997)	-	(78,997)
Other	-	-	-	593	-	593
Allowance for Loss, ending balance	1,459,868	2,606,305	4,066,173	787,497	2,679,849	3,467,346
Receivable from AME, Net	$ 408,868	$ 289,347	$ 698,215	$ 8,939	$ 486,082	$ 495,021

AME Receivable Bad Debt Reduction for the NPCU AMEs represents overall increases in expected asset recovery rates and related repayments. The Increase in Allowance primarily represents the net loss on payments made during liquidation. The amounts for Write-off of Cancelled Charters total the final loss or recovery recognized upon closing AMEs.

AME Receivable Bad Debt Reduction takes into account the NCUA's expectations and assumptions about the recovery value of the Corporate AMEs' assets, as further discussed under fiduciary activities in Note 14.

8. OTHER LIABILITIES – INSURANCE AND GUARANTEE PROGRAM LIABILITIES

Insured Credit Unions

The NCUA identifies insured credit unions experiencing financial difficulty through the NCUA's supervisory and examination process. On both a general and specific case basis, management determines the estimated losses from these credit unions. The NCUA also evaluates overall economic trends and monitors potential system-wide risk factors, such as increasing levels of consumer debt, bankruptcies, and delinquencies. The NCUA uses the CAMEL rating system to evaluate an insured credit union's financial condition and operations. The CAMEL rating system is a tool used to measure risk and allocate resources for supervisory purposes. The general reserve is derived using an internal econometric model that applies estimated probability of failure and loss rates take into account historical losses, CAMEL ratings, credit union level financial ratios, and other economic measures. In addition, specific reserves are identified for those credit unions where failure is probable and additional information is available to make a reasonable estimate of losses. The anticipated losses for specific reserves are net of estimated recoveries from the disposition of the assets of failed credit unions. The total general and specific reserves for losses resulting from insured credit union failures were $119.1 million and $925.5 million as of December 31, 2018 and 2017, respectively.

In exercising its supervisory function, the NCUSIF will occasionally extend guarantees of assets (primarily loans) to third-party purchasers or existing insured credit unions in order to facilitate mergers. The NCUSIF would be obligated upon borrower nonperformance. There were no guarantees outstanding during 2018 or as of December 31, 2018. There were no guarantees outstanding during 2017 or as of December 31, 2017.

In addition, the NCUSIF may grant a guaranteed line-of-credit to a third-party lender, such as a corporate credit union or bank, if a particular insured credit union were to have a current or immediate liquidity concern and the third-party lender refuses to extend credit without a guarantee. The NCUSIF would thereby be obligated if the insured credit union failed to perform. Total line-of-credit guarantees of credit unions as of December 31, 2018 and 2017 were approximately $0 and $410.0 million, respectively. The insured credit unions borrowed $0 and $206.0 million from the third-party lender under these lines-of-credit guarantees as of December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, the NCUSIF reserved $0 and $9.0 million, respectively, for these guaranteed lines-of-credit.

On rare occasions, the NCUSIF may provide indemnifications as part of merger assistance or purchase and assumption agreements with acquiring credit unions. Such indemnifications make the NCUSIF contingently liable based on the outcome of any legal actions. There were no such indemnification contingencies as of December 31, 2018 and 2017, respectively.

The activity in the Insurance and Guarantee Program Liabilities from insured credit unions and AMEs was as follows (in thousands):

	2018	2017
Beginning balance	$ 925,487	$ 196,617
Reserve Expense (Reduction)	(13,967)	747,777
Insurance losses claims paid	(1,165,033)	(33,758)
Net Estimated Recovery/Claim on AMEs	372,566	14,851
Ending balance	$ 119,053	$ 925,487

The Insurance and Guarantee Program Liabilities at December 31, 2018 and December 31, 2017 were comprised of the following:

- Specific reserves were $7.3 million and $818.6 million, respectively. Specific reserves are identified for those credit unions where failure is probable and additional information is available to make a reasonable estimate of losses. During the year, specific reserves decreased based on the resolution of certain troubled credit unions through the NCUA's supervisory actions. As an overall process, information derived from these actions provides additional clarity concerning the probability and amount of estimated insurance losses for certain troubled credit unions prior to their resolution. Actual losses could vary and may be materially different from the estimated losses recognized as of December 31, 2018.
- General reserves were $111.8 million and $106.9 million, respectively.

In addition to these recognized contingent liabilities, adverse performance in the financial services industry could result in additional losses to the NCUSIF. The ultimate losses for insured credit unions will largely depend upon future economic and market conditions and, accordingly, could differ significantly from these estimates.

NCUA Guaranteed Notes

The NCUA's guarantees on the NGNs are a direct result of the NCUA's implementation of the CSRP. Pursuant to the FCU Act, the NCUA is authorized to assess insured credit unions for the recovery of any losses from this initiative. The NCUA uses both internal and external models to estimate contingent liabilities associated with the NGN Program, as discussed herein. The NCUSIF recorded no contingent liabilities on its Balance Sheet for NGNs as of December 31, 2018. No contingent liabilities were recorded in 2017.

Beginning in October 2010, the NCUA Board, as liquidating agent of the AMEs, transferred Legacy Assets to NGN Trusts and re-securitized them through the issuance of a series of floating and fixed-rate NGNs. The NGNs have final maturities ranging from 2016 to 2021. As of December 31, 2018 and 2017, the outstanding principal balance of the NGNs was $4.4 billion and $5.4 billion, respectively. This amount represents the maximum potential, but not the expected, future guarantee payments that the NCUA could be required to make.

The NCUA, through the NCUSIF, is liable to make guarantee payments through the NGN Trusts to the NGN holders under certain conditions outlined in the respective indentures and related agreements with respect to timely payment of interest and ultimate principal on the NGNs. In addition to the ultimate payment of principal and interest, the guarantee requires parity payments when the unpaid principal balance of all Legacy Assets underlying a particular NGN Trust, after realized and implied losses, if applicable, is less than the remaining unpaid principal balance of the related NGNs after distribution of all cash collected on the Legacy Assets for any given payment date.

As of December 31, 2018 and 2017, there were no probable losses for the guarantee of NGNs associated with the re-securitization transactions. Although the gross estimated guarantee payments were approximately $2.5 billion and $2.7 billion, respectively, these payments are estimated to be offset by:

i) contractual guarantee reimbursements and interest based on NGN governing documents from the Legacy Assets of the NGN Trusts of approximately \$2.4 billion and \$2.6 billion as of December 31, 2018 and 2017, respectively; and
ii) receivables from the Corporate AMEs based on the value of their economic residual interests in NGN Trusts of up to approximately \$1.4 billion and \$1.3 billion as of December 31, 2018 and 2017, respectively.

Recoveries in the form of potential guarantor reimbursements by the NGN Trusts to the NCUA are subordinate to payments on the NGNs in accordance with the respective indentures. As such, reimbursements of guarantee payments to the NCUA will not occur until the applicable NGNs have been repaid in full; after the NGNs are repaid in full, any cash flows received on the Legacy Assets underlying the NGN Trusts are directed toward reimbursements until the NCUA is reimbursed in full. The NCUA earns interest on any guarantee payments not yet reimbursed by the NGN Trusts at a rate equal to the interest rate on the associated NGNs.

Guarantee fees are senior in the NGN Trust payment waterfall in accordance with the respective indentures. It is expected that the NCUA will receive a guarantee fee payment from the NGN Trusts on each NGN payment date. The guarantee fee amount due to the NCUA at each monthly payment date is equal to 35 basis points per year on the outstanding NGN balance prior to the distribution of principal on the payment date.

The NCUA's estimated guarantee payments, guarantor reimbursements, and the recovery value of the Corporate AMEs' economic residual interests in the NGN Trusts are derived using an external model that distributes estimated cash flows of the Legacy Assets transferred to the NGN Trusts in the priority of payments pursuant to the indenture of each NGN Trust. The estimated cash flows incorporate the NCUA's assumptions about discount rates.

The estimated cash flows of the Legacy Assets transferred to the NGN Trusts are also derived from the external model that incorporates the NCUA's expectations and assumptions about the estimated cash flows from the collateral that supports the Legacy Assets, and the priority of payments and estimated cash flows of the Legacy Assets pursuant to the governing documents for the respective Legacy Assets.

The external model produces estimated cash flows of collateral underlying the Legacy Assets by incorporating the NCUA's expectations and assumptions about prepayments, defaults and loss severity of the collateral consisting of residential and commercial mortgage loans and other assets. Assumptions about prepayments, defaults and loss severity are developed based on the characteristics and historical performance of the collateral, as well as assumptions about macroeconomic variables such as unemployment rates, housing prices and interest rates.

9. OTHER - CAPITAL LEASE LIABILITY

The NCUSIF leases laptops for state credit union examiners under a capital lease agreement with a non-federal vendor that will run through 2021. The capital lease liability as of December 31, 2018 and 2017 was \$176.4 thousand and \$0, respectively.

The future minimum lease payments to be paid over the remaining life as of December 31, 2018 are as follows (in thousands):

Years Ending December 31	Minimum Lease Payments
2019	$ 122
2020	61
2021	-
Total Future Lease Payments	$ 183
Less: Imputed Interest	(7)
Net Capital Lease Liability	$ 176

The capital lease liability is covered by budgetary resources.

10. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Program costs and revenues are separated between Intragovernmental and Public to facilitate government-wide financial reporting. Intragovernmental revenue and costs arise from transactions with other federal entities. Public revenue and costs arise from transactions with persons and organizations outside of the federal government. Intragovernmental costs and exchange revenue as of December 31, 2018 and 2017 were as follows (in thousands):

Intragovernmental Costs and Exchange Revenue	2018	2017
Intragovernmental Costs	$ 180,201	$ 189,217
Public Costs/(Cost Reduction)	(103,846)	736,094
Total	76,355	925,311
Intragovernmental Exchange Revenue	(123)	(128)
Public Exchange Revenue	(18,035)	(486,843)
Total	(18,158)	(486,971)
Net Cost	$ 58,197	$ 438,340

Certain administrative services are provided to the NCUSIF by the NCUA Operating Fund. The NCUSIF is charged by the NCUA Operating Fund for these services based upon an annual allocation factor derived from a study of actual usage. In 2018 and 2017, the allocation to the NCUSIF was 61.5% and 67.7% of the NCUA Operating Fund expenses, respectively. The cost of the services allocated to the NCUSIF, which totaled approximately $180.2 million and $189.2 million for the years ended December 31, 2018 and 2017, respectively, is reflected as an expense in the Statements of Net Cost and above in Intragovernmental Costs. These transactions are settled monthly. As of December 31, 2018 and 2017, amounts due to the NCUA Operating Fund for allocated administrative expenses were $4.0 million and $5.2 million, respectively. The following table provides a breakdown of the administrative services provided to the NCUSIF by the NCUA Operating Fund (in thousands):

Administrative Services Reimbursed to the NCUA Operating Fund	2018	2017
Employee Salaries	$ 92,539	$ 100,606
Employee Benefits	37,395	40,553
Employee Travel	14,740	15,617
Contracted Services	22,475	19,019
Administrative Costs	5,698	5,443
Depreciation and Amortization	3,641	3,655
Rent, Communications, and Utilities	3,713	4,324
Total Services Provided by the NCUA Operating Fund	$ 180,201	$ 189,217

11. AVAILABLE BORROWING AUTHORITY, END OF PERIOD

The NCUSIF has $6.0 billion in borrowing authority from the U.S. Treasury. Available borrowing authority, as of December 31, 2018 and 2017, was $6.0 billion and $6.0 billion, respectively.

Under the FCU Act, the NCUSIF also has the ability to borrow from the CLF. The NCUSIF is authorized to borrow from the CLF up to the amount of the CLF's unused borrowing authority. As of December 31, 2018 and 2017, the CLF had statutory borrowing authority of $7.0 billion and $6.6 billion, respectively. As of December 31, 2018 and 2017, the CLF had a note purchase agreement with the Federal Financing Bank with a maximum principal of $2.0 billion and $2.0 billion, respectively, all of which was unused. Advances made under the current promissory note can be made no later than March 31, 2019.

At December 31, 2018 and 2017, the NCUSIF had $8.0 billion and $8.0 billion, respectively, in total available borrowing capacity.

12. DISCLOSURES RELATED TO THE STATEMENTS OF BUDGETARY RESOURCES

The Statements of Budgetary Resources discloses total budgetary resources available to the NCUSIF, and the status of resources as of December 31, 2018 and 2017. Activity impacting budget totals of the overall federal government budget is recorded in the NCUSIF's Statements of Budgetary Resources budgetary accounts. As of December 31, 2018 and 2017, the NCUSIF's resources in budgetary accounts were $17.4 billion and $16.9 billion, respectively. All liabilities are covered by budgetary resources, excluding the Insurance and Guarantee Program Liabilities because they are contingent liabilities and do not require budgetary resources until the liabilities are no longer contingent. All obligations incurred by the NCUSIF are reimbursable. The NCUSIF is exempt from OMB apportionment control.

The NCUSIF has $903.3 thousand and $863.8 thousand in unpaid undelivered orders, and $1.0 million and $1.0 million in paid undelivered orders, as of December 31, 2018 and 2017, respectively. Both unpaid and paid undelivered orders were all from non-federal sources as of December 31, 2018 and 2017.

Budgetary resources listed on the NCUSIF's financial statements and the budgetary resources found in the budget of the federal government differ because the NCUSIF's statements are prepared as of December 31, on a calendar year, rather than as of September 30, the federal government's fiscal year end.

13. CONTRIBUTED CAPITAL

The *Credit Union Membership Access Act of 1998*, Public Law 105–219 (CUMAA), mandated changes to the NCUSIF's capitalization provisions, effective January 1, 2000. Under Section 202(c) of the FCU Act, 12 U.S.C. § 1782(c), each insured credit union must pay to and maintain with the NCUSIF a deposit in an amount equaling 1.00% of the credit union's insured shares. The CUMAA added provisions mandating that the amount of each insured credit union's deposit is adjusted as follows, in accordance with procedures determined by the NCUA Board, to reflect changes in the credit union's insured shares: (i) annually, in the case of an insured credit union with total assets of less than $50.0 million; and (ii) semi-annually, in the case of an insured credit union with total assets of $50.0 million or more. The annual and semi-annual adjustments are based on insured member share deposits outstanding as of December 31 of the preceding year and June 30 of the current year, respectively. The 1.00% contribution is returned to the insured credit union in the event that its insurance coverage is terminated, or is obtained from another source, or the operations of the NCUSIF are transferred from the NCUA Board. As of December 31, 2018 and 2017, contributed capital owed to the NCUSIF totaled $0 and $1.9 million, respectively. Contributed capital due to insured credit unions was $0 as of December 31, 2018 and 2017.

Beginning in 2000, the CUMAA mandated that distributions to insured credit unions be determined from specific ratios, which are based in part upon year-end data. Accordingly, distributions associated with insured shares at year-end are declared and paid in the subsequent year. The NCUSIF equity ratio is calculated as the ratio of contributed capital plus cumulative results of operations, excluding net cumulative unrealized gains and losses on investments, to the aggregate amount of the insured shares in all insured credit unions. On December 13, 2018, the Board set the NOL at 1.38%, decreasing it from 1.39%. Previously, on September 28, 2017, the Board set the NOL at 1.39%, increasing it from 1.30%.

Pursuant to the FCU Act, the NCUSIF-calculated equity ratio is 1.39% as of December 31, 2018. This equity ratio is based on insured shares of $1.1 trillion as of December 31, 2018, and is above the normal operating level of 1.38%.

As of December 31, 2017, the NCUSIF equity ratio of 1.46% was above the normal operating level of 1.39%, which resulted in a $735.7 million distribution to credit unions that was paid during the third quarter of 2018. Total contributed capital as of December 31, 2018 and 2017 was $11.3 billion and $10.8 billion, respectively.

The NCUSIF's available assets ratio as of December 31, 2018 and 2017 was 1.31% and 1.40%, based on total insured shares as of December 31, 2018 and 2017 of $1.1 trillion and $1.1 trillion, respectively. The NCUSIF available assets ratio, as defined by the FCU Act, is calculated as the ratio of (A) the amount determined by subtracting (i) direct liabilities of the NCUSIF and contingent liabilities for which no provision for losses has been made, from (ii) the sum of cash and the market value of unencumbered investments authorized under Section 203(c) of the FCU Act, to (B) the aggregate amount of the insured shares in all insured credit unions.

14. FIDUCIARY ACTIVITIES

Fiduciary activities are the collection or receipt, management, protection, accounting, investment, and disposition by an AME of cash and other assets, in which non-federal individuals or entities have an ownership interest. Fiduciary assets are not assets of the federal government. Fiduciary activities are not recognized on the basic financial statements, but are reported on schedules in the notes to the financial statements in accordance with SFFAS No. 31, *Accounting for Fiduciary Activities*. The NCUA Board, as liquidating agent of the AMEs, disburses obligations owed by and collects money due to the liquidating credit unions through AMAC.

Fiduciary assets are recorded at values that are estimated to be recovered based on market information and external valuations, such as appraisals, as well as internal and external models incorporating the NCUA's current assumptions regarding numerous factors, including prepayments, defaults, loss severity and discount rates. Legacy Assets may benefit from litigation and other efforts by various trustees, insurers, investors, and investor consortiums, including the NCUA Board as liquidating agent, to recover losses that the Legacy Assets have suffered. Any benefits from these recovery efforts will be recognized by an AME when receipt is certain. Fiduciary liabilities related to borrowings and claims are recorded at their contractual or settlement amounts as agreed by the liquidating agents and the creditors. Contingent liabilities related to legal actions are recorded if probable and measurable. Accrued liquidation costs reflect the NCUA's estimates and assumptions regarding the timing and associated costs to dispose of the AME assets. The future estimate of liquidation costs, as well as the actual amounts, could differ materially from current estimates and assumptions.

Unless expressly guaranteed by the NCUA and backed by the full faith and credit of the United States, the AMEs' unsecured creditors, including the NCUSIF, could only expect to be paid if recoveries from the assets of the AMEs are sufficient to be distributed to the unsecured creditors in order of priority as set forth in 12 CFR §709.5(b).

(a) Natural Person Credit Unions AMEs

Following is the Schedule of Fiduciary Activity as of December 31, 2018 and 2017 (in thousands):

Schedule of Fiduciary Activity	2018	2017
Fiduciary Net Liabilities, beginning of year	$ (795,403)	$ (871,271)
Net Realized Losses upon Liquidation	(752,265)	(23,774)
Revenues		
Interest on Loans	7,561	2,481
Other Fiduciary Revenues	215	451
Expenses		
Professional & Outside Services Expenses	(6,577)	(4,319)
Compensation and Benefits	(458)	(871)
Other Expenses	(381)	(667)
Net Change in Recovery Value of Assets and Liabilities		
Net Gain/(Loss) on Loans	27,497	16,803
Net Gain/(Loss) on Real Estate Owned	162	(1,090)
Other, Net Gain/(Loss)	(1,798)	7,857
(Increase)/Decrease in Fiduciary Net Liabilities	(726,044)	(3,129)
Write off of Fiduciary Liabilities for Cancelled Charters	54,216	78,997
Fiduciary Net Liabilities, end of year	**$ (1,467,231)**	**$ (795,403)**

The NPCU AMEs' fiduciary net liabilities increased by $671.8 million from 2017 to 2018, including an increase in fiduciary net liabilities of $726.0 million and cancelled charter write-offs of $54.2 million. The primary drivers were an increase in net realized losses upon liquidation and continued improvement in the recovery value of assets and liabilities, offset by a decrease in cancelled charters. Net realized losses upon liquidation increased by $728.5 million due, in part, to the impact of certain credit union liquidations that occurred in the second half of 2018. The net change in recovery value of assets and liabilities line items increased by $2.3 million due to rising net realizable values of assets managed. Charter cancellation write-offs decreased by $24.8 million, corresponding with fewer credit union charter cancellations in 2018 than the previous year.

Revenues consist of cash collected during the liquidation of assets held within the AME. Gains and losses include the revaluation of assets based upon expected asset recovery rates and the disposition of assets and adjustments to liabilities, which contribute to the change in fiduciary net assets/liabilities. Following is the Schedule of Fiduciary Net Assets/Liabilities as of December 31, 2018 and 2017 (in thousands):

Schedule of Fiduciary Net Assets/Liabilities	2018	2017
Fiduciary Assets		
Loans	$ 375,382	$ 9,042
Real Estate Owned	6,542	8,798
Other Fiduciary Assets	64,847	3,565
Total Fiduciary Assets	446,771	21,405
Fiduciary Liabilities		
Insured Shares	1,478	1,535
Accrued Liquidation Expenses	39,662	14,441
Unsecured Claims	709	1,277
Uninsured Shares	3,417	3,119
Due to NCUSIF (Note 7)	1,868,736	796,436
Total Fiduciary Liabilities	1,914,002	816,808
Total Fiduciary Net Assets/(Liabilities)	**$ (1,467,231)**	**$ (795,403)**

Loans also includes amounts related to criminal restitution owed to the U.S. government. As of December 31, 2018, gross receivables related to criminal restitution orders were $206.2 million, of which we determined $60.8 thousand were collectible.

(b) Corporate AMEs (Legacy TCCUSF AMEs)

Following are the Schedules of Fiduciary Activity for the year ended December 31, 2018, compared to the three months ended December 31, 2017 (in thousands):

Schedule of Fiduciary Activity	For the Year Ended December 31, 2018			
	AMEs	NGN Trusts	Eliminations	Total
Fiduciary Net Liabilities, December 31, 2017	$ 630,320	$ -	$ -	$ 630,320
Revenues				
Interest on Loans	(1,974)	-	-	(1,974)
Income from AMEs on Re-Securitized Assets	-	(142,062)	142,062	-
Income from Investment Securities	(256,934)	-	-	(256,934)
Settlements and Legal Claims	(7,738)	-	-	(7,738)
Other Fiduciary Revenues	(7,042)	-	-	(7,042)
Expenses				
Professional and Outside Services Expenses	7,274	-	-	7,274
Interest Expense on Borrowings and NGNs	-	125,080	-	125,080
Payments to NGN Trusts	142,062	-	(142,062)	-
Guarantee Fees	-	16,982	-	16,982
Other Expenses	414	-	-	414
Net Change in Recovery Value of Assets and Liabilities	(113,111)	-	-	(113,111)
Charter Cancellation	-	-	-	-
Increase/(Decrease) in Fiduciary Net Liabilities	(237,049)	-	-	(237,049)
Fiduciary Net Liabilities, December 31, 2018	$ 393,271	$ -	$ -	$ 393,271

Schedule of Fiduciary Activity	For the Three Months Ended December 31, 2017			
	AMEs	NGN Trusts	Eliminations	Total
Fiduciary Net Liabilities, October 1, 2017	$ 682,257	$ -	$ -	$ 682,257
Revenues				
Interest on Loans	(2,361)	-	-	(2,361)
Income from AMEs on Re-Securitized Assets	-	(140,461)	140,461	-
Income from Investment Securities	(190,409)	-	-	(190,409)
Settlements and Legal Claims	(858,080)	-	-	(858,080)
Other Fiduciary Revenues	(5,591)	-	-	(5,591)
Expenses				
Professional and Outside Services Expenses	215,600	-	-	215,600
Interest Expense on Borrowings and NGNs	-	116,990	-	116,990
Payments to NGN Trusts	140,461	-	(140,461)	-
Guarantee Fees	-	23,471	-	23,471
Other Expenses	634	-	-	634
Net Change in Recovery Value of Assets and Liabilities	627,365	-	-	627,365
Charter Cancellation	20,444	-	-	20,444
Increase/(Decrease) in Fiduciary Net Liabilities	(51,937)	-	-	(51,937)
Fiduciary Net Liabilities, December 31, 2017	$ 630,320	$ -	$ -	$ 630,320

For the year ended December 31, 2018, the Corporate AMEs' Fiduciary Net Liabilities decreased by $237.0 million. This decrease represents a benefit to the AME claimants, of which a portion was recognized by the NCUSIF through the reduction of the AME Receivable Bad Debt Expense, as discussed in Note 7. The main drivers for this decrease were the continued improvement of the recovery values for assets and liabilities and a $66.5 million increase in revenues from Investment Securities over the previous year. The Net Change in Recovery Value of Assets and Liabilities line includes the realized and unrealized gains and losses on the Legacy Assets, loans, real estate, investments and other assets and liabilities. For the year ended December 31, 2018, and the three months ended December 31, 2017, this line was $113.1 million and $627.4 million, respectively, which reflects a net loss that is due to improving values of the anticipated future cash flows of the Legacy Assets in the NGN Program.

The Schedule of Fiduciary Activity includes revenues earned on investments, including Legacy Assets, loans, real estate and other investments, and expenses incurred in orderly liquidation of the AMEs, including interest expense on borrowings and the NGNs.

Following are the Schedules of Fiduciary Net Assets/Liabilities as of December 31, 2018 and 2017 (in thousands):

Schedule of Fiduciary Net Assets/Liabilities	**As of December 31, 2018**			
	AMEs	**NGN Trusts**	**Eliminations**	**Total**
Fiduciary Assets				
Cash and Cash Equivalents	$ 530,577	$ 115,740	$ -	$ 646,317
Legacy Assets	535,899	-	-	535,899
Legacy Assets/Investments Collateralizing the NGNs	5,243,148	438,144	-	5,681,292
Loans	48,035	-	-	48,035
Receivable from AMEs	-	3,828,579	(3,828,579)	-
Other Fiduciary Assets	15	-	-	15
Total Fiduciary Assets	6,357,674	4,382,463	(3,828,579)	6,911,558
Fiduciary Liabilities				
Accrued Expenses	26,608	9,778	-	36,386
NGNs	-	4,372,685	-	4,372,685
Due to NGN Trusts	3,828,579	-	(3,828,579)	-
Unsecured Claims and Payables	106	-	-	106
Due to NCUSIF (Note 7)	2,895,652	-	-	2,895,652
Total Fiduciary Liabilities	6,750,945	4,382,463	(3,828,579)	7,304,829
Total Fiduciary Net Assets/(Liabilities)	$ (393,271)	$ -	$ -	$ (393,271)

Schedule of Fiduciary Net Assets/Liabilities	**As of December 31, 2017**			
	AMEs	**NGN Trusts**	**Eliminations**	**Total**
Fiduciary Assets				
Cash and Cash Equivalents	$ 168,535	$ 125,541	$ -	$ 294,076
Legacy Assets	1,074,365	-	-	1,074,365
Legacy Assets/Investments Collateralizing the NGNs	6,281,218	314,069	-	6,595,287
Loans	54,955	-	-	54,955
Receivable from AMEs	-	5,009,469	(5,009,469)	-
Other Fiduciary Assets	178	-	-	178
Total Fiduciary Assets	7,579,251	5,449,079	(5,009,469)	8,018,861
Fiduciary Liabilities				
Accrued Expenses	34,065	8,669	-	42,734
NGNs	-	5,440,410	-	5,440,410
Due to NGN Trusts	5,009,469	-	(5,009,469)	-
Unsecured Claims and Payables	106	-	-	106
Due to NCUSIF (Note 7)	3,165,931	-	-	3,165,931
Total Fiduciary Liabilities	8,209,571	5,449,079	(5,009,469)	8,649,181
Total Fiduciary Net Assets/(Liabilities)	$ (630,320)	$ -	$ -	$ (630,320)

The Schedule of Fiduciary Net Assets reflects the expected recovery value of the Corporate AMEs' assets, including the Legacy Assets collateralizing the NGNs issued through the NGN Trusts, and the settlement value of valid claims against the Corporate AMEs outstanding at

December 31, 2018 and 2017. Certain claims against the Corporate AMEs and the NGNs are guaranteed by the NCUA as previously discussed herein.

There were no maturities of NGN principal balances during 2018. During 2017, cash flows from the Legacy Assets securing the NGN 2011-R4 1A Trust paid off the outstanding NGN principal balances on October 5, 2017, resulting in the maturity of this trust prior to its scheduled maturity date. Additionally, on November 6, 2017, NGN 2010-R2 1A matured on its legal maturity date.

As of December 31, 2018 and December 31, 2017, the NCUA held $528.9 million and $167.0 million, respectively, in fiduciary cash on behalf of the Corporate AMEs.

15. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of operations. The Reconciliation of Net Cost of Operations to Budget consisted of the following (in thousands):

Reconciliation of Net Cost of Operations to Budget	2018	2017
Resources Provided to Finance Activities:		
Budgetary Resources Obligated		
New Obligations and Upward Adjustments (Total)	$ 2,220,613	$ 731,503
Less: Spending Authority from Offsetting Collections and Change in Receivables from Federal Sources	(1,279,038)	(2,249,175)
Net Obligations	941,575	(1,517,672)
Other Resources:		
Net Unrealized (Gain)/Loss	67,815	41,061
Total Resources Provided to Finance Activities	1,009,390	(1,476,611)
Resources Provided to Fund Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods and Services Not Yet Received	(24)	3,502
Costs Capitalized on the Balance Sheet	(225,323)	1,095,211
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	(612,560)	89,179
Total Resources Provided to Fund Items Not Part of the Net Cost of Operations	(837,907)	1,187,892
Resources Generated to Finance the Net Cost of Operations	171,483	(288,719)
Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Provision for Insurance Losses		
Reserve Expense (Reduction)	(13,967)	747,777
AME Receivable Bad Debt Expense (Reduction)	(99,859)	(21,482)
Increase in Exchange Revenue	-	-
Change in Accrued Leave	14	2
Depreciation Expense	526	630
Other Expenses	-	132
Total Components of Net Cost of Operations That Do Not Require or Generate Resources During the Reporting Period	(113,286)	727,059
Net Cost of Operations	$ 58,197	$ 438,340

Other Resources or Adjustments to Net Obligated Resources that do not affect Net Cost of Operations consists largely of unrealized losses on investments net of investment revenue and increases to the receivable from AME Allowance due to transfers, net of AME receivable bad debt expense.

16. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2019, which is the date the financial statements were available to be issued. Management determined that there were no significant items to be disclosed as of December 31, 2018.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Risk Assumed Information

Insurance and Guarantee Program Liabilities

Insured Credit Unions
As of December 31, 2018 and 2017, the aggregate outstanding insured shares of the insured credit unions were $1.1 trillion and $1.1 trillion, respectively. The NCUSIF insures member savings in federally insured credit unions, which account for about 98 percent of all credit unions in the United States. Deposits at all federal credit unions and the vast majority of state-chartered credit unions are covered by NCUSIF protection.

As discussed previously herein, the NCUA identifies credit unions at risk of failure through the supervisory and examination process, and estimates losses based upon economic trends and credit unions' financial condition and operations. The NCUA also evaluates overall economic trends and monitors potential credit union system-wide risk factors, such as increasing levels of consumer debt, bankruptcies, and delinquencies. The NCUA uses the CAMEL rating system to evaluate a credit union's financial condition and operations. The CAMEL rating system is a tool to measure risk and allocate resources for supervisory purposes. The aggregate amount of reserves recognized for credit union failures was $119.1 million and $925.5 million as of December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, the general reserves were $111.8 million and $106.9 million, respectively. At December 31, 2018 and 2017, the specific reserves were $7.3 million and $818.6 million, respectively.

The NCUSIF's contingent liability decreased by $806.4 million from 2017 to 2018, reflecting the overall risk of losses due to potential credit union failures for insured credit unions, and increased by $728.9 million from 2016 to 2017. Assets in CAMEL 3, 4 and 5 rated credit unions increased 2.1% to $66.9 billion at the end of 2018 versus $65.5 billion at the end of 2017. The aggregate net worth ratio increased during the year, ending at 11.3% versus 11.0% at December 31, 2017. The ratio has shown overall improvement since 2011.

NCUA Guaranteed Notes
As discussed previously herein, the purpose of the former TCCUSF was to accrue the losses of the Corporate Credit Union (CCU) system and recover such losses over time. After assuming the balances of the former TCCUSF in October 2017, the NCUSIF has estimated no insurance losses from the NGNs and has recognized no net contingent liability for expected losses from the failed CCUs pursuant to SFFAS No. 5 at December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, the NCUSIF had accrued for losses of the CCU system of approximately $2.6

billion and $2.7 billion, respectively, consisting of allowance for loss against receivables from the Corporate AMEs.

As of December 31, 2018 and 2017, the NCUSIF had gross receivables from the AMEs of $4.8 billion and $4.0 billion against which an allowance for losses of approximately $4.1 billion and $3.5 billion was established, for a net receivable from AMEs of $698.2 million and $495.0 million, respectively.

Fees and Premiums

Insured Credit Unions
During 2018 and 2017, the NCUA Board did not assess premiums to insured credit unions.

NCUA Guaranteed Notes
Under the NGN Program, the NCUSIF is entitled to guarantee fees on a monthly basis for providing associated guarantees as previously discussed in Notes 4 and 8. As of December 31, 2018 and 2017, the estimated value of NCUSIF guarantee fees for the remaining term of the NGNs, which will lessen the expected losses recognized by NCUSIF, was $24.2 million and $42.3 million, respectively.

Sensitivity, Risks and Uncertainties of the Assumptions

Insured Credit Unions
During 2013, the NCUA implemented the use of an econometric reserve model to improve the precision of the loss forecast. As discussed previously herein, the NCUA estimates the anticipated losses resulting from insured credit union failures by evaluating probable failures and using an internal econometric model that applies estimated probability of failure and loss rates that take into account the historical loss history, CAMEL ratings, credit union level financial ratios, and other economic measures. The effectiveness of the reserve methodology is evaluated by applying analytical techniques to review variances between projected losses and actual losses. Actual losses will largely depend on future economic and market conditions and could differ materially from the anticipated losses recorded by the NCUSIF as of December 31, 2018.

The inclusion of variables in the estimation model is a highly subjective process that involves significant judgment and will change over time. Future values are difficult to estimate, especially over longer timeframes. Key assumptions in the modeling include probability of failure and loss rates. The probability of failure is developed based on actual failures and historical migration trends in the CAMEL ratings, and incorporates macroeconomic data such as the consumer price index and geographic housing prices, as well as individual credit union factors such as delinquencies and charge-offs. Prior to 2017, the loss rate was based on historical loss experience from actual failures. In 2017, the NCUA changed the loss rate used in the estimation model from historical loss experience to using regression analysis to calculate a loss experience rate for each credit union. The variables included in the estimation model are periodically evaluated by the NCUA to determine the reasonableness of the model output.

The internal model provides a range of losses. Per current policy, the minimum in the range of losses is the 75 percent confidence level forecast and the upper bound is the 90 percent confidence level forecast. Additionally, management's judgment is used to select the best estimate within the range of projected losses to record probable contingent liabilities in compliance with SFFAS No. 5. When no estimate is better, the agency will use the low end of the range, in accordance with applicable accounting standards, which was $111.8 million in anticipated losses recognized on the NCUSIF's balance sheet at December 31, 2018. In selecting the best estimate within the range of the forecasts, management considers overall credit union economic trends and system-wide risk factors, such as increasing levels of consumer debt, bankruptcies and delinquencies.

NCUA Guaranteed Notes
As discussed in Note 8, the NCUA estimated the expected losses from the initiatives created to stabilize the CCU system using various methodologies, including internal and external models that incorporate the NCUA's expectations and assumptions about the anticipated recovery value, if any, of the Corporate AMEs' assets and the Legacy Assets collateralizing the NGNs.

The development of assumptions for key input variables of the estimation models and external valuations is a highly subjective process that involves significant judgment. Future values are difficult to estimate, especially over longer timeframes. Key assumptions in the modeling included borrower status, prepayments, default, loss severity, discount rates, forward interest rate curves, house price appreciation forecasts, legal and regulatory changes, property locations, and unemployment expectations. Assumptions also varied by asset type and vintage. The assumptions developed for the estimation models are regularly evaluated by the NCUA to determine the reasonableness of those assumptions over time.

Also discussed in Note 8, the NCUA's estimated guarantee payments, guarantor reimbursements, and the recovery values, if any, of the Corporate AMEs' economic residual interests in the NGN Trusts are derived using an external model that distributes estimated cash flows of the Legacy Asset transferred to the NGN Trusts in the priority of payments pursuant to the governing documents of each NGN Trust. The estimated cash flows incorporated the NCUA's assumptions about discount rates.

The estimated cash flows of the Legacy Assets transferred to the NGN Trusts were also derived from the external model that incorporates the NCUA's expectations and assumptions about the estimated cash flows from the collateral underlying the Legacy Assets and the priority of payments and estimated cash flows of the Legacy Assets pursuant to the governing documents for the respective Legacy Assets.

The external model produced estimated cash flows of collateral underlying the Legacy Assets by incorporating the NCUA's expectations and assumptions about prepayments, defaults and loss severity of the collateral consisting of residential and commercial mortgages and other assets. Assumptions about prepayments, defaults and loss severity were developed based on the characteristics and historical performance of the collateral, as well as assumptions about macroeconomic variables such as unemployment rate and housing prices, among other factors.

While certain parts of the credit market have seen improvements, the performance of asset- and mortgage-backed securities, such as the Legacy Assets, remains uncertain. The longer-term outlook for borrower and loan performance is uncertain. Uncertainty around housing prices, interest and unemployment rates, legal and regulatory actions, and the relationship of these factors to prepayment, loss severity, default and delinquency rates will likely change over time. Legacy Asset performance continues to be challenging to predict, and the external model used to derive the expected losses from the guarantee of the NGNs is sensitive to assumptions made about Legacy Asset performance. For example, changing the assumptions for reasonably possible variations in certain macroeconomic factors such as a decline in housing prices from its most recent peak in the external model would have resulted in no expected losses, net of estimated guarantor reimbursements and the economic residual interests in the NGN Trusts (but exclusive of the estimated guarantee fees for the remaining term of the NGNs) associated with the re-securitization transactions, under any scenario as of December 31, 2018. However, such changes in the assumptions would have resulted in an amount for the Receivables from the Corporate AMEs, Net that differed from the recognized amount on the NCUSIF's Balance Sheet as of December 31, 2018.

Consistent with accounting standards, the assumptions and method used to estimate the anticipated losses will require continued calibration and refinement as circumstances change.

National Credit Union Administration Operating Fund

Financial Statements as of and for the Years Ended December 31, 2018 and 2017, and Independent Auditors' Report

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General, National Credit Union Administration and
the National Credit Union Administration Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Administration Operating Fund (the Fund), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of revenues, expenses, and changes in fund balance, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Administration Operating Fund as of December 31, 2018 and 2017, and its revenues, expenses, changes in fund balance and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2018, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-01.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
February 14, 2019

NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

BALANCE SHEETS
As of December 31, 2018 and 2017
(Dollars in thousands)

	2018	2017
ASSETS		
Cash and cash equivalents (Note 3)	$ 92,122	$ 69,764
Due from National Credit Union Share Insurance Fund (Note 6)	4,023	5,153
Employee advances	343	11
Other accounts receivable, Net (Notes 6 and 9)	430	344
Prepaid expenses and other assets	2,678	2,386
Fixed assets - Net of accumulated depreciation of $38,530 and $37,845 as of December 31, 2018 and December 31, 2017, respectively (Note 4)	27,341	27,087
Intangible assets - Net of accumulated amortization of $17,569 and $18,653 as of December 31, 2018 and December 31, 2017, respectively (Note 5)	9,658	5,312
TOTAL ASSETS	$ 136,595	$ 110,057
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable and accrued other liabilities	$ 10,274	$ 7,511
Obligations under capital leases (Note 7)	1,713	211
Accrued wages and benefits	14,777	12,280
Accrued annual leave	18,779	18,392
Accrued employee travel	619	607
Note payable to National Credit Union Share Insurance Fund (Note 6)	6,369	7,710
TOTAL LIABILITIES	52,531	46,711
COMMITMENTS AND CONTINGENCIES (Notes 6, 7, 10, 11 & 12)		
FUND BALANCE	84,064	63,346
TOTAL LIABILITIES AND FUND BALANCE	$ 136,595	$ 110,057

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
For the years ended December 31, 2018 and 2017
(Dollars in thousands)

	2018	2017
REVENUES		
Operating fees	$ 130,163	$ 106,455
Interest	2,134	796
Other	1,227	1,118
Total Revenues	133,524	108,369
EXPENSES, NET (Notes 6 & 7)		
Employee wages and benefits	81,341	67,348
Travel	9,227	7,451
Rent, communications, and utilities	2,325	2,063
Contracted services	14,070	9,074
Depreciation and amortization	2,103	1,720
Administrative	3,740	2,621
Total Expenses, Net	112,806	90,277
EXCESS OF REVENUES OVER EXPENSES	20,718	18,092
FUND BALANCE—Beginning of year	63,346	45,254
FUND BALANCE—End of year	$ 84,064	$ 63,346

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

STATEMENTS OF CASH FLOWS
For the years ended December 31, 2018 and 2017
(Dollars in thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenues over expenses	$ 20,718	$ 18,092
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization (Note 4 and 5)	5,744	5,376
(Gain) loss on fixed asset retirements	176	24
(Increase) decrease in assets:		
Due from National Credit Union Share Insurance Fund	1,130	(1,094)
Employee advances	(332)	(6)
Other accounts receivable, net	(86)	93
Prepaid expenses and other assets	(292)	(542)
(Decrease) increase in liabilities:		
Accounts payable	2,763	1,902
Accrued wages and benefits	2,497	2,010
Accrued annual leave	387	223
Accrued employee travel	12	6
Net Cash Provided by Operating Activities	32,717	26,084
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed and intangible assets	(8,946)	(3,582)
Net Cash Used in Investing Activities	(8,946)	(3,582)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of note payable to National Credit Union Share Insurance Fund	(1,341)	(1,341)
Principal payments under capital lease obligations	(72)	(746)
Net Cash Used in Financing Activities	(1,413)	(2,087)
NET INCREASE IN CASH AND CASH EQUIVALENTS	22,358	20,415
CASH AND CASH EQUIVALENTS—Beginning of year	69,764	49,349
CASH AND CASH EQUIVALENTS—End of year	$ 92,122	$ 69,764
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Acquisition of equipment under capital lease	$ 1,574	$ -
CASH PAYMENTS FOR INTEREST	$ 123	$ 128

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND**

**NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017**

1. ORGANIZATION AND PURPOSE

The National Credit Union Administration Operating Fund (the "Fund") was created by the Federal Credit Union Act of 1934. The Fund was established as a revolving fund in the United States Treasury under the management of the National Credit Union Administration (NCUA) Board for the purpose of providing administration and service to the Federal credit union system.

A significant majority of the Fund's revenue is comprised of operating fees paid by Federal credit unions. Each Federal credit union is required to pay this fee based upon a fee schedule that is applied to its prior year-end assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The Fund prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), based on standards issued by the Financial Accounting Standards Board (FASB), the private sector standards setting body. The Federal Accounting Standards Advisory Board (FASAB) is the standards setting body for the establishment of GAAP with respect to the financial statements of Federal Government entities. FASAB has indicated that financial statements prepared based upon standards promulgated by FASB may also be regarded as in accordance with GAAP for Federal entities that have issued financial statements based upon FASB standards in the past.

Basis of Accounting – The Fund maintains its accounting records in accordance with the accrual basis of accounting. As such, the Fund recognizes income when earned and expenses when incurred. In addition, the Fund records investment transactions when they are executed and recognizes interest on investments when it is earned.

Related Parties – The Fund exists within the NCUA and is one of four funds managed by the NCUA Board during 2018 and 2017. The other funds managed by the Board, deemed related parties, are:

a) The National Credit Union Share Insurance Fund (NCUSIF),
b) The National Credit Union Administration Central Liquidity Facility (CLF), and
c) The National Credit Union Administration Community Development Revolving Loan Fund (CDRLF).

The Fund supports these related parties by providing office space, information technology services, and supplies as well as paying employee salaries and benefits. Certain types of support are reimbursed to the Fund by NCUSIF and CLF while support of the CDRLF is not reimbursed. Expenses included on the Statement of Revenues, Expenses, and Changes in Fund Balance are shown net of reimbursements from related parties.

Additional related parties are described in Note 6.

Cash Equivalents – Cash equivalents are highly liquid investments with original maturities of three months or less. The Federal Credit Union Act permits the Fund to invest in United States Government securities or securities with both principal and interest guaranteed by the United States Government. All investments in 2018 and 2017 were cash equivalents and are stated at cost, which approximates fair value.

Fixed and Intangible Assets – Buildings, furniture, equipment, computer software, and leasehold improvements are recorded at cost. Computer software includes the cost of labor incurred by both external and internal software developers and other personnel involved in the development of the software. Capital leases are recorded at the lower of the present value of the future minimum lease payments or the fair market value of the leased asset. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of buildings, furniture, equipment, and computer software, and the shorter of either the estimated useful life or lease term for leasehold improvements and capital leases. Estimated useful lives are 40 years for the buildings and two to ten years for the furniture, equipment, computer software, and leasehold improvements.

Long-lived Assets/Impairments – Fixed and intangible assets, subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying value of the long-lived asset or asset group is not recoverable, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third party independent appraisals, as considered necessary.

For impairments, the Fund's policy is to identify assets that are no longer in service, obsolete, or need to be written down, and perform an impairment analysis based on FASB Accounting Standards Codification (ASC) 360, *Property, Plant, and Equipment*, requirements. Subsequent adjustments to individual asset values are made to correspond with any identified changes in useful lives.

Assets Held for Sale – The Fund may hold certain real estate held for sale. Such held for sale assets are ready for immediate sale in their present condition. Real estate held for sale is recorded at the fair value less cost to sell. If an asset's fair value less cost to sell, based on a review of available financial information including but not limited to appraisals, markets analyses, etc., is less than its carrying amount, the carrying value of the asset is adjusted to its fair value less cost to sell.

Gains on disposition of real estate are recognized upon sale of the underlying asset. The Fund evaluates each real estate transaction to determine if it qualifies for gain recognition under the full accrual method. If the transaction does not meet the criteria for the full accrual method, the appropriate deferral method is used.

Accounts Receivable – Receivables include employee advances, amounts due from the NCUSIF, and other accounts receivable.

Accounts Payable and Accrued Other Liabilities – The Fund incurs administrative expenses and liabilities for programs pertaining to related parties that are controlled by the NCUA Board. Accruals are made as expenses are incurred. Accrued other liabilities include contingent liabilities, as described in Note 10.

Accrued Benefits – The Fund incurs expenses for retirement plans, employment taxes, workers compensation, transportation subsidies, and other benefits mandated by law. Corresponding liabilities recorded contain both short-term and long-term liabilities, including liabilities under the Federal Employees' Compensation Act (FECA). FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from the NCUA for these paid claims. The NCUA accrues a liability to recognize those payments and the NCUA subsequently reimburses DOL annually. The Fund records an estimate for the FECA actuarial liability using the DOL's FECA model. The model considers the average amount of benefit payments incurred by the agency for the past three fiscal years, multiplied by the medical and compensation liability to benefits paid ratio for the whole FECA program.

Operating Fees – Each Federal credit union is assessed an annual fee based on its assets as of the preceding 31st day of December. The fee is designed to cover the costs of providing administration and service to the Federal credit union system. The Fund recognizes this operating fee revenue ratably over the calendar year.

Revenue Recognition – Interest revenue and other revenue relating to Freedom of Information Act fees, sales of publications, parking income, and rental income is recognized when earned.

Income Taxes – The NCUA, as a government entity, is not subject to federal, state, or local income taxes and, accordingly, no provision for income taxes is recorded for the Fund.

Leases – Operating leases are entered into for the acquisition of office space and equipment as part of administering the NCUA's program. The cost of operating leases is recognized on the straight-line method over the life of the lease and includes, if applicable, any reductions resulting from incentives such as rent holidays. The same method is used to recognize income from operating leases. The Fund also has capital leases which are recorded at the lower of the present value of the future minimum lease payments or the fair market value of the leased asset.

Fair Value Measurements – The following method and assumption was used in estimating the fair value disclosures:

Cash and cash equivalents, due from NCUSIF, employee advances, other accounts receivable (net), obligations under capital leases, and notes payable to NCUSIF are recorded at book values, which approximate their respective estimated fair values.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses incurred during the reporting period. Significant estimates include the determination of the FECA liability, certain intangible asset values, and, if there is any determination of a long-lived asset impairment, the related measurement of the impairment charges.

Commitments and Contingencies – Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

3. CASH AND CASH EQUIVALENTS

The Fund's cash and cash equivalents as of December 31, 2018 and 2017 are as follows (in thousands):

	2018	2017
Deposits with U.S. Treasury	$ 12,270	$ 7,072
U.S. Treasury Overnight Investments	79,852	62,692
Total	$ 92,122	$ 69,764

The Operating Fund does not hold any cash or cash equivalents outside of the U.S. Department of the Treasury.

4. FIXED ASSETS

Fixed assets, including furniture and equipment, are comprised of the following as of December 31, 2018 and 2017 (in thousands):

	2018	2017
Office building and land	$ 52,736	$ 52,381
Furniture and equipment	9,781	9,288
Leasehold improvements	513	406
Equipment under capital leases	1,933	2,498
Total assets in-use	64,963	64,573
Less accumulated depreciation	(38,530)	(37,845)
Assets in-use, net	26,433	26,728
Construction in progress	1,076	359
Less impairment loss	(168)	-
Fixed assets, net	$ 27,341	$ 27,087

Depreciation expense for the years ended December 31, 2018 and 2017 totaled $3.2 million and $3.8 million, respectively, before allocation to the NCUSIF as described in Note 6.

Construction in progress includes costs associated with improvements for the NCUA headquarters that increase the future service potential of the capital asset (building) beyond the existing level of service. A net impairment loss of $168 thousand related to improvements for the NCUA headquarters was recognized for the year ended December 31, 2018. Management determined that a certain improvement to the NCUA headquarters building would not be completed and placed in service as previously planned because it did not increase the future service potential of the building. The construction in progress related to this project was fully impaired with a fair value of $0. The amount of the loss is reported in administrative expenses on the Statements of Revenues, Expenses, and Changes in Fund Balance.

5. INTANGIBLE ASSETS

Intangible assets are comprised of the following as of December 31, 2018 and 2017 (in thousands):

	2018	2017
Internal-use software	$ 23,539	$ 23,664
Less accumulated amortization	(17,569)	(18,653)
Total internal-use software, net	5,970	5,011
Internal-use software under development	3,688	301
Intangible assets, net	$ 9,658	$ 5,312

Internal-use software is computer software that is either acquired externally or developed internally. Amortization expense for the years ended December 31, 2018 and 2017 totaled $2.5 million and $1.5 million, respectively, before allocation to the NCUSIF as described in Note 6.

Internal-use software under development represents costs incurred from the customization of software purchased from external vendors for internal use as well as the cost of software that is developed in-house.

6. RELATED PARTY TRANSACTIONS

(a) Transactions with NCUSIF

Certain administrative services are provided by the Fund to NCUSIF. These services include paying personnel costs such as pay and benefits and other associated costs which include, but are not limited to, telecommunications, supplies, printing, and postage. The Fund charges NCUSIF for these services based upon an annual allocation factor derived from a study of actual usage. In 2018 and 2017, the allocation to NCUSIF was 61.5% and 67.7% of all expenses, respectively. The cost of the services allocated to NCUSIF, which totaled $180.2 million and $189.2 million for 2018 and 2017, respectively, is reflected as a reduction of the expenses shown in the accompanying financial statements. These transactions are settled monthly.

As of December 31, 2018 and 2017, amounts due from NCUSIF totaled $4.0 million and $5.2 million, respectively.

In 1992, the Fund entered into a commitment to borrow up to $42.0 million in a 30-year secured term note with NCUSIF. The monies were drawn as needed to fund the costs of constructing a building in 1993. Interest costs incurred were $123.1 thousand and $127.6 thousand for 2018 and 2017, respectively. The notes payable balances as of December 31, 2018 and 2017 were

$6.4 million and $7.7 million, respectively. The current portion of the long-term debt is $1.3 million as of December 31, 2018. The variable rate on the note is equal to NCUSIF's prior-month yield on investments. The average interest rates during 2018 and 2017 were 1.80% and 1.51%, respectively. The interest rates as of December 31, 2018 and 2017 were 2.01% and 1.59%, respectively.

The secured term note requires principal repayments as of December 31, 2018 as follows (in thousands):

Years ending December 31	Secured Term Note
2019	$ 1,341
2020	1,341
2021	1,341
2022	1,341
Thereafter	1,005
Total	$ 6,369

(b) Transactions with CLF

Certain administrative services are provided by the Fund to CLF. The Fund pays CLF employee salaries and related benefits as well as CLF's portion of building and operating costs. Reimbursements of these expenses are determined by applying a ratio of CLF full-time equivalent employees to the NCUA total employees with settlement and payment occurring quarterly. All other CLF reimbursement expenses are paid annually. The costs of the services provided to CLF were $544.8 thousand and $658.0 thousand for the years ending December 31, 2018 and 2017, respectively, and are reflected as a reduction of the expenses shown in the accompanying financial statements.

Other accounts receivable include $102.9 thousand and $175.6 thousand of amounts due from the CLF as of December 31, 2018 and 2017, respectively.

(c) Support of CDRLF

The Fund supports the administration of programs under CDRLF by paying related personnel costs such as pay and benefits and other associated costs which include, but are not limited to, telecommunications, supplies, printing, and postage.

For the years ending December 31, 2018 and 2017, unreimbursed administrative support to CDRLF is $559.6 thousand and $544.9 thousand, respectively.

(d) Federal Financial Institutions Examination Council (FFIEC)

The NCUA is one of the five Federal agencies that fund FFIEC operations. Under FFIEC's charter, the NCUA's Chairman is appointed as a Member. FFIEC was established on March 10, 1979, as a formal inter-agency body empowered to prescribe uniform principles, standards, and report forms for the Federal examination of financial institutions by the NCUA, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the

Office of the Comptroller of the Currency, the Consumer Financial Protection Bureau, and the State Liaison Committee. FFIEC was also established to make recommendations to promote uniformity in the supervision of financial institutions. Additionally, FFIEC provides training to staff employed by Member agencies; the Member agencies are charged for these trainings based on use. A portion of the NCUA's contributions to the FFIEC cover costs associated with cross-agency data collection applications, including applications related to the Home Mortgage Disclosure Act. For the years ended December 31, 2018 and 2017, FFIEC assessments totaled $2,014.6 thousand and $1,553.8 thousand, respectively. The NCUA's 2019 budgeted assessments from FFIEC total $1,520.8 thousand.

(e) Real Estate Available for Sale

The Fund may purchase homes from employees enrolled in the agency's home purchase program who are unable to sell their homes in a specified time period. It is the agency's intent to dispose of these properties as quickly as possible. Sales of homes are generally expected to occur within one year, pending market forces. Ongoing costs to maintain properties are expensed as incurred.

7. LEASE COMMITMENTS

Description of Leasing Agreements – The Fund has entered into lease agreements with vendors for the rental of office space and office equipment, which includes copiers, laptops, and mail equipment.

Operating Leases – The Fund leases a portion of the NCUA's office space under lease agreements that will continue through 2023. Office rental charges amounted to approximately $1.3 million and $1.2 million, of which approximately $778.1 thousand and $792.0 thousand were reimbursed by NCUSIF for 2018 and 2017, respectively.

Capital Leases – The Fund leases copiers, laptops, and mail equipment under lease agreements that run through 2021. Amounts presented in the table below include $77.2 thousand of imputed interest.

The future minimum lease payments to be paid over the next four years as of December 31, 2018, before reimbursements, are as follows (in thousands):

Years ending December 31	Operating Leases	Capital Leases
2019	$ 1,387	$ 613
2020	1,264	610
2021	415	567
2022	427	-
Thereafter	326	-
Total	$ 3,819	$ 1,790

Based on the NCUA Board-approved allocation methodology, NCUSIF is expected to reimburse the Fund for approximately 60.5% of the 2019 operating lease payments.

8. RETIREMENT PLANS

Eligible employees of the Fund are covered by Federal Government retirement plans—either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Both plans include components that are defined benefit plans. FERS is comprised of a Social Security Benefits Plan, a Basic Benefits Plan, and the Thrift Savings Plan. Contributions to the plans are based on a percentage of an employee's gross pay. Under the Thrift Savings Plan, employees may also elect additional contributions, the total of which were not to exceed $18,500 ($24,500 for age 50 and above) in 2018, an increase of $500 from 2017. In addition, the Fund matches up to 5% of the employee's gross pay.

In 2018 and 2017, the Fund's contributions to the plans were approximately $26.5 million and $26.0 million, respectively, of which approximately $16.3 million and $17.6 million, respectively, was allocated to NCUSIF.

These defined benefit plans are administered by the U.S. Office of Personnel Management (OPM), which determines the required employer contribution level. The Fund does not account for the assets pertaining to the above plans and does not have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported by OPM and are not allocated to individual employers.

The Fund established a voluntary defined contribution 401(k) Plan (NCUA Savings Plan), effective January 1, 2012. The NCUA Collective Bargaining Agreement (CBA) sets the rates of contribution required by the Fund. The current agreement that became effective on July 7, 2015 is in effect for five years from its effective date and shall renew automatically for additional one year terms unless otherwise renegotiated by the parties. The Fund will maintain a voluntary 401(k) plan and will contribute, with no employee matching contribution, 3% of the employee's compensation as defined in *Article 9 Compensation and Benefits* of the CBA. The Fund matched an employee's voluntary contribution up to a maximum of 2.0% of the employee's total pay for 2018 and 2017. The Fund's match of 2.0% remains in effect for the duration of the CBA. The NCUA's contributions for 2018 and 2017 were $6.8 million and $6.7 million, respectively. The gross operating expenses associated with the NCUA Savings Plan in 2018 and 2017 were $96.2 thousand and $94.0 thousand, respectively. Costs of the NCUA Savings Plan were allocated at 61.5% and 67.7% to the NCUSIF in 2018 and 2017, respectively. Matching, vesting, and additional information is published and made available in a Summary Plan Description.

9. FAIR VALUE MEASUREMENTS

The following disclosures of the estimated fair values are made in accordance with the requirements of FASB ASC 820, *Fair Value Measurement.* Fair value is the amount that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

The Fund has no financial instruments that are subject to fair value measurement on a recurring basis.

Summary Financial Instrument Fair Values

The carrying values approximate the fair values of certain financial instruments as of December 31, 2018 and 2017, were as follows (in thousands):

	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 92,122	$ 92,122	$ 69,764	$ 69,764
Due from NCUSIF	4,023	4,023	5,153	5,153
Employee advances	343	343	11	11
Other accounts receivable	430	430	344	344
Obligations under capital lease	1,713	1,713	211	211
Notes payable to NCUSIF	6,369	6,369	7,710	7,710

Cash and cash equivalents – The carrying amounts for cash and cash equivalents financial instruments approximate fair value as the short-term nature of these instruments does not lead to significant fluctuations in value. Cash equivalents are U.S. Treasury overnight investments.

Due from NCUSIF – The carrying amounts for the due from NCUSIF financial instruments approximate fair value as the amount is scheduled to be paid within the first quarter of fiscal year 2019.

Employee advances – The carrying amounts for receivables from employees' financial instruments approximate fair value as the amount is scheduled to be paid in fiscal year 2019.

Other accounts receivable, net – The carrying amounts for other accounts receivable approximate fair value as the original gross amounts together with a valuation allowance reflect the net amount that is deemed collectible. As of December 31, 2018 and 2017, the Fund's other accounts receivable includes an allowance in the amount of $6.7 thousand and $9.2 thousand, respectively.

Obligation under capital lease – The carrying amounts for the remaining obligations owed on capital leases financial instruments approximate fair value because the underlying interest rates approximate rates currently available to the Fund.

Note payable to NCUSIF – The carrying amounts for note payable to NCUSIF financial instruments approximate fair value due to its variable rate nature.

10. CONTINGENCIES

The NCUA recognizes contingent liabilities when a past event or transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is estimable. The NCUA is party to various routine administrative proceedings, legal actions, and claims brought against it, which have or may ultimately result in settlements or decisions against the agency. For those matters where an estimate is possible and the loss is probable, such amount has been accrued in other liabilities.

11. COLLECTIVE BARGAINING AGREEMENT

The NCUA has a CBA with the National Treasury Employees Union (NTEU) that became effective on July 7, 2015. NTEU is the exclusive representative of approximately 75% of the NCUA employees. This agreement will remain in effect for a period of five years from its effective date and shall renew automatically for additional one year terms unless otherwise renegotiated by the parties.

12. RESTRUCTURING PLAN

In 2017, the NCUA Board approved a restructuring plan with the goals of greater efficiency, responsiveness, and cost-effectiveness. The plan eliminated agency offices with overlapping functions and improved functions such as examination reporting, records management and procurement. The agency completed the headquarters reorganization in 2018, while the consolidation from five to three regional offices is effective January 7, 2019. The NCUA plans for the facilities improvements associated with the restructuring plan to be complete by 2020.

In accordance with FASB ASC 420, *Exit or Disposal Cost Obligations*, the NCUA estimates total restructuring costs to be $13.0 million. This estimate includes employee termination benefits of $950.0 thousand, relocation costs of $2.4 million, and other administrative costs of $9.7 million. To date, $4.2 million in costs have been incurred for this plan including approximately $3.1 million and $1.1 million in 2018 and 2017, respectively.

In 2017, the NCUA incurred $185.5 thousand for relocation expenses, of which $178.9 thousand was a liability. In 2018, the NCUA incurred an additional $1.5 million in relocation expenses and paid $864.8 thousand of the liability. As of December 31, 2018, the NCUA has a $797.5 thousand liability associated with relocation.

In 2017, the NCUA incurred $762.5 thousand in employee termination benefits, of which $732.5 thousand was a liability. In 2018, the NCUA incurred an additional $120.0 thousand in costs associated with employee termination benefits and paid $612.4 thousand of the liability. As of December 31, 2018, the NCUA has a $240.0 thousand liability associated with employee termination benefits.

In 2018, the NCUA incurred $1.5 million in other administrative costs, of which $657.8 thousand was a liability as of December 31, 2018.

Based on the overhead transfer rate allocation, the total allocation to the Fund and NCUSIF in 2018 was approximately $1.2 million and $1.9 million, respectively. In 2017, the total allocation to the Fund and NCUSIF was approximately $345.7 thousand and $724.5 thousand, respectively. Incurred costs are included in the Statement of Revenues, Expenses, and Changes in Fund Balance on the following line items: Employee wages and benefits; Contracted services; and Administrative. Incurred costs associated with facilities improvements are included in the Balance Sheet as a part of Fixed assets.

13. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2019, which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.

National Credit Union Administration Central Liquidity Facility

Financial Statements as of and for the Years Ended December 31, 2018 and 2017, and Independent Auditors' Report

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General, National Credit Union Administration and
the National Credit Union Administration Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Administration Central Liquidity Facility (CLF) which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Administration Central Liquidity Facility as of December 31, 2018 and 2017, and its operations, members' equity, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2018, we considered the CLF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CLF's internal control. Accordingly, we do not express an opinion on the effectiveness of the CLF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CLF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-01.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the CLF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
February 14, 2019

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

BALANCE SHEETS
As of December 31, 2018 and 2017
(Dollars in thousands, except share data)

	2018		2017	
ASSETS				
Cash and Cash Equivalents (Notes 3 and 5)	$	9,662	$	5,573
Investments Held to Maturity (Net of $844 and $1,372 unamortized discount and unamortized premium as of 2018 and 2017, respectively, fair value of $300,543 and $284,042 as of 2018 and 2017, respectively) (Notes 4 and 5)		303,321		286,637
Accrued Interest Receivable (Note 5)		1,281		1,370
TOTAL ASSETS	$	314,264	$	293,580
LIABILITIES AND MEMBERS' EQUITY				
LIABILITIES				
Accounts Payable (Notes 5 and 9)	$	129	$	226
Dividends and Interest Payable (Note 5)		1,052		655
Stock Redemption Payable (Note 5)		767		-
Member Deposits (Notes 5 and 7)		3,799		2,446
Total Liabilities	$	5,747	$	3,327
MEMBERS' EQUITY				
Capital Stock – Required ($50 per share par value authorized: 10,983,384 and 10,304,634 shares; issued and outstanding: 5,491,692 and 5,152,317 shares as of 2018 and 2017, respectively) (Note 6)	$	274,584	$	257,616
Retained Earnings		33,933		32,637
Total Members' Equity	$	308,517	$	290,253
TOTAL LIABILITIES AND MEMBERS' EQUITY	$	314,264	$	293,580

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2018 and 2017
(Dollars in thousands)

	2018	2017
REVENUE		
Investment Income	$ 5,230	$ 3,970
Total Revenue	5,230	3,970
EXPENSES (Note 9)		
Personnel Services	320	415
Personnel Benefits	90	155
Other General and Administrative Expenses	110	96
Total Operating Expenses	520	666
Interest – Member Deposits (Note 7)	38	17
Total Expenses	558	683
NET INCOME	$ 4,672	$ 3,287

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF MEMBERS' EQUITY
For the Years Ended December 31, 2018 and 2017
(Dollars in thousands, except share data)

	Capital Stock			
	Shares	**Amount**	**Retained Earnings**	**Total**
BALANCE – December 31, 2016	4,798,149	$ 239,907	$ 31,560	$ 271,467
Issuance of Required Capital Stock	391,433	19,572		19,572
Redemption of Required Capital Stock	(37,265)	(1,863)		(1,863)
Dividends Declared (Notes 6 and 7)			(2,210)	(2,210)
Net Income			3,287	3,287
BALANCE – December 31, 2017	5,152,317	$ 257,616	$ 32,637	$ 290,253
Issuance of Required Capital Stock	380,665	19,033		19,033
Redemption of Required Capital Stock	(41,290)	(2,065)		(2,065)
Dividends Declared (Notes 6 and 7)			(3,376)	(3,376)
Net Income			4,672	4,672
BALANCE – December 31, 2018	5,491,692	$ 274,584	$ 33,933	$ 308,517

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION CENTRAL LIQUIDITY FACILITY

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017
(Dollars in thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 4,672	$ 3,287
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Amortization of Investments	274	358
Interest - Member Deposits	38	17
Changes in Assets and Liabilities:		
(Increase)/Decrease in Accrued Interest Receivable	89	(286)
Increase/(Decrease) in Accounts Payable	(97)	38
Net Cash Provided by Operating Activities	4,976	3,414
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investments	(90,258)	(65,613)
Proceeds from Maturing Investments	73,300	44,300
Net Cash Used in Investing Activities	(16,958)	(21,313)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of Required Capital Stock	16,989	18,423
Redemption of Capital Stock	(825)	(1,840)
Withdrawal of Member Deposits	(93)	(159)
Net Cash Provided by Financing Activities	16,071	16,424
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	4,089	(1,475)
CASH AND CASH EQUIVALENTS–Beginning of Year	5,573	7,048
CASH AND CASH EQUIVALENTS–End of Year	$ 9,662	$ 5,573

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

1. ORGANIZATION AND PURPOSE

The National Credit Union Administration (NCUA) Central Liquidity Facility (CLF) was created by the National Credit Union Central Liquidity Facility Act (Act). The CLF is designated as a mixedownership Government corporation under the Government Corporation Control Act. The CLF exists within the NCUA and is managed by the NCUA Board. The CLF became operational on October 1, 1979.

The CLF was created to improve the general financial stability of credit unions by serving as a liquidity lender to credit unions experiencing unusual or unexpected liquidity shortfalls. The CLF accomplishes its purpose by lending funds, subject to certain statutory limitations, when a liquidity need arises.

The CLF is subject to various Federal laws and regulations. The CLF may not make loans to members for the purpose of expanding credit union loan portfolios. The CLF's investments are restricted to obligations of the U.S. Government and its agencies, deposits in federally insured financial institutions, and shares and deposits in credit unions. Borrowing is limited by statute to 12 times the subscribed capital stock and surplus. See Notes 6 and 8 for further information about the capital stock and the CLF's borrowing authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The CLF has historically prepared its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), based on standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards-setting body. The Federal Accounting Standards Advisory Board (FASAB) is the standards-setting body for the establishment of GAAP with respect to the financial statements of Federal Government entities. FASAB has indicated that financial statements prepared based upon standards promulgated by FASB may also be regarded as in accordance with GAAP for those Federal entities, such as the CLF, that have issued financial statements based upon FASB standards in the past.

Basis of Accounting – The CLF maintains its accounting records in accordance with the accrual basis of accounting. As such, the CLF recognizes interest income on loans and investments when earned, and recognizes interest expense on borrowings when incurred. The CLF recognizes expenses when incurred. In addition, the CLF accrues and records dividends on capital stock monthly and pays dividends quarterly.

Cash Equivalents – Cash equivalents are highly liquid investments with original maturities of three months or less.

Investments – By statute, the CLF investments are restricted to obligations of the U.S. Government and its agencies, deposits in federally insured financial institutions, and shares and deposits in credit unions. All investments are classified as held-to-maturity under FASB Accounting Standards Codification (ASC) topic 320-10-25-1, *Classification of Investment Securities,* as the CLF has the intent and ability to hold these investments until maturity. Accordingly, the CLF reports investments at amortized cost. Amortized cost is the face value of the securities plus the unamortized premium or less the unamortized discount.

The CLF evaluates investment securities that are in an unrealized loss position for other-than-temporary impairment (OTTI). An investment security is deemed impaired if the fair value of the investment is less than its amortized cost. Amortized cost includes adjustments (if any) made to the cost basis of an investment for accretion, amortization, and previous OTTI. To determine whether impairment is other-than-temporary, the CLF takes into consideration whether it has the intent to sell the security.

Premiums and discounts are amortized or accreted over the life of the related held-to-maturity investment as an adjustment to yield using the effective interest method. Such amortization and accretion is included in the "investment income" line item in the Statements of Operations.

The CLF records investment transactions when they are made.

Loans and Allowance for Loan Losses – Loans, when made to members, are on a short-term or long-term basis. Loans are recorded at the amount disbursed and bear interest at the higher of the Federal Financing Bank Advance Rate or the Federal Reserve Bank Discount Window Primary Credit Rate. By regulation, Member *Liquidity Needs* Loans are made on a fully secured basis. The CLF obtains a security interest in the assets of the member equal to at least 110% of all amounts due. The CLF does not currently charge additional fees for its lending activities. There was no lending activity during 2018 and 2017.

Borrowings – The CLF's borrowings are recorded when they are received, do not hold premiums or discounts, and are carried at cost. Repayments are recorded when they are made.

Income Taxes – The NCUA, as a government entity, is not subject to federal, state, or local income taxes and, accordingly, no provision for income taxes is recorded for the CLF.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

Commitments and Contingencies – Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Related Parties – The CLF exists within the NCUA and is managed by the NCUA Board. The NCUA Operating Fund (OF) provides the CLF with information technology, support services, and supplies; in addition, the NCUA OF pays the CLF's employees' salaries and benefits, as well as the CLF's portion of monthly building operating costs. The allocation formula to calculate these expenses is based on the number of full-time employees of the respective entities and the estimated amount of time the CLF employees spend performing the CLF functions.

3. CASH AND CASH EQUIVALENTS

The CLF's cash and cash equivalents as of December 31, 2018 and 2017 are as follows (in thousands):

	2018	2017
U.S. Treasury Overnight Investments	$ 8,662	$ 4,573
Deposits with U.S. Treasury	1,000	1,000
Total	$ 9,662	$ 5,573

U.S. Treasury securities had an initial term of less than three months when purchased.

4. INVESTMENTS

The carrying amount, gross unrealized holding gains, gross unrealized losses, and the fair value of held-to-maturity debt securities as of December 31, 2018 and 2017 were as follows (in thousands):

	2018	2017
Carrying Amount, December 31,	$ 303,321	$ 286,637
Gross Unrealized Holding Gains	714	269
Gross Unrealized Holding Losses	(3,492)	(2,864)
Fair Value	$ 300,543	$ 284,042

Maturities of debt securities classified as held-to-maturity were as follows:

	2018		2017	
(Dollars in thousands)	Net Carrying Amount	Fair Value	Net Carrying Amount	Fair Value
Due in one year or less	$ 66,026	$ 65,626	$ 73,313	$ 73,202
Due after one year through five years	203,450	201,769	179,391	177,415
Due after five years through ten years	33,845	33,148	33,933	33,425
Total	$ 303,321	$ 300,543	$ 286,637	$ 284,042

The following table includes gross unrealized losses on investment securities, for which OTTI has not been recognized, in addition to the fair values of those securities, aggregated by investment classification and length of time the investments have been in a loss position, at December 31, 2018 and 2017.

(Dollars in thousands)	Losses Less than 12 Months		Losses More than 12 Months		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
As of December 31, 2018						
U.S. Treasury Securities	$ (84)	$ 35,676	$ (3,408)	$ 187,603	$ (3,492)	$ 223,279
As of December 31, 2017						
U.S. Treasury Securities	$ (836)	$ 135,693	$ (2,028)	$ 106,297	$ (2,864)	$ 241,990

5. FAIR VALUE MEASUREMENTS

The fair value of an instrument is the amount that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants by the measurement date. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents – The carrying amounts for cash and cash equivalents approximate fair value.

Investments held-to-maturity – The CLF's investments held-to-maturity are all comprised of U.S. Treasury Securities, for which market prices can be readily obtained. The related fair value is determined using the quoted market prices at the reporting date.

Member Deposits – Funds maintained with the CLF in excess of required capital amounts are recorded as member deposits. These deposits are due upon demand; therefore, carrying amounts approximate the fair value.

Other – Accrued interest receivable, accounts payable, stock redemption payable, and dividends payable are recorded at book values, which approximate the respective fair values because of the short maturity of these instruments.

The following table presents the carrying amounts and established fair values of the CLF's financial instruments as of December 31, 2018 and 2017. The carrying values and approximate fair values of financial instruments are as follows:

(Dollars in thousands)	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$ 9,662	$ 9,662	$ 5,573	$ 5,573
Investments held-to-maturity	303,321	300,543	286,637	284,042
Accrued interest receivable	1,281	1,281	1,370	1,370
Accounts payable	129	129	226	226
Dividends and Interest payable	1,052	1,052	655	655
Stock redemption payable	767	767	-	-
Member deposits	3,799	3,799	2,446	2,446

6. CAPITAL STOCK

Membership in the CLF is open to all credit unions that purchase a prescribed amount of capital stock. The CLF capital stock is non-voting and shares have a par value of $50. Currently, there is one subscribed form of membership—regular members which are natural person credit unions. Natural person credit unions may borrow from the CLF directly as a regular member.

In October 2013, the NCUA Board issued a final rule 12 CFR Part 741, § 741.12 "Liquidity and Contingency Funding Plans," which requires federally insured credit unions with assets of $250 million or more to have access to a backup federal liquidity source for emergency situations. A credit union subject to this requirement may demonstrate access to a contingent federal liquidity source by maintaining membership in the CLF, or establishing borrowing access at the Federal Reserve Discount Window.

The capital stock account represents subscriptions remitted to the CLF by member credit unions. Regular members' required subscription amounts equal one-half of one percent of their paid-in and unimpaired capital and surplus, one-half of which is required to be remitted to the CLF. Member credit unions are required to hold the remaining one-half in assets subject to call by the NCUA Board. These unremitted subscriptions are not reflected in the CLF's financial statements. Subscriptions are adjusted annually to reflect changes in the member credit unions' paid-in and unimpaired capital and surplus. Dividends are non-cumulative, and are declared and paid on required capital stock.

A member of the CLF whose capital stock account constitutes less than 5% of the total capital stock outstanding may withdraw from membership in the CLF six months after notifying the NCUA Board of its intention. A member whose capital stock account constitutes 5% or more of the total capital stock outstanding may withdraw from membership in the CLF two years after notifying the NCUA Board of its intention. As of December 31, 2018, the CLF had one member withdrawal requests pending. As of December 31, 2017, the CLF had no member withdrawal request pending.

The required capital stock is redeemable upon demand by the members, subject to certain conditions as set out in the Act and NCUA regulations; however, the stock is not deemed "mandatorily redeemable" as defined in FASB ASC 480-10-25-7, *Mandatorily Redeemable Financial Instruments*; therefore capital stock is classified in permanent equity.

The CLF's capital stock accounts were composed of the following as of December 31, 2018 and 2017 (in thousands, except share data):

	2018		2017	
	Shares	**Amounts**	**Shares**	**Amounts**
Regular members	5,491,692	$ 274,584	5,152,317	$ 257,616

Dividends on capital stock are declared based on available earnings and the dividend policy set by the NCUA Board. Dividends are accrued monthly based on prior quarter-end balances and paid on the first business day after the quarter-end. The dividend rates paid on capital stock for regular members change quarterly. For 2018, the dividend rates were $0.50 per share for the first quarter, $0.625 per share for the second and third quarters and $0.75 for the fourth quarter. For 2017, the dividend rates were $0.375 per share for the first and second quarters and $0.50 per share for the third and fourth quarters.

7. MEMBER DEPOSITS

Member deposits represent amounts remitted by members over and above the amount required for membership. Interest is paid on member deposits at a rate equivalent to the dividend rate paid on required capital stock.

8. BORROWING AUTHORITY

The CLF is authorized by statute to borrow, from any source, an amount not to exceed 12 times its subscribed capital stock and surplus. As of December 31, 2018 and 2017, the CLF's statutory borrowing authority was $7.0 billion and $6.6 billion, respectively.

As described above, the borrowing authority amounts are referenced to subscribed capital stock and surplus of the CLF. The CLF borrowing arrangement is exclusively with the Federal Financing Bank (FFB). The NCUA maintains a note purchase agreement with FFB on behalf of the CLF with a current maximum principal amount of $2.0 billion. Under the terms of its agreement, the CLF borrows from FFB as needed. Under terms prescribed by the note purchase agreement, the CLF executes promissory notes in amounts as necessary, the aggregate amount of which may not exceed its statutory borrowing authority, and renews them annually. Advances made under the current promissory notes can be made no later than March 31, 2019.

9. RELATED PARTY TRANSACTIONS

The NCUA OF pays the salaries and related benefits of the CLF's employees, as well as the CLF's portion of building and operating costs. Reimbursements of these expenses are determined by applying a ratio of the CLF full-time equivalent employees to the NCUA total, with settlement and payment occurring quarterly. All other CLF reimbursement expenses are paid annually. The total amount charged by the NCUA was approximately $544.8 and $658.2 thousand, respectively, for December 31, 2018 and 2017. Accounts payable includes approximately $102.9 and $175.6 thousand, respectively, for December 31, 2018 and 2017, due to the NCUA OF for services provided.

10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2019, which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.

National Credit Union Administration Community Development Revolving Loan Fund

Financial Statements as of and for the Years Ended December 31, 2018 and 2017, and Independent Auditors' Report

KPMG

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General, National Credit Union Administration
and the National Credit Union Administration Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Administration Community Development Revolving Loan Fund (the CDRLF) which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of operations, changes in fund balance, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Administration Community Development Revolving Loan Fund as of December 31, 2018 and 2017, and its operations, changes in fund balance, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2018, we considered the CDRLF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CDRLF's internal control. Accordingly, we do not express an opinion on the effectiveness of the CDRLF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CDRLF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-01.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the CDRLF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
February 14, 2019

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

BALANCE SHEETS
As of December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and Cash Equivalents (Notes 3 and 8)	$ 8,844,416	$ 9,680,592
Loans Receivable (Notes 5, 7, and 8)	9,705,000	8,114,999
Interest Receivable (Note 8)	13,523	10,995
TOTAL ASSETS	$ 18,562,939	$ 17,806,586
LIABILITIES AND FUND BALANCE		
Liabilities - Accrued Technical Assistance Grants (Note 8)	$ 3,030,217	$ 2,461,556
Fund Balance		
Fund Capital (Note 4)	13,674,545	13,572,440
Accumulated Earnings	1,858,177	1,772,590
Total Fund Balance	15,532,722	15,345,030
TOTAL LIABILITIES AND FUND BALANCE	$ 18,562,939	$ 17,806,586

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2018 and 2017

	2018	2017
SUPPORT AND REVENUES		
Interest on Cash Equivalents	$ 104,345	$ 34,865
Interest on Loans	45,359	47,152
Total Interest Income	149,704	82,017
Appropriation Revenue		
Appropriations Expended (Note 4)	2,000,000	2,389,085
Cancelled Technical Assistance Grants (Note 6)	(103,355)	(362,020)
Total Appropriation Revenue	1,896,645	2,027,065
Total Support and Revenues	2,046,349	2,109,082
EXPENSES		
Technical Assistance Grants	2,074,407	2,434,085
Cancelled Technical Assistance Grants (Note 6)	(113,645)	(362,020)
Total Expenses	1,960,762	2,072,065
NET INCOME/(LOSS)	$ 85,587	$ 37,017

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF CHANGES IN FUND BALANCE
For the Years Ended December 31, 2018 and 2017

	Fund Capital				
	For Loans	For Technical Assistance	Total Fund Capital	Accumulated Earnings	Total Fund Balance
December 31, 2016	$ 13,387,777	$ 238,043	$ 13,625,820	$ 1,735,573	$ 15,361,393
Appropriations Received (Note 4)	-	2,000,000	2,000,000	-	2,000,000
Appropriations Expended	-	(2,389,085)	(2,389,085)	-	(2,389,085)
Cancelled Appropriations - Remitted to Treasury (Note 4)	-	(26,315)	(26,315)	-	(26,315)
Cancelled Technical Assistance Grants (Note 6)	-	362,020	362,020	-	362,020
Net Income/(Loss)	-	-	-	37,017	37,017
December 31, 2017	$ 13,387,777	$ 184,663	$ 13,572,440	$ 1,772,590	$ 15,345,030
Appropriations Received (Note 4)	-	2,000,000	2,000,000	-	2,000,000
Appropriations Expended	-	(2,000,000)	(2,000,000)	-	(2,000,000)
Cancelled Appropriations - Remitted to Treasury (Note 4)	-	(1,250)	(1,250)	-	(1,250)
Cancelled Technical Assistance Grants (Note 6)	-	103,355	103,355	-	103,355
Net Income/(Loss)	-	-	-	85,587	85,587
December 31, 2018	$ 13,387,777	$ 286,768	$ 13,674,545	$ 1,858,177	$ 15,532,722

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income/(Loss)	$ 85,587	$ 37,017
Adjustments to Reconcile Net Income to Net Cash Used in Operating Activities		
Appropriations Expended	(2,000,000)	(2,389,085)
Cancelled Technical Assistance	103,355	362,020
Changes in Assets and Liabilities		
Increase in Interest Receivable	(2,528)	(783)
Increase in Accrued Technical Assistance	568,661	173,485
Net Cash Used in Operating Activities	(1,244,925)	(1,817,346)
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan Principal Repayments	409,999	2,599,723
Loan Disbursements	(2,000,000)	(500,000)
Net Cash Used In Investing Activities	(1,590,001)	2,099,723
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations Received 2018/2019	2,000,000	-
Appropriations Received 2017/2018	-	2,000,000
Cancelled Appropriations Remitted to Treasury 2012/2013	(1,250)	-
Cancelled Appropriations Remitted to Treasury 2011/2012	-	(26,315)
Net Cash Provided by Financing Activities	1,998,750	1,973,685
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(836,176)	2,256,062
CASH AND CASH EQUIVALENTS — Beginning of Year	9,680,592	7,424,530
CASH AND CASH EQUIVALENTS — End of Year	$ 8,844,416	$ 9,680,592

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

1. ORGANIZATION AND PURPOSE

The Community Development Revolving Loan Fund (the CDRLF) for credit unions was established by an act of Congress (Public Law 96-123, November 20, 1979) to stimulate economic development in lowincome communities. The National Credit Union Administration (the NCUA) and the Community Services Administration (CSA) jointly adopted Part 705 of the NCUA Rules and Regulations, governing administration of the CDRLF, on February 28, 1980.

Upon the dissolution of CSA in 1983, administration of the CDRLF was transferred to the Department of Health and Human Services (HHS). From 1983 through 1990, the CDRLF was dormant.

The Community Development Credit Union Transfer Act (Public Law 99-609, November 6, 1986) transferred the CDRLF administration back to the NCUA. The NCUA Board adopted amendments to Part 705 of the NCUA Rules and Regulations on September 16, 1987, and began making loans/deposits to participating credit unions in 1990.

The purpose of the CDRLF is to stimulate economic activities in the communities served by lowincome credit unions, which is expected to result in increased income, ownership, and employment opportunities for lowincome residents, and other economic growth. The policy of the NCUA is to revolve the loans to qualifying credit unions as often as practical in order to gain maximum impact on as many participating credit unions as possible.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The CDRLF has historically prepared its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), based on standards issued by the Financial Accounting Standards Board (FASB), the private sector standards setting body. The Federal Accounting Standards Advisory Board (FASAB) is the standards setting body for the establishment of GAAP with respect to the financial statements of Federal Government entities. FASAB has indicated that financial statements prepared based upon standards promulgated by FASB may also be regarded as in accordance with GAAP for Federal entities that have issued financial statements based upon FASB standards in the past.

Basis of Accounting – The CDRLF maintains its accounting records in accordance with the accrual basis of accounting. As such, the CDRLF recognizes income when earned and expenses when incurred. In addition, the CDRLF records investment transactions when they are executed and recognizes interest on investments when it is earned.

Cash Equivalents – Cash equivalents are highly liquid investments with original maturities of three months or less. The Federal Credit Union Act permits the CDRLF to make investments in United States Government Treasury securities. All investments in 2018 and 2017 were cash equivalents and were stated at cost, which approximates fair value.

Loans Receivable and Allowance for Loan Losses – NCUA Rules and Regulations do not provide a maximum limit on loan applications. Loan amounts of up to $500,000 are approved based on the financial condition of the credit union. The maximum loan term is five (5) years. For loans issued on or after May 22, 2012, interest is to be paid on a semi-annual basis beginning six months after the initial distribution of the loan and every six months thereafter until maturity. Principal is to be repaid on the maturity date of the loan. The rate of interest on loans is governed by the CDRLF Loan Interest Rate Policy. The CDRLF reviews the interest rate on an annual basis. Effective May 1, 2014, the interest rate was set to 0.60%. In 2018 and 2017, the CDRLF maintained the interest rate at 0.60%.

Loans are initially recognized at their disbursed amount, and subsequently at amortized cost, net of the allowance for loan losses, if any.

A provision for loans considered to be uncollectible is charged to the income statement when such losses are probable and reasonably estimable. Provisions for significant uncollectible amounts are credited to an allowance for loan losses, while de minimis amounts are directly charged-off. Management continually evaluates the adequacy of the allowance for loan losses based upon prevailing circumstances and an assessment of collectability risk of the total loan portfolio as well as historical loss experience. On the basis of this analysis, no allowance for loan losses was necessary as of December 31, 2018 and 2017. Accrual of interest is discontinued on nonperforming loans when management believes collectability is doubtful.

Accrued Technical Assistance Grants – The CDRLF issues technical assistance grants to low-income designated credit unions. The CDRLF utilizes multiyear appropriated funds and income generated from the revolving fund to issue technical assistance grants. Grant income and expense is recognized when the CDRLF makes a formal commitment to the recipient credit union for technical assistance grants. The CDRLF performs a review of long term unspent technical assistance grant awards (e.g. outstanding awards past the period of eligibility) and then formal steps are taken to cancel identified technical assistance grants. The cancelled technical assistance grant funds are credited back to the original appropriated fund from which they are awarded.

Related Party Transactions – The NCUA, through the Operating Fund (OF), provides certain general and administrative support to the CDRLF, including personnel costs such as pay and benefits as well as other costs which include but are not limited to telecommunications, supplies, printing, and postage. The value of these contributed services is not charged to the CDRLF.

Revenue Recognition – Appropriation revenue is recognized as the related technical assistance grant expense is recognized. Total appropriation revenues will differ from total technical assistance grant expenses because technical assistance grants are funded by appropriations and income generated from the revolving fund. Interest income on cash and cash equivalents and on loans is recognized when earned.

Use of Estimates – The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

Income Taxes – The NCUA, as a government entity, is not subject to federal, state, or local income taxes and, accordingly, no provision for income taxes is recorded for the CDRLF.

Commitments and Contingencies – Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

3. CASH AND CASH EQUIVALENTS

The CDRLF's cash and cash equivalents as of December 31, 2018 and 2017 are as follows:

	2018	2017
Deposits with U.S. Treasury	$ 3,747,416	$ 3,880,592
U.S. Treasury Overnight Securities	5,097,000	5,800,000
	$ 8,844,416	$ 9,680,592

4. GOVERNMENT REGULATIONS

The CDRLF is subject to various Federal laws and regulations. Assistance, which includes lending and technical assistance grants, is limited to the amount appropriated by Congress to date for the CDRLF, which includes accumulated earnings. Federally-chartered and state-chartered credit unions with a low-income designation are eligible to participate in the CDRLF's loan and technical assistance grant program.

Since inception, Congress has appropriated $13.4 million for the revolving loan component of the program. This component is governed by Part 705 of the NCUA Rules and Regulations.

During the year ended December 31, 2018, the CDRLF received an appropriation for technical assistance grants in the amount of $2.0 million for the Federal fiscal year (FY) 2018. This is a multiyear appropriation that is available for obligation through September 30, 2019. Of this amount, $2.0 million was expended for the year ended December 31, 2018.

During the year ended December 31, 2017, the CDRLF received an appropriation for technical assistance grants in the amount of $2.0 million for FY 2017. This was a multiyear appropriation that was available for obligation through September 30, 2018. Of this amount, $2.0 million was expended for the year ended December 31, 2017. An additional $389 thousand was expended from the FY 2016 appropriation.

Appropriated funds in the amount of $1 thousand from the FY 2012 appropriation were remitted to the U.S. Treasury in 2018 upon cancellation. Appropriated funds in the amount of $26 thousand from the FY 2011 appropriation were remitted to the U.S. Treasury in 2017 upon cancellation.

These appropriations were designated to be used for technical assistance grants, and no amounts were designated to be used as revolving loans.

5. LOANS RECEIVABLE

Loans receivable as of December 31, 2018 and 2017 consisted of the following:

	2018	2017
Balance as of the Beginning of the Year	$ 8,114,999	$ 10,214,722
Loans Disbursed	2,000,000	500,000
Loan Repayments	(409,999)	(2,599,723)
Loans Receivable as of the End of the Year	9,705,000	8,114,999
Changes in the Allowance for Loan Losses Consisted of the Following:		
Balance as of the Beginning of the Year	-	-
Decrease (increase) in the Allowance	-	-
Allowance for Loan Losses as of the End of the Year	-	-
Loans Receivable, Net, as of the End of the Year	$ 9,705,000	$ 8,114,999

Loans outstanding as of December 31, 2018 are scheduled to be repaid during the following subsequent years:

	2018
2019	4,530,000
2020	1,500,000
2021	1,175,000
2022	500,000
2023	2,000,000
Total Loans Receivable	$ 9,705,000

The CDRLF has the intent and ability to hold its loans to maturity. The CDRLF anticipates realizing the carrying amount in full.

6. CANCELLED TECHNICAL ASSISTANCE GRANTS

During 2018, the CDRLF cancelled $10 thousand of technical assistance grants awarded from the revolving fund and $103 thousand of technical assistance grants awarded from multiyear funds. These amounts were recognized as Cancelled Technical Assistance Grants, decreasing expenses.

Cancelled technical assistance grants from the revolving fund are credited back to accumulated earnings. Cancelled technical assistance grants from previously expended multiyear funds are credited back to the original appropriated fund from which they are awarded. As a result, the $103 thousand was also recognized as Cancelled Technical Assistance Grants, decreasing revenue, and resulting in no change to net income.

For the year ended December 31, 2017, the CDRLF cancelled $0 of technical assistance grants awarded from the revolving fund and $362 thousand of technical assistance grants awarded from multiyear funds.

Cancelled technical assistance grants awarded from appropriations from FY 2013 through 2017 will be remitted to the U.S. Treasury upon cancellation of the related appropriation.

7. CONCENTRATION OF CREDIT RISK

As discussed in Note 1, the CDRLF provides loans to credit unions that serve predominantly low-income communities.

NCUA Rules and Regulations Section 705.5 permit the classification of the loan in the participating credit union's accounting records as a non-member deposit. As a non-member deposit, $250,000 per credit union is insured by the National Credit Union Share Insurance Fund (NCUSIF). The aggregate amount of uninsured loans totaled $3.6 million and $2.9 million as of December 31, 2018 and 2017, respectively. The increase in FY 2018 is primarily due to loans issued of $750 thousand in loan amounts over $250,000.

8. FAIR VALUE MEASUREMENTS

The fair value of an instrument is the amount that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants by the measurement date. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Loans Receivable – Fair value is estimated using an income approach by separately discounting each individual loan's projected future cash flow. The CDRLF believes that the discount rate reflects the pricing and is commensurate with the risk of the loans to the CDRLF. Loans are valued annually on December 31.

Other – The carrying amounts for cash and cash equivalents, interest receivable, and accrued technical assistance grants approximate fair value.

The following table presents the carrying value amounts and established fair values of the CDRLF's financial instruments as of December 31, 2018 and 2017.

	2018		2017	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and Cash Equivalents	$ 8,844,416	$ 8,844,416	$ 9,680,592	$ 9,680,592
Loans Receivable	9,705,000	9,770,976	8,114,999	8,125,520
Interest Receivable	13,523	13,523	10,995	10,995
Liabilities				
Accrued Technical Assistance Grants	3,030,217	3,030,217	2,461,556	2,461,556

9. RELATED PARTY TRANSACTIONS

The NCUA, through the OF, supports the administration of programs under the CDRLF by paying related personnel costs such as pay and benefits as well as other costs which include but are not limited to telecommunications, supplies, printing, and postage.

For the years ending December 31, 2018 and 2017, the NCUA, through the OF, provided the following unreimbursed administrative support to the CDRLF:

	2018	2017
Employee	$ 504,304	$ 474,146
Other	55,313	70,716
Total	$ 559,617	$ 544,862

10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2019, which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.

Source: NCUA

Other Information

Summary of Financial Statement Audits

Summary of the results of the independent audits of the financial statements of the NCUA's four funds by the agency's auditors in connection with the 2018 audit.

National Credit Union Share Insurance Fund					
Audit Opinion	**Unmodified**				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Operating Fund					
Audit Opinion	**Unmodified**				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Central Liquidity Facility					
Audit Opinion	**Unmodified**				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Community Development Revolving Loan Fund					
Audit Opinion	**Unmodified**				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Summary of Management Assurances

Summary of management assurances related to the effectiveness of internal control over financial reporting and its conformance with federal financial management system requirements under Sections 2 and 4, respectively, of the Federal Managers' Financial Integrity Act of 1982.

Effectiveness of Internal Control Over Financial Reporting *(Federal Management Financial Integrity Act, Paragraph 2)*						
Statement of Assurance	**Unmodified**					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

Effectiveness of Internal Control Over Operations *(Federal Management Financial Integrity Act, Paragraph 2)*						
Statement of Assurance	**Unmodified**					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

Conformance with Federal Financial Management System Requirements *(Federal Management Financial Integrity Act, Paragraph 4)*						
Statement of Assurance	**Federal Systems Conform to Financial Management System Requirements**					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Non-Conformances	0	0	0	0	0	0

Civil Monetary Penalty Adjustment for Inflation

The Federal Civil Penalties Inflation Adjustment Act of 1990, as amended by the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to improve effectiveness and to maintain their deterrent effect.

The following are the civil monetary penalties that the NCUA may impose, the authority for imposing the penalty, year enacted, latest year of adjustment and current penalty level. Additional information about these penalties and the latest adjustment is available in the *Federal Register*.

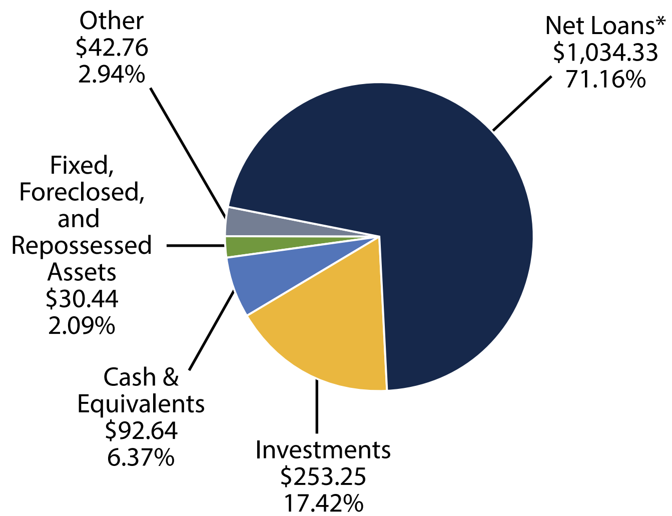
Penalty	Statutory Authority	Year Enacted	Latest Year of Adjustment	Current Penalty Level
Inadvertent failure to submit a report or the inadvertent submission of a false or misleading report	12 U.S.C. 1782(a)(3)	1989	2019	$4,027
Non-inadvertent failure to submit a report or the non-inadvertent submission of a false or misleading report	12 U.S.C. 1782(a)(3)	1989	2019	$40,269
Failure to submit a report or the submission of a false or misleading report done knowingly or with reckless disregard	12 U.S.C. 1782(a)(3)	1989	2019	Lesser of $2,013,399 or 1 percent of total credit union assets
Tier 1 civil monetary penalty for inadvertent failure to submit certified statement of insured shares and charges due to NCUSIF, or inadvertent submission of false or misleading statement	12 U.S.C. 1782(d)(2)(A)	1991	2019	$3,682

Penalty	Statutory Authority	Year Enacted	Latest Year of Adjustment	Current Penalty Level
Tier 2 civil monetary penalty for non-inadvertent failure to submit certified statement or submission of false or misleading statement	12 U.S.C. 1782(d)(2)(B)	1991	2019	$36,809
Tier 3 civil monetary penalty for failure to submit a certified statement or the submission of a false or misleading statement done knowingly or with reckless disregard	12 U.S.C. 1782(d)(2)(C)	1991	2019	Lesser of $1,840,491 or 1 percent of total credit union assets
Non-compliance with insurance logo requirements	12 U.S.C. 1785(a)(3)	2006	2019	$125
Non-compliance with NCUA security requirements	12 U.S.C. 1785(e)(3)	1970	2019	$292
Tier 1 civil monetary penalty for violations of law, regulation, and other orders or agreements	12 U.S.C. 1786(k)(2)(A)	1989	2019	$10,067
Tier 2 civil monetary penalty for violations of law, regulation, and other orders or agreements and for recklessly engaging in unsafe or unsound practices or breaches of fiduciary duty	12 U.S.C. 1786(k)(2)(B)	1989	2019	$50,334
Tier 3 civil monetary penalty for knowingly committing the violations under Tier 1 or 2	12 U.S.C. 1786(k)(2)(C)	1989	2019	Natural persons: $2,013,399; Credit unions: Lesser of $2,013,399 or 1 percent of total credit union assets
Non-compliance with senior examiner post-employment restrictions	12 U.S.C. 1786(w)(5)(A)(ii)	2004	2019	$331,174
Non-compliance with appraisal independence standards (first violation)	15 U.S.C. 1639e(k)	2010	2019	$11,563
Subsequent violations of the same	15 U.S.C. 1639e(k)	2010	2019	$23,125
Non-compliance with flood insurance requirements	42 U.S.C. 4012a(f)(5)	2012	2019	$2,187

Statistical Data

Overall Trends

Asset Distribution
(in Billions)

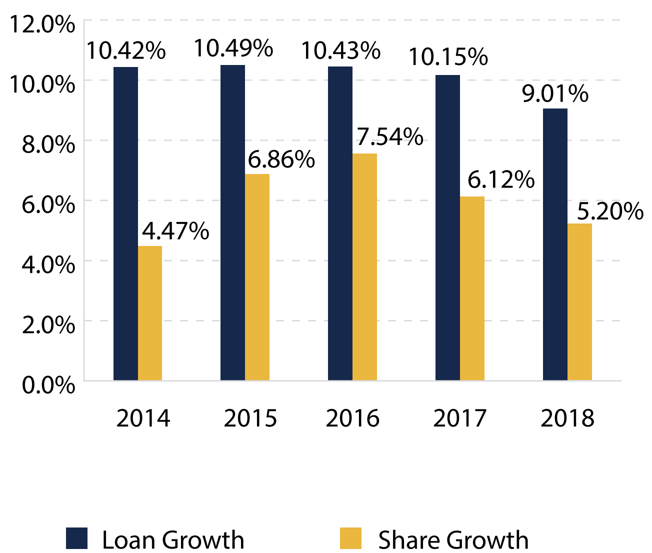


*Net Loans equals Total Loans ($1,043.6 billion) minus Allowance for Loan and Lease Losses ($9.3 billion). Numbers may not add up due to rounding.

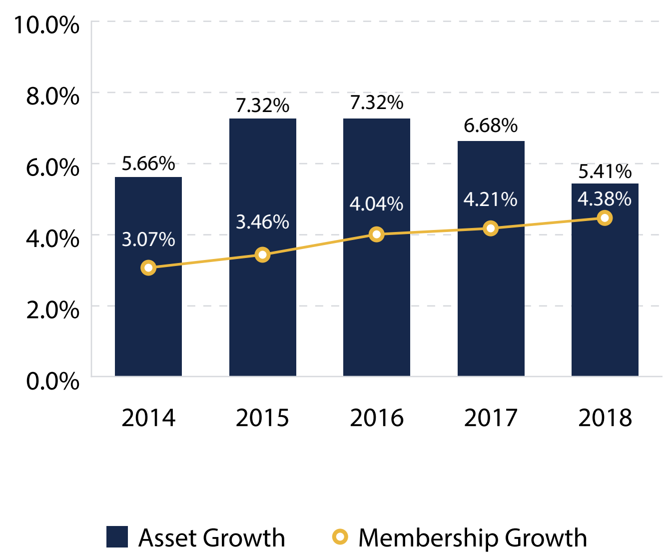
Number of Insured Credit Unions Reporting

	Federal Charter	State Charter	Total
2014	3,927	2,346	6,273
2015	3,764	2,257	6,021
2016	3,608	2,177	5,785
2017	3,499	2,074	5,573
2018	3,376	1,999	5,375

Loan Growth vs. Share Growth

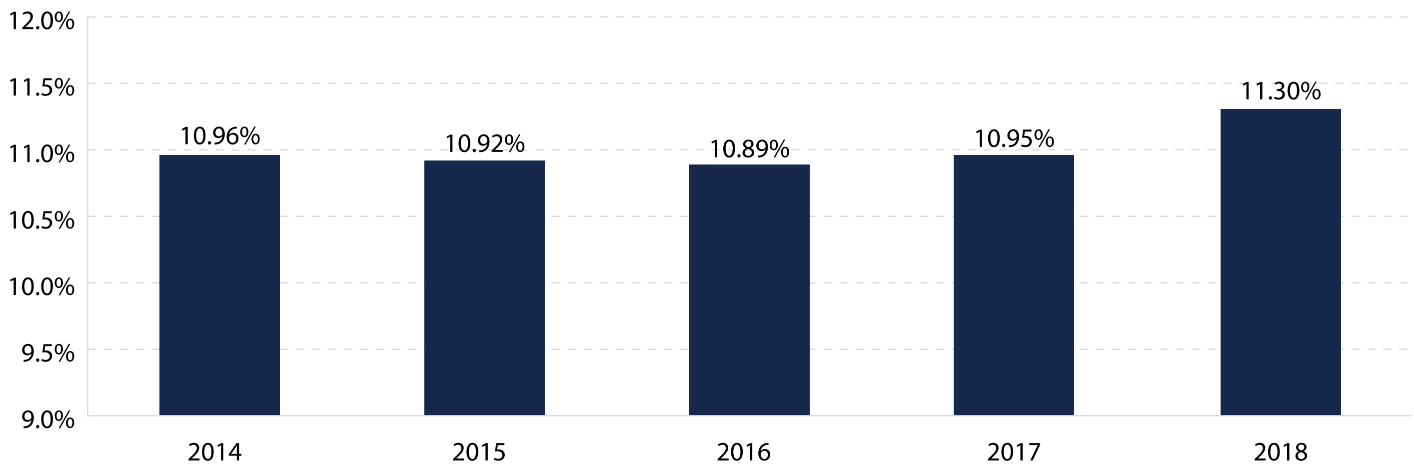


Asset Growth vs. Membership Growth



Net Worth

Aggregate Net Worth Ratio



Net Worth Change

	December 2017 in Billions	December 2018 in Billions	% Change (Annualized)
Total Net Worth	$151.08	$164.31	8.76%
Secondary Capital*	$0.22	$0.26	18.59%

*For low-income-designated credit unions, net worth includes secondary capital. Numbers may not add up due to rounding.

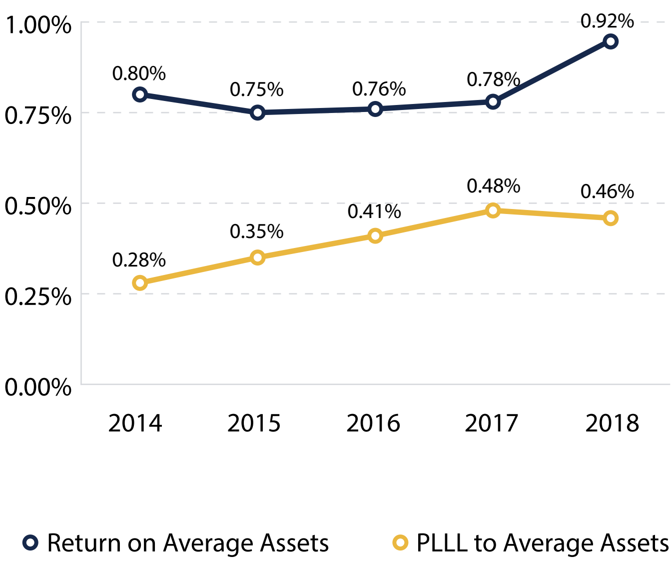
Net Worth Ratios

Number of Credit Unions	December 2017	% of Total	December 2018	% of Total
7% or above	5,449	97.77%	5,299	98.59%
6% to 6.99%	81	1.45%	47	0.87%
4% to 5.99%	34	0.61%	23	0.43%
2% to 3.99%	4	0.07%	3	0.06%
0% to < 2.00%	2	0.04%	2	0.04%
Less than 0%	3	0.05%	1	0.02%

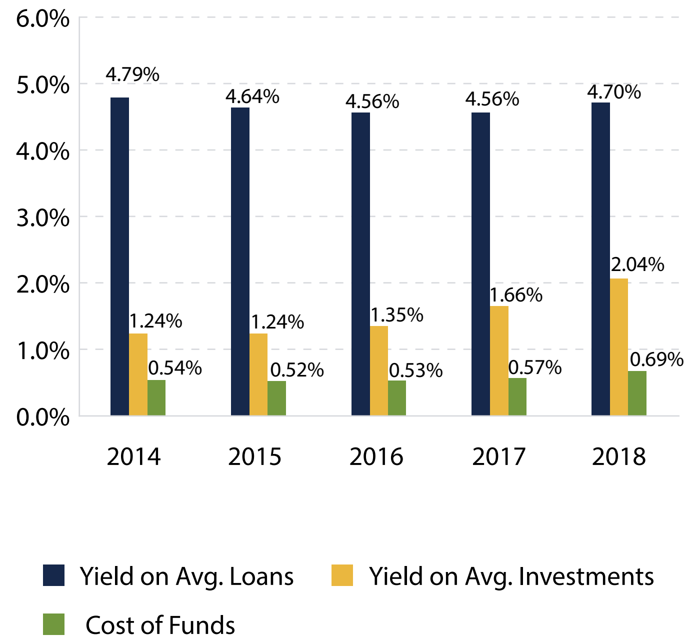
Numbers may not add up due to rounding.

Earnings

Return on Average Assets vs. Provision for Loan & Lease Losses



Yields vs. Cost of Funds

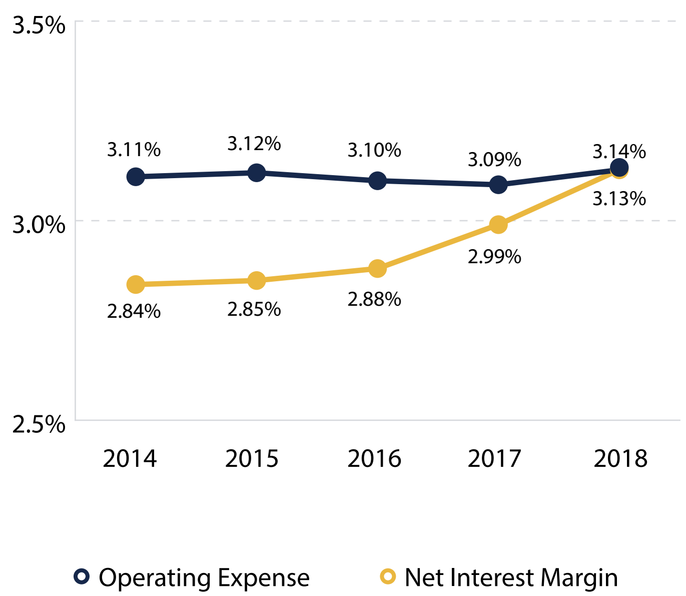


Ratio of Average Assets

Ratio (% of Average Assets)	December 2017	December 2018	Effect on ROA
Net Interest Margin	2.99%	3.13%	0.14 bp
+ Fee & Other Inc.	1.33%	1.38%	0.05 bp
- Operating Expenses	3.09%	3.14%	-0.05 bp
- PLLL	0.48%	0.46%	0.02 bp
+ Non-Operating Income	0.03%	0.02%	-0.01 bp
= ROA	0.78%	0.92%	0.14 bp

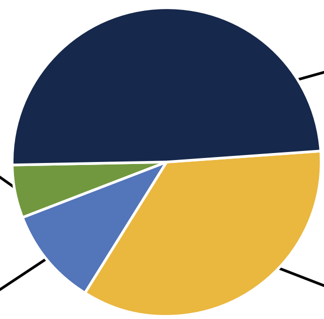
Numbers may not add up due to rounding.

Operating Expenses vs. Net Interest Margin



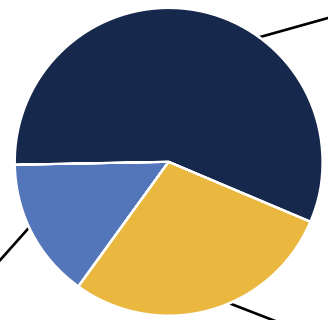
Loan Distribution

Loan Distribution
(in Billions)



Numbers may not add up due to rounding.

First Mortgage Real Estate Loans
(in Billions)



Numbers may not add up due to rounding.

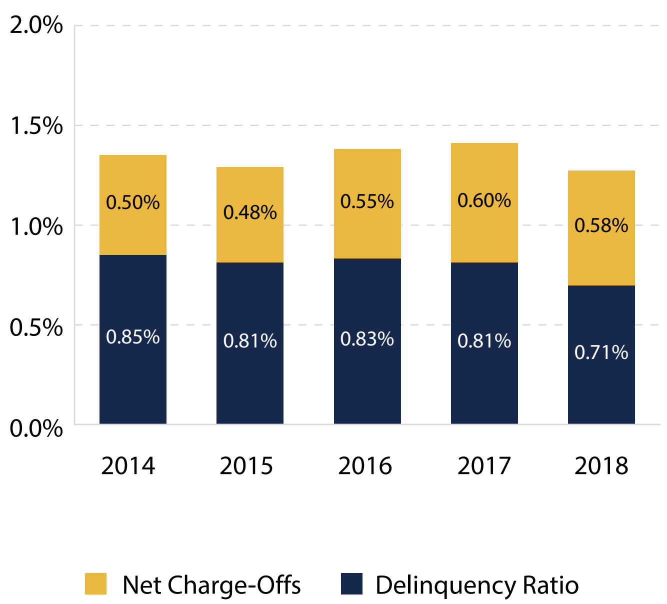
Loan Growth

Loan Category	December 2017 in Billions	% of Total Loans December 2017	December 2018 in Billions	% of Total Loans December 2018	Growth in Billions	Growth Rate (Annualized)
Unsecured Credit Card	$57.51	6.01%	$61.84	5.93%	$4.33	7.52%
All Other Unsecured	$40.74	4.26%	$43.58	4.18%	$2.84	6.98%
New Vehicle	$132.10	13.80%	$147.48	14.13%	$15.38	11.65%
Used Vehicle	$200.45	20.94%	$218.47	20.93%	$18.03	8.99%
First Mortgage Real Estate	$391.34	40.88%	$426.33	40.85%	$34.99	8.94%
Other Real Estate	$81.62	8.53%	$88.19	8.45%	$6.57	8.05%
Leases Receivable & All Other	$53.56	5.59%	$57.70	5.53%	$4.14	7.73%
Total Loans	**$957.31**		**$1,043.59**		**$86.29**	**9.01%**

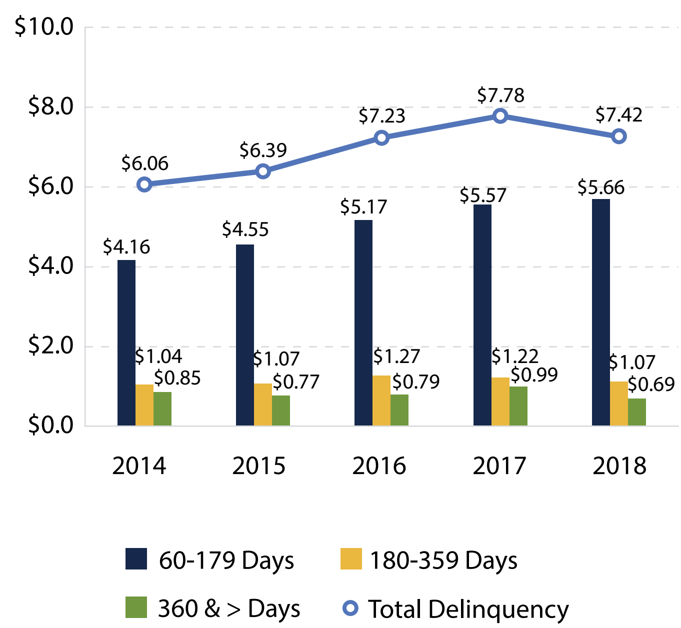
Numbers may not add up due to rounding.

Loan and Delinquency Trends

Delinquency & Charge-Offs



Delinquency
(in Billions)

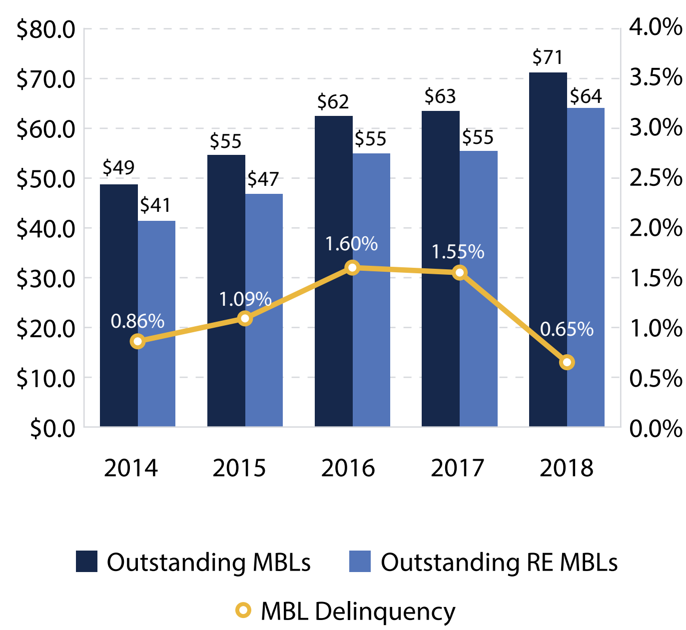


Charge-Offs and Recoveries

Total Loan Charge-Offs and Recoveries	December 2017 in Billions	December 2018 in Billions*	% Change
Total Loans Charged Off	$6.59	$7.04	6.78%
Total Loan Recoveries	$1.15	$1.27	10.78%
Total Net Charge-Offs	$5.44	$5.76	5.93%

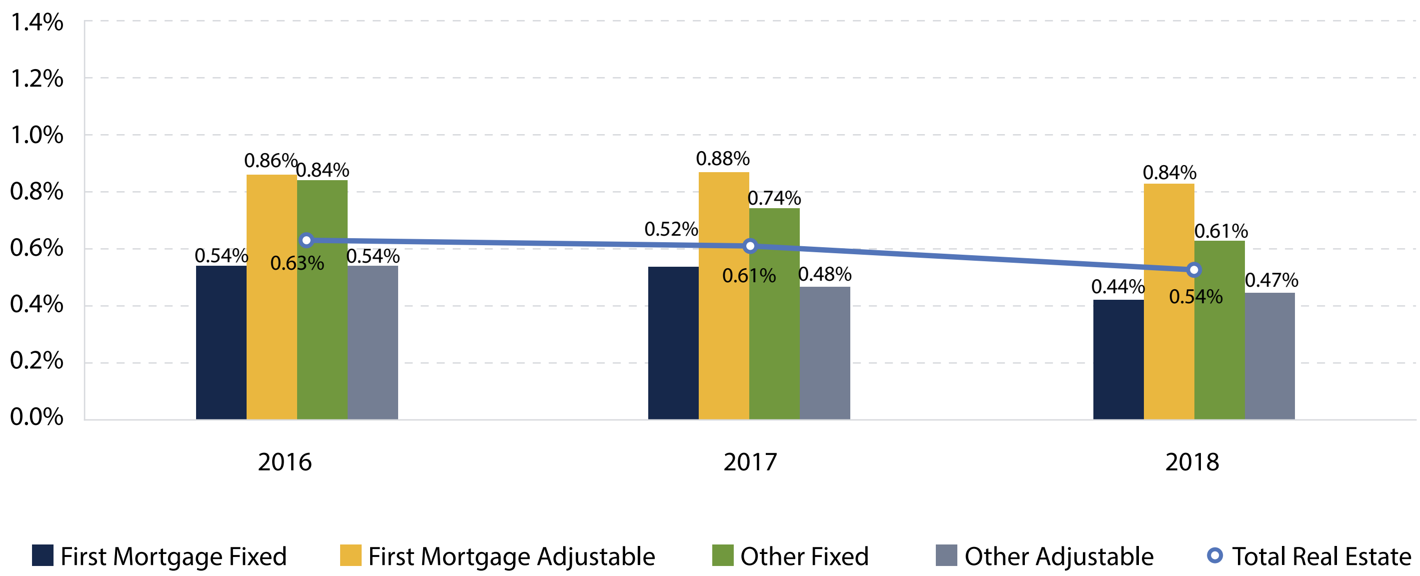
* Annualized
Numbers may not add up due to rounding.

Commercial/Member Business Loans & Delinquency (in Billions)

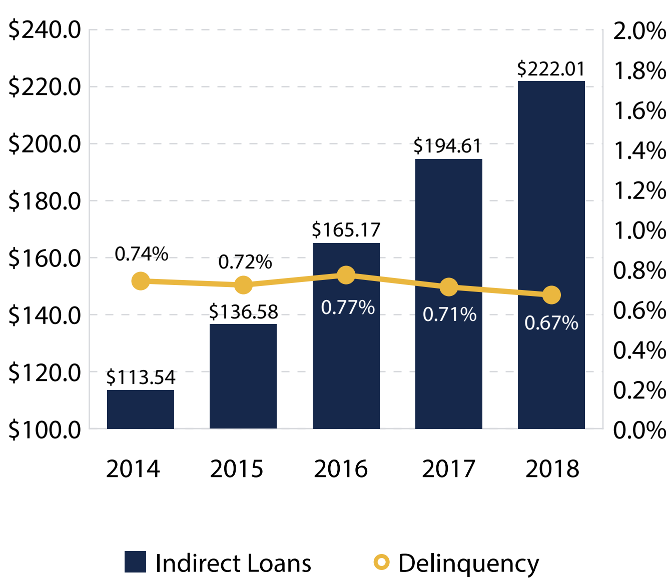


Loan and Delinquency Trends (continued)

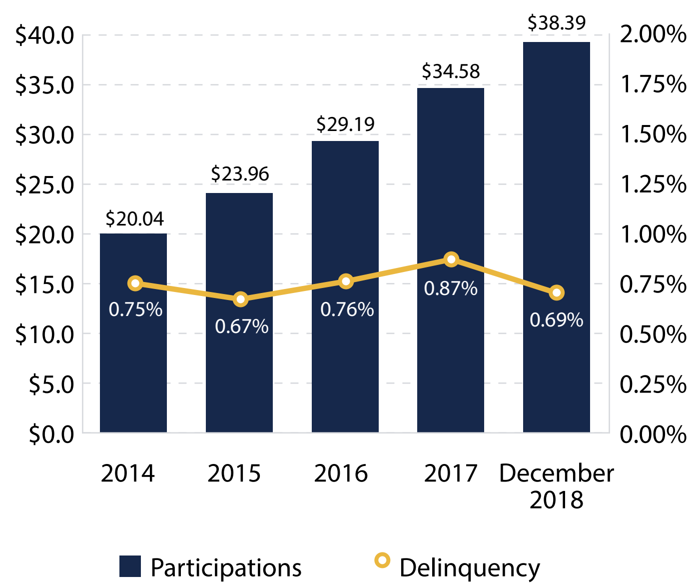
Real Estate Delinquency



Indirect Loans & Delinquency (in Billions)

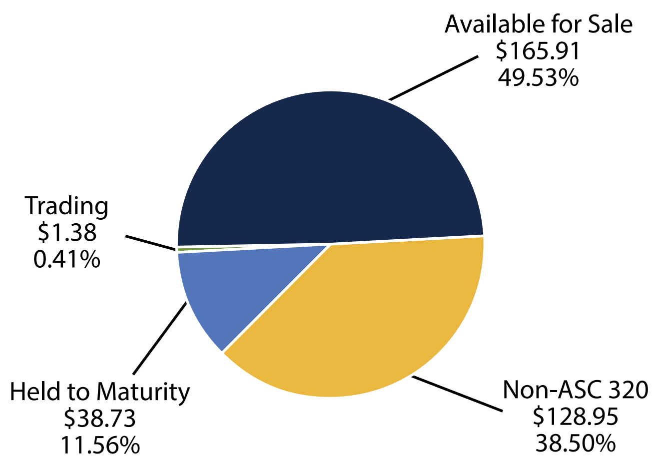


Participation Loans & Delinquency (in Billions)



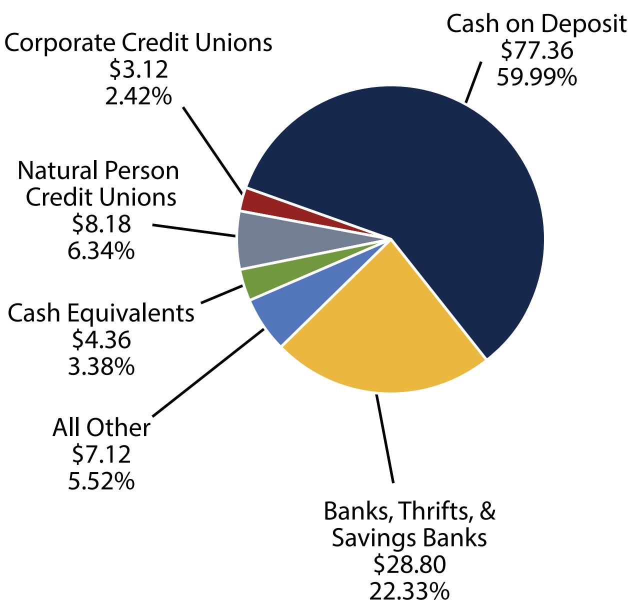
Investment Trends - Accounting Standards Codification

ASC 320 Investment Classification
(in Billions)



Numbers may not add up due to rounding.

Total Non-ASC 320 Investment Distribution
(in Billions)



Numbers may not add up due to rounding.

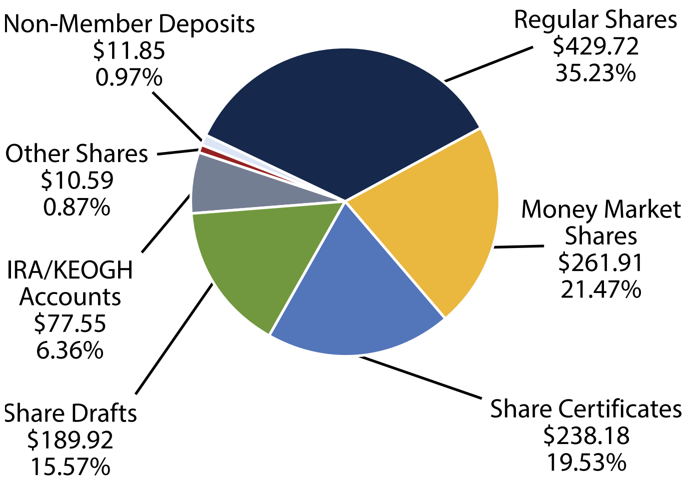
Maturity

Maturity or Repricing Intervals for Investments and Cash on Deposit & Equivalents	December 2017 in Billions	% of Total Investments December 2017	December 2018 in Billions	% of Total Investments December 2018	Growth in Billions	Growth Rate (Annualized)
Less than 1 year	$160.94	45.97%	$154.14	46.01%	-$6.80	-4.22%
1 to 3 years	$86.38	24.68%	$86.18	25.73%	-$0.20	-0.23%
3 to 5 years	$67.24	19.21%	$59.16	17.66%	-$8.08	-12.01%
5 to 10 years	$31.47	8.99%	$31.54	9.41%	$0.07	0.21%
Greater than 10 years	$4.04	1.16%	$3.96	1.18%	-$0.09	-2.11%
Total Investments*	**$350.08**		**$334.98**		**-$15.10**	**-4.31%**

*Includes borrowing repurchase agreements placed in investments for positive arbitage
Numbers may not add up due to rounding.

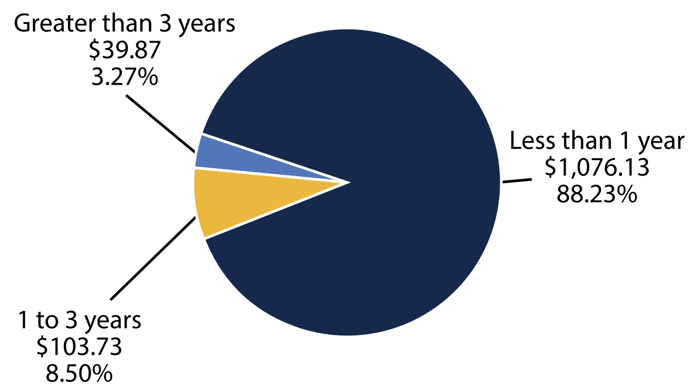
Share Trends

Share Distribution
(in Billions)



Numbers may not add up due to rounding.

Savings Maturities
(in Billions)



Numbers may not add up due to rounding.

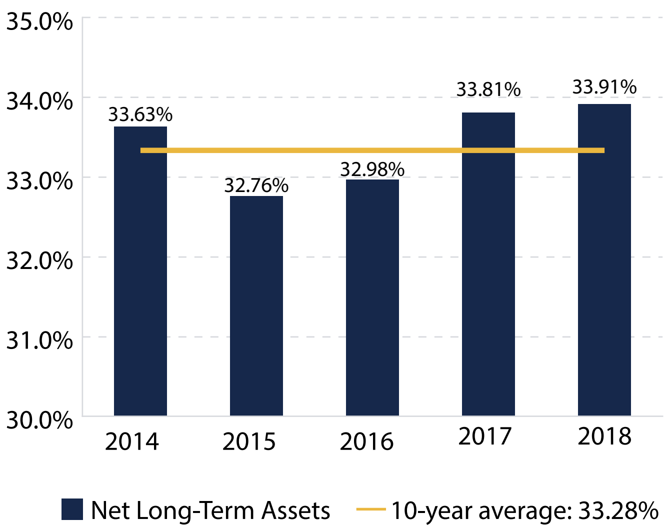
Shares

Share Category	December 2017 Balance in Billions	% of Total Shares December 2017	December 2018 Balance in Billions	% of Total Shares December 2018	Growth in Billions	Growth Rate (Annualized)
Share Drafts	$168.46	14.53%	$189.92	15.57%	$21.46	12.74%
Regular Shares	$421.58	36.36%	$429.72	35.23%	$8.14	1.93%
Money Market Shares	$259.61	22.39%	$261.91	21.47%	$2.31	0.89%
Share Certificates	$212.10	18.29%	$238.18	19.53%	$26.08	12.30%
IRA / KEOGH Accounts	$77.72	6.70%	$77.55	6.36%	-$0.16	-0.21%
All Other Shares	$9.75	0.84%	$10.59	0.87%	$0.83	8.55%
Non-Member Deposits	$10.25	0.88%	$11.85	0.97%	$1.60	15.62%
Total Shares and Deposits	**$1,159.47**		**$1,219.73**		**$60.26**	**5.20%**

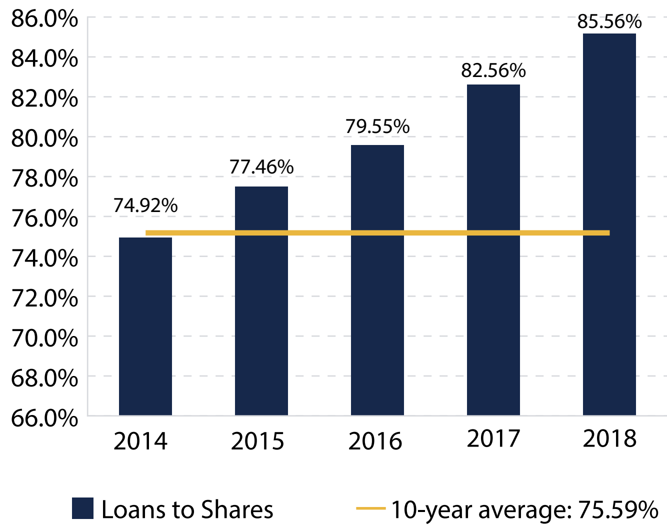
Numbers may not add up due to rounding.

Asset-Liability Management Trends

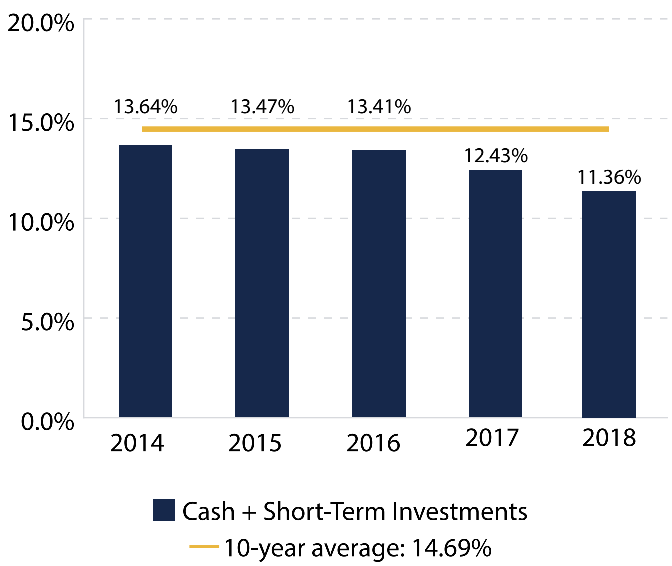
Net Long-Term Assets / Total Assets



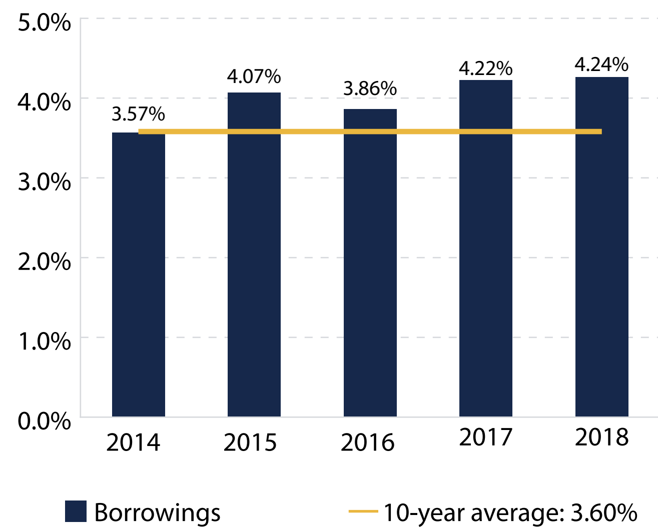
Total Loans / Total Shares



Cash + Short-Term Investments / Assets



Borrowings / Total Shares & Net Worth



Summary of Trends by Asset Group

	Asset Group Under $10 million	Asset Group $10 million to $100 million	Asset Group $100 million to $500 million	Asset Group $500 million and Greater
Number of Credit Unions	1,421	2,383	1,026	545
Total Assets	$5.97 billion	$91.98 billion	$230.90 billion	$1.12 trillion
Average Assets/CU	$4.20 million	$38.60 million	$225.05 million	$2.06 billion
Net Worth / Total Assets	16.02%	12.41%	11.35%	11.17%
Average Net Worth (non-dollar weighted)	17.22%	12.86%	11.45%	11.25%
Net Worth Growth*	2.22%	4.83%	6.69%	9.84%
Return on Average Assets (ROA)*	0.25%	0.56%	0.68%	1.00%
Net Interest Margin/Average Assets	3.54%	3.29%	3.31%	3.08%
Fee & Other Income/Average Assets	0.74%	1.22%	1.53%	1.37%
Operating Expense/Average Assets	3.76%	3.67%	3.76%	2.98%
Members / Full-Time Employees	402.53	388.50	342.08	400.49
Provision for Loan Loss/Average Assets	0.36%	0.31%	0.41%	0.49%
Loans / Shares	62.22%	65.30%	79.45%	88.72%
Delinquent Loans / Total Loans	1.83%	1.00%	0.84%	0.66%
% of Real Estate Loans Delinquent > 59 Days	1.85%	0.92%	0.67%	0.50%
% of Member Business Loans Delinquent > 59 Days	1.96%	0.66%	1.32%	0.54%
Net Charge-Offs/Average Loans	0.67%	0.52%	0.56%	0.58%
Share Growth*	-1.66%	1.23%	3.51%	6.66%
Loan Growth*	3.61%	5.96%	8.31%	10.04%
Asset Growth*	-1.00%	1.69%	3.89%	6.72%
Membership Growth*	-1.86%	0.15%	2.67%	6.29%
Net Long-Term Assets / Total Assets	8.06%	22.60%	31.34%	35.50%
Cash + Short-Term Investments / Assets	28.95%	19.98%	12.82%	10.26%
Borrowings / Shares & Net Worth	0.19%	0.41%	1.65%	5.15%

*Note: These items are based on the same federally insured credit unions reporting at December 31, 2017, and December 31, 2018, based on December 31, 2018 assets.

National Credit Union Share Insurance Fund Ten-Year Trends

Fiscal year	2009	2010 [2]	2011	2012	2013	2014	2015	2016	2017	2018
Income (In Thousands)										
Premium	$ 727,466	$ 929,952	–	–	–	–	–	–	–	–
Investment	$ 188,774	$ 216,921	$ 226,011	$ 206,995	$ 198,264	$ 208,259	$ 218,526	$ 227,172	$ 209,136	284,716
Other income	$ 33,319	$ 49,223	$ 1,037	$ 8,768	$ 4,550	$ 5,633	$ 5,187	$ 2,463	$ 487,103	18,158
Total Income[3]	$ 949,559	$ 1,196,096	$ 227,048	$ 215,763	$ 202,814	$ 213,892	$ 223,713	$ 229,635	$ 696,239	302,874
Expenses (In Thousands)										
Operating	$ 134,624	$ 165,830	$ 132,358	$ 141,237	$ 148,312	$ 179,818	$ 197,752	$ 209,260	$ 199,015	187,395
Insurance losses	$ 625,140	$ 735,562	$ (532,408)	$ (77,784)	$ (48,638)	$ (41,840)	$ (35,411)	$ 7,870	$ 726,295	113,826
Total expenses	$ 759,764	$ 901,392	$ (400,050)	$ 63,453	$ 99,674	$ 137,978	$ 162,341	$ 217,130	$ 925,310	301,221
Net income (in thousands)[3]	$ 189,795	$ 294,704	$ 627,098	$ 152,309	$ 103,140	$ 75,914	$ 61,372	$ 12,505	$ (229,071)	$ 1,653
Data Highlights										
Total Equity (in millions)[1]	$ 8,957	$ 9,670	$ 10,339	$ 10,912	$ 11,266	$ 11,625	$ 12,095	$ 12,742	$ 15,853	15,905
Equity as a percentage of shares in insured credit unions	1.23%	1.28%	1.30%	1.30%	1.30%	1.29%	1.26%	1.24%	1.46%	1.39%
NCUSIF loss per $1,000 of insured shares	$ 0.86	$ 0.97	$ (0.67)	$ (0.09)	$ (0.06)	$ (0.05)	$ (0.02)	$ 0.01	$ 0.67	$ (0.10)
Operating Ratios										
Premium Income	76.6%	77.8%	–	–	–	–	–	–	–	-
Investment Income	19.9%	18.1%	99.5%	95.9%	97.8%	97.4%	97.5%	98.9%	30.0%	94.0%
Other Income:	3.5%	4.1%	0.5%	4.1%	2.2%	2.6%	2.5%	1.1%	70.0%	6.0%
Operating Expenses	14.2%	13.9%	58.3%	65.5%	73.1%	84.1%	109.1%	91.1%	28.6%	61.9%
Insurance Losses (Gain)	65.8%	61.5%	-234.5%	-36.1%	-24.0%	-19.6%	-92.7%	3.4 %	104.3 %	37.6%
Total Expenses (neg expense)	80.0%	75.4%	-176.2%	29.4%	49.1%	64.5%	16.4%	94.5%	132.9%	99.5%
Net Income	20.0%	24.6%	276.2%	70.6%	50.9%	35.5%	83.6%	5.4%	-32.9%	0.5%
Involuntary Liquidations Commenced										
Number	16	18	15	14	13	10	11	11	5	7
Share payouts (in thousands)	$ 713,112	$ 701,145	$ 586,852	667,814	$ 125,621	$ 150,111	$ 138,635	$ 10,163	$ 159,841	1,407,357
Share payouts as a percentage of total insured shares	0.098%	0.093%	0.074%	0.080%	0.015%	0.017%	0.014%	0.001%	0.015%	0.123%
Shares in liquidated credit unions (in thousands)	$ 990,931	$ 870,435	$ 459,403	$ 728,746	$ 105,378	$ 140,581	$ 145,829	$ 8,240	$ 162,783	1,454,234

[1] Equity does not include unrealized gain (loss) from U.S. Treasury Securities held as "Available for Sale Securities."

[2] The National Credit Union Share Insurance Fund adopted Federal Accounting Standards Advisory Board accounting standards beginning in 2010. For the purpose of this table, total income includes both exchange and non-exchange revenue.

[3] 2009–2015 Total Income excludes Stabilization Fund Income, 2009–2015 Operating Expense excludes Stabilization Fund Expense, and 2009–2015 Net Income excludes Stabilization Fund Income and Expense.

Values rounded from underlying data.

Fiscal year	2009	2010 [2]	2011	2012	2013	2014	2015	2016	2017	2018
Mergers										
Assisted	12	10	1	8	4	5	5	3	5	1
Unassisted	207	193	212	265	236	234	218	207	201	174
Section 208 (FCU Act) Assistance To Avoid Liquidation (In Thousands)										
Capital notes and other cash advance outstanding	$11,000,000	–	$ 80,000	$ 80,000	$ 66,500	$ 54,600	–	–	–	–
Non-cash guarantee accounts	$ 7,451	$ 108,046	$ 199,945	$ 32,132	$ 5,533	$ 4,720	–	–	$ 1,104,500	–
Number of active cases	9	5	9	5	3	5	1	1	3	–
Number of Troubled, Insured Credit Unions (CAMEL 4 & 5)										
Number	351	365	409	370	307	276	220	196	196	194
Shares (millions)	$ 41,587	$ 38,510	$ 26,285	$ 16,940	$ 12,133	$ 10,234	$ 7,662	$ 8,586	$ 8,665	10,441
Problem case shares as a percentage of insured shares	5.35%	4.74%	3.31%	2.0%	1.40%	1.13%	0.80%	0.83%	0.80%	0.92%

Values rounded from underlying data.

Credit Union Performance Five-Year Trends

		Same quarter as current, previous years					Most recent four quarters				Most Recent	
	Units	2013.4	2014.4	2015.4	2016.4	2017.4	2018.1	2018.2	2018.3	2018.4	4 Quarter % change	4 Quarter change
Summary Credit Union Data												
Federally insured credit unions												
Federally insured credit unions	Number	6,554	6,273	6,021	5,785	5,573	5,530	5,480	5,436	5,375	-3.6	-198
Federal credit unions	Number	4,105	3,927	3,764	3,608	3,499	3,477	3,444	3,421	3,376	-3.5	-123
Federally insured, state-chartered credit unions	Number	2,449	2,346	2,257	2,177	2,074	2,053	2,036	2,015	1,999	-3.6	-75
Credit unions with low-income designation	Number	1,989	2,113	2,297	2,491	2,542	2,544	2,544	2,561	2,554	0.5	12
Number of members	Millions	96.3	99.2	102.7	106.8	111.3	112.7	114.0	115.4	116.2	4.4	4.9
Number of deposits	Millions	180.8	186.4	193.5	201.8	211.3	214.4	216.7	219.6	221.4	4.8	10.1
Number of loans outstanding	Millions	50.4	54.0	57.4	61.0	64.7	64.6	65.8	67.2	68.2	5.5	3.6
Total assets	$ Billions	1,062.0	1,122.1	1,204.3	1,292.5	1,378.8	1,416.3	1,429.5	1,440.3	1,453.4	5.4	75
Total assets, four quarter growth	Percent	3.9	5.7	7.3	7.3	6.7	5.9	5.8	5.6	5.4		-1.3
Total loans	$ Billions	645.1	712.3	787.0	869.1	957.3	971.9	1,002.1	1,026.2	1,043.6	9.0	86
Total loans, four quarter growth	Percent	8.0	10.4	10.5	10.4	10.1	9.9	9.8	9.5	9.0		-1.1
Average outstanding loan balance	$	12,795	13,203	13,709	14,242	14,805	15,036	15,230	15,268	15,300	3.3	494
Total deposits	$ Billions	910.1	950.8	1,016.0	1,092.6	1,159.5	1,203.5	1,207.7	1,208.6	1,219.7	5.2	60
Total deposits, four quarter growth	Percent	3.7	4.5	6.9	7.5	6.1	5.8	5.4	5.0	5.2		-0.9
Average deposit balance	$	9,454	9,582	9,897	10,230	10,418	10,678	10,592	10,471	10,499	0.8	81
Insured shares and deposits	$ Billions	865.2	901.6	960.0	1,027.4	1,086.5	1,127.9	1,132.0	1,131.3	1,139.8	4.9	53
Insured shares and deposits, four quarter growth	Percent	3.2	4.2	6.5	7.0	5.8	5.5	5.2	4.8	4.9		-0.9
Key Ratios												
Net worth ratio	Percent	10.77	10.96	10.92	10.89	10.95	10.88	11.01	11.21	11.30		0.35
Return on average assets	Percent	0.78	0.80	0.75	0.76	0.78	0.90	0.90	0.96	0.92		0.14
Loan to share ratio	Percent	70.9	74.9	77.5	79.5	82.6	80.8	83.0	84.9	85.6		3.00
Long-term assets, percent of assets[1]	Percent	30.0	28.0	27.4	27.1	27.8	27.8	28.0	27.8	27.7		-0.15
Median credit union average cost of funds	Percent	0.34	0.29	0.27	0.27	0.28	0.28	0.29	0.30	0.33		0.05
Median credit union average yield on loans	Percent	5.84	5.56	5.40	5.30	5.19	5.14	5.12	5.14	5.16		-0.02
Median credit union net interest margin	Percent	3.01	2.99	2.97	3.00	3.07	3.10	3.15	3.22	3.26		0.18
Median credit union return on average assets	Percent	0.25	0.32	0.33	0.34	0.38	0.48	0.52	0.60	0.57		0.19

[1] 'Long-term assets' is the sum of real estate fixed-rate first mortgages and investments greater than 3 years. Replaces 'Net long-term assets, percent of assets.'

		Same quarter as current, previous years					Most recent four quarters				Most Recent	
	Units	2013.4	2014.4	2015.4	2016.4	2017.4	2018.1	2018.2	2018.3	2018.4	4 Quarter % change	4 Quarter change
Lending (Year-to-Date, Annual Rate)												
Loans granted	$ Billions	345.7	350.9	406.7	456.2	481.2	467.3	504.7	513.1	506.5	5.3	25
Real estate loans	$ Billions	139.7	116.0	150.5	170.4	171.8	151.2	170.4	176.5	173.2	0.9	1
Real estate, fixed rate, first mortgage	$ Billions	99.4	68.5	98.3	115.0	110.3	94.8	106.5	109.3	106.4	-3.5	-4
Commercial loans	$ Billions	.	.	.	.	23.9	24.9	25.4	25.2	25.0	4.5	1
Payday alternative loans	$ Millions	90.2	114.6	122.8	134.5	132.8	108.5	127.5	133.5	145.2	9.4	12
Delinquency												
Delinquent loans	$ Billions	6.5	6.1	6.4	7.2	7.8	6.4	6.7	6.9	7.4	-4.6	-0.36
Total delinquency rate	Percent	1.01	0.85	0.81	0.83	0.81	0.66	0.67	0.67	0.71		-0.10
Fixed real estate delinquency rate	Percent	1.00	0.77	0.64	0.54	0.52	0.35	0.40	0.41	0.44		-0.09
Auto delinquency rate	Percent	0.69	0.67	0.68	0.72	0.70	0.55	0.55	0.60	0.66		-0.03
Credit card delinquency rate	Percent	0.93	0.94	1.01	1.14	1.29	1.24	1.15	1.27	1.35		0.06
Commercial loan delinquency rate	Percent	.	.	.	.	1.55	1.45	1.30	0.74	0.65		-0.90
Net charge-offs	$ Billions	3.5	3.4	3.6	4.6	5.4	5.8	5.9	5.6	5.8	5.9	0.32
Net charge offs, percent of average loans	Percent	0.57	0.50	0.48	0.55	0.60	0.60	0.60	0.57	0.58		-0.02
Asset Distribution												
25% of credit unions are smaller than	$ Millions	6.4	7.0	7.5	8.1	8.8	9.1	9.1	9.2	9.2	4.1	0.36
50% of credit unions are smaller than	$ Millions	22.7	24.4	26.8	28.9	31.0	32.3	32.7	32.9	33.2	6.9	2.15
75% of credit unions are smaller than	$ Millions	83.7	92.0	101.4	111.0	120.4	124.7	126.2	127.0	129.2	7.3	8.82
90% of credit unions are smaller than	$ Millions	310.4	340.6	381.8	431.0	471.9	489.1	493.7	499.1	507.7	7.6	35.80

		Same quarter as current, previous years					Most recent four quarters				Most Recent	
	Units	2013.4	2014.4	2015.4	2016.4	2017.4	2018.1	2018.2	2018.3	2018.4	4 Quarter % change	4 Quarter change
Income and Expenses (Year-to-date, Annual Rate)												
Federally insured credit unions												
Gross income	$ Billions	50.0	51.7	55.0	60.0	65.6	70.7	71.6	73.0	73.8	12.6	8.26
Total interest income	$ Billions	35.3	36.9	39.2	42.6	47.5	50.7	51.8	53.0	54.0	13.8	6.57
Gross interest income	$ Billions	31.2	32.6	34.9	37.8	41.7	44.3	45.1	46.2	47.1	13.1	5.46
Less interest refunds	$ Billions	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.1	13.8	0.01
Investment income	$ Billions	4.2	4.4	4.4	4.8	5.8	6.5	6.8	6.9	7.0	20.2	1.18
Trading income	$ Billions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-268.3	-0.06
Total non-interest income	$ Billions	14.7	14.7	15.8	17.4	18.1	20.0	19.8	19.9	19.8	9.3	1.69
Fee income	$ Billions	7.4	7.2	7.5	8.0	8.3	8.3	8.5	8.6	8.8	5.7	0.48
Other operating income	$ Billions	7.0	7.1	8.0	8.9	9.4	11.1	10.8	10.9	10.7	14.1	1.33
Other (including gains/losses)	$ Billions	0.3	0.5	0.4	0.5	0.4	0.6	0.5	0.4	0.3	-27.6	-0.11
Total expenses (with provision for loan and lease losses)	$ Billions	41.9	43.0	46.4	50.4	55.2	58.2	58.9	59.4	60.8	10.1	5.59
Non-interest expenses	$ Billions	32.9	34.0	36.3	38.8	41.2	43.1	43.5	43.9	44.5	8.0	3.29
Labor expense	$ Billions	16.3	17.1	18.4	19.7	21.1	22.3	22.3	22.5	22.6	7.5	1.57
Office expenses	$ Billions	8.3	8.8	9.3	9.8	10.3	10.8	10.9	11.0	11.2	8.3	0.86
Loan servicing expenses	$ Billions	2.4	2.5	2.6	2.7	2.8	3.0	3.0	3.1	3.1	9.5	0.27
Other non-interest expenses	$ Billions	5.9	5.7	6.0	6.5	7.0	7.0	7.2	7.4	7.6	8.5	0.59
Total interest expense	$ Billions	6.2	5.9	6.0	6.6	7.5	8.4	8.7	9.1	9.8	29.4	2.22
Interest on borrowed money	$ Billions	0.7	0.8	0.8	0.9	1.2	1.4	1.4	1.4	1.5	24.7	0.29
Share dividends	$ Billions	4.8	4.6	4.7	5.1	5.7	6.2	6.5	6.9	7.4	30.8	1.75
Interest on deposits	$ Billions	0.6	0.6	0.6	0.6	0.7	0.8	0.8	0.8	0.9	26.2	0.18
Provision for loan and lease losses	$ Billions	2.7	3.1	4.1	5.1	6.4	6.7	6.7	6.4	6.5	1.3	0.08
Net income	$ Billions	8.1	8.7	8.7	9.5	10.4	12.6	12.7	13.6	13.0	25.8	2.67
Net income, percent of average assets	Percent	0.78	0.80	0.75	0.76	0.78	0.90	0.90	0.96	0.92		0.14
Net interest margin	$ Billions	29.1	31.0	33.2	36.0	39.9	42.4	43.2	44.0	44.3	10.9	4.35
Net interest margin, percent of average assets	Percent	2.80	2.84	2.85	2.88	2.99	3.03	3.07	3.12	3.13		0.14
Average assets	$ Billions	1,041.9	1,092.0	1,163.2	1,248.4	1,335.6	1,397.6	1,404.2	1,409.6	1,416.1	6.0	80.48

		Same quarter as current, previous years					Most recent four quarters				Most Recent	
	Units	2013.4	2014.4	2015.4	2016.4	2017.4	2018.1	2018.2	2018.3	2018.4	4 Quarter % change	4 Quarter change
Income and Expenses (Year-to-date, Annual Rate, Percent of Average Assets)												
Federally insured credit unions												
Gross income	Percent	4.80	4.73	4.73	4.80	4.91	5.06	5.10	5.18	5.21		0.30
Total interest income	Percent	3.39	3.38	3.37	3.41	3.55	3.63	3.69	3.76	3.82		0.26
Gross interest income	Percent	2.99	2.98	3.00	3.03	3.12	3.17	3.21	3.28	3.33		0.21
Less interest refunds	Percent	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00
Investment income	Percent	0.40	0.41	0.38	0.38	0.44	0.47	0.48	0.49	0.50		0.06
Trading income	Percent	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00
Total non-interest income	Percent	1.41	1.35	1.36	1.39	1.36	1.43	1.41	1.41	1.40		0.04
Fee income	Percent	0.71	0.66	0.65	0.64	0.62	0.59	0.60	0.61	0.62		0.00
Other operating income	Percent	0.67	0.65	0.68	0.71	0.71	0.80	0.77	0.77	0.76		0.05
Other (including gains/losses)	Percent	0.03	0.04	0.03	0.04	0.03	0.04	0.03	0.03	0.02		-0.01
Total expenses (with provision for loan and lease losses)	Percent	4.02	3.93	3.98	4.04	4.14	4.16	4.20	4.21	4.30		0.16
Non-interest expenses	Percent	3.16	3.11	3.12	3.10	3.09	3.08	3.10	3.12	3.14		0.06
Labor expense	Percent	1.56	1.56	1.58	1.58	1.58	1.60	1.59	1.60	1.60		0.02
Office expenses	Percent	0.80	0.81	0.80	0.79	0.77	0.77	0.78	0.78	0.79		0.02
Loan servicing expenses	Percent	0.23	0.23	0.22	0.22	0.21	0.21	0.22	0.22	0.22		0.01
Other non-interest expenses	Percent	0.57	0.52	0.52	0.52	0.52	0.50	0.52	0.52	0.54		0.01
Total interest expense	Percent	0.59	0.54	0.52	0.53	0.57	0.60	0.62	0.64	0.69		0.12
Interest on borrowed money	Percent	0.07	0.07	0.07	0.07	0.09	0.10	0.10	0.10	0.10		0.02
Share dividends	Percent	0.46	0.42	0.40	0.40	0.43	0.44	0.46	0.49	0.52		0.10
Interest on deposits	Percent	0.06	0.05	0.05	0.05	0.05	0.05	0.06	0.06	0.06		0.01
Provision for loan and lease losses	Percent	0.26	0.28	0.35	0.41	0.48	0.48	0.48	0.45	0.46		-0.02
Net income	Percent	0.78	0.80	0.75	0.76	0.78	0.90	0.90	0.96	0.92		0.14
Net interest margin	Percent	2.80	2.84	2.85	2.88	2.99	3.03	3.07	3.12	3.13		0.14

		Same quarter as current, previous years					Most recent four quarters				Most Recent	
	Units	2013.4	2014.4	2015.4	2016.4	2017.4	2018.1	2018.2	2018.3	2018.4	4 Quarter % change	4 Quarter change
Balance Sheet												
Federally insured credit unions												
Total assets	$ Billions	1,062.0	1,122.1	1,204.3	1,292.5	1,378.8	1,416.3	1,429.5	1,440.3	1,453.4	5.4	74.61
Cash and equivalents (less than 3 months)	$ Billions	87.4	85.8	94.5	97.7	98.7	121.6	102.1	91.8	92.6	-6.1	-6.04
Cash on hand	$ Billions	9.0	9.7	9.9	10.1	10.5	9.8	9.9	10.0	10.9	4.3	0.45
Investments												
Total investments (more than 3 months)	$ Billions	285.7	275.8	272.8	269.1	261.9	262.5	262.6	256.1	253.3	-3.3	-8.60
Investments less than 1 year	$ Billions	70.5	67.3	67.6	75.5	72.7	72.3	72.6	72.2	72.4	-0.4	-0.30
Investments 1-3 years	$ Billions	89.2	99.5	101.7	94.9	86.4	84.2	86.9	86.7	86.2	-0.2	-0.20
Investments 3-10 years	$ Billions	118.9	103.3	99.0	94.8	98.7	101.9	99.5	93.5	90.7	-8.1	-8.01
Investments 3-5 years	$ Billions	79.4	75.6	71.2	64.1	67.2	67.1	65.6	61.6	59.2	-12.0	-8.08
Investments 5-10 years	$ Billions	39.6	27.7	27.7	30.7	31.5	34.8	33.9	32.0	31.5	0.2	0.07
Investments more than 10 years	$ Billions	7.2	5.6	4.5	3.9	4.0	4.1	3.7	3.7	4.0	-2.1	-0.09
Total loans	$ Billions	645.1	712.3	787.0	869.1	957.3	971.9	1,002.1	1,026.2	1,043.6	9.0	86.29
Loans secured by 1-4 family residential properties	$ Billions	.	.	.	.	405.9	418.9	430.9	440.0	446.6	10.0	40.76
Secured by first lien	$ Billions	.	.	.	.	339.2	346.2	355.7	362.7	367.2	8.3	28.04
Secured by junior lien	$ Billions	.	.	.	.	66.7	72.8	75.3	77.3	79.4	19.1	12.72
All other real estate loans	$ Billions	.	.	.	.	11.8	4.7	4.1	3.9	3.9	-67.3	-7.94
Credit cards	$ Billions	42.6	46.0	48.8	52.7	57.5	56.7	57.9	59.4	61.8	7.5	4.33
Auto loans	$ Billions	198.7	230.0	261.8	298.4	332.5	340.2	352.0	361.7	366.0	10.0	33.41
New autos	$ Billions	71.3	86.4	99.9	116.6	132.1	134.6	139.4	144.3	147.5	11.6	15.38
Used autos	$ Billions	127.4	143.7	162.0	181.8	200.4	205.6	212.7	217.4	218.5	9.0	18.03
Non-federally guaranteed student loans	$ Billions	2.6	3.1	3.5	3.8	4.4	4.6	4.6	4.9	5.1	17.0	0.74
Commercial loans (excludes unfunded commitments)	$ Billions	.	.	.	.	63.2	65.3	67.6	68.9	71.2	12.6	7.98
Secured by real estate	$ Billions	.	.	.	.	55.3	57.3	59.6	61.7	64.0	15.8	8.75
Not secured by real estate	$ Billions	.	.	.	.	7.9	8.0	8.1	7.2	7.2	-9.6	-0.77
Other loans	$ Billions	.	.	.	.	82.0	81.4	84.9	87.4	89.0	8.6	7.01
Unfunded commitments for commercial loans	$ Billions	.	.	.	.	4.8	5.0	5.0	5.5	5.7	19.2	0.92
Other assets	$ Billions	43.7	48.2	49.9	56.5	61.0	60.3	62.7	66.2	63.9	4.9	2.97
Total liabilities and net worth	$ Billions	1,062.0	1,122.1	1,204.3	1,292.5	1,378.8	1,416.3	1,429.5	1,440.3	1,453.4	5.4	74.61
Total deposits	$ Billions	910.1	950.8	1,016.0	1,092.6	1,159.5	1,203.5	1,207.7	1,208.6	1,219.7	5.2	60.26
Share drafts	$ Billions	119.0	131.4	150.4	154.3	168.5	180.2	178.6	175.3	189.9	12.7	21.46
Regular shares	$ Billions	297.6	320.9	352.0	393.1	421.6	445.4	447.5	444.6	429.7	1.9	8.14
Other deposits	$ Billions	493.5	498.5	513.6	545.2	569.4	577.9	581.6	588.7	600.1	5.4	30.66
Money market accounts	$ Billions	212.3	219.5	231.8	249.2	259.6	263.8	262.4	261.3	261.9	0.9	2.31
Share certificate accounts	$ Billions	191.5	188.9	190.1	199.5	212.1	215.7	219.8	227.1	238.2	12.3	26.08
IRA/Keogh accounts	$ Billions	78.4	76.9	76.6	78.1	77.7	77.4	77.5	77.7	77.6	-0.2	-0.16
Non-member deposits	$ Billions	3.0	5.1	6.7	8.7	10.2	10.4	10.8	11.3	11.8	15.6	1.60
All other shares	$ Billions	8.2	8.2	8.5	9.7	9.8	10.5	11.0	11.2	10.6	8.5	0.83
Other liabilities	$ Billions	37.4	48.3	56.7	59.1	68.3	58.6	64.4	70.3	69.4	1.6	1.12

		Same quarter as current, previous years					Most recent four quarters				Most Recent	
	Units	2013.4	2014.4	2015.4	2016.4	2017.4	2018.1	2018.2	2018.3	2018.4	4 Quarter % change	4 Quarter change
Net worth	$ Billions	114.5	123.0	131.5	140.8	151.1	154.2	157.4	161.5	164.3	8.8	13.23
Net worth, percent of assets	Percent	10.77	10.96	10.92	10.89	10.95	10.88	11.01	11.21	11.30		0.35
Addenda												
Real estate loans	$ Billions	338.8	364.2	396.8	431.1	473.0	481.0	494.6	505.6	514.5	8.8	41.56
Real estate fixed rate, first mortgage	$ Billions	192.3	205.0	226.5	251.2	281.0	287.3	296.7	303.1	307.7	9.5	26.75
Business loans												
Net member business loan balance for regulatory reporting, Part 723[1]	$ Billions	39.8	45.4	51.3	58.9	67.5	70.3	65.8	66.3	68.0	0.7	0.50

[1] Account 400A

Balance Sheet (Percent of Assets)												
Federally insured credit unions												
Total assets	Percent	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		
Cash and equivalents (less than 3 months)	Percent	8.2	7.6	7.9	7.6	7.2	8.6	7.1	6.4	6.4		-0.78
Cash on hand	Percent	0.8	0.9	0.8	0.8	0.8	0.7	0.7	0.7	0.8		-0.01
Investments												
Total investments (more than 3 months)	Percent	26.9	24.6	22.6	20.8	19.0	18.5	18.4	17.8	17.4		-1.57
Investments less than 1 year	Percent	6.6	6.0	5.6	5.8	5.3	5.1	5.1	5.0	5.0		-0.29
Investments 1-3 years	Percent	8.4	8.9	8.4	7.3	6.3	5.9	6.1	6.0	5.9		-0.34
Investments 3-10 years	Percent	11.2	9.2	8.2	7.3	7.2	7.2	7.0	6.5	6.2		-0.92
Investments 3-5 years	Percent	7.5	6.7	5.9	5.0	4.9	4.7	4.6	4.3	4.1		-0.81
Investments 5-10 years	Percent	3.7	2.5	2.3	2.4	2.3	2.5	2.4	2.2	2.2		-0.11
Investments more than 10 years	Percent	0.7	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.3		-0.02
Total loans	Percent	60.7	63.5	65.4	67.2	69.4	68.6	70.1	71.2	71.8		2.37
Loans secured by 1-4 family residential properties	Percent	.	.	.	.	29.4	29.6	30.1	30.5	30.7		1.29
Secured by first lien	Percent	.	.	.	.	24.6	24.4	24.9	25.2	25.3		0.67
Secured by junior lien	Percent	.	.	.	.	4.8	5.1	5.3	5.4	5.5		0.63
All other real estate loans	Percent	.	.	.	.	0.9	0.3	0.3	0.3	0.3		-0.59
Credit cards	Percent	4.0	4.1	4.1	4.1	4.2	4.0	4.1	4.1	4.3		0.08
Auto loans	Percent	18.7	20.5	21.7	23.1	24.1	24.0	24.6	25.1	25.2		1.06
New autos	Percent	6.7	7.7	8.3	9.0	9.6	9.5	9.7	10.0	10.1		0.57
Used autos	Percent	12.0	12.8	13.4	14.1	14.5	14.5	14.9	15.1	15.0		0.49
Non-federally guaranteed student loans	Percent	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4		0.03
Commercial loans (excludes unfunded commitments)	Percent	.	.	.	.	4.6	4.6	4.7	4.8	4.9		0.31
Secured by real estate	Percent	.	.	.	.	4.0	4.0	4.2	4.3	4.4		0.40
Not secured by real estate	Percent	.	.	.	.	0.6	0.6	0.6	0.5	0.5		-0.08
Other loans	Percent	.	.	.	.	5.9	5.7	5.9	6.1	6.1		0.18
Unfunded commitments for commercial loans	Percent	.	.	.	.	0.3	0.4	0.4	0.4	0.4		0.05
Other assets	Percent	4.1	4.3	4.1	4.4	4.4	4.3	4.4	4.6	4.4		-0.02

		Same quarter as current, previous years					Most recent four quarters				Most Recent	
	Units	2013.4	2014.4	2015.4	2016.4	2017.4	2018.1	2018.2	2018.3	2018.4	4 Quarter % change	4 Quarter change
Total liabilities and net worth	Percent	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		
Total deposits	Percent	85.7	84.7	84.4	84.5	84.1	85.0	84.5	83.9	83.9		-0.17
Share drafts	Percent	11.2	11.7	12.5	11.9	12.2	12.7	12.5	12.2	13.1		0.85
Regular shares	Percent	28.0	28.6	29.2	30.4	30.6	31.4	31.3	30.9	29.6		-1.01
Other deposits	Percent	46.5	44.4	42.6	42.2	41.3	40.8	40.7	40.9	41.3		-0.01
Money market accounts	Percent	20.0	19.6	19.2	19.3	18.8	18.6	18.4	18.1	18.0		-0.81
Share certificate accounts	Percent	18.0	16.8	15.8	15.4	15.4	15.2	15.4	15.8	16.4		1.00
IRA/Keogh accounts	Percent	7.4	6.9	6.4	6.0	5.6	5.5	5.4	5.4	5.3		-0.30
Non-member deposits	Percent	0.3	0.5	0.6	0.7	0.7	0.7	0.8	0.8	0.8		0.07
All other shares	Percent	0.8	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.7		0.02
Other liabilities	Percent	3.5	4.3	4.7	4.6	5.0	4.1	4.5	4.9	4.8		-0.18
Net worth	Percent	10.77	10.96	10.92	10.89	10.95	10.88	11.01	11.21	11.30		0.35
Addenda												
Real estate loans	Percent	31.9	32.5	32.9	33.4	34.3	34.0	34.6	35.1	35.4		1.10
Real estate fixed rate, first mortgage	Percent	18.1	18.3	18.8	19.4	20.4	20.3	20.8	21.0	21.2		0.79
Business loans												
Net member business loan balance for regulatory reporting, Part 723 [1]	Percent	3.7	4.0	4.3	4.6	4.9	5.0	4.6	4.6	4.7		-0.22

[1] Account 400A

Summary of Performance for Federally Insured Credit Unions

	Asset Categories									
	Less than $10 million	$10 to $50 million	$50 to $100 million	$100 to $500 million	$500 million to $1 billion	Greater than $1 billion	Federal Credit Unions	Federally Insured State-Chartered Credit Unions	Credit Unions with Low-Income Designation in 2018Q4	Small Credit Unions (Assets less than $100 million)
Current Quarter: 2018Q4										
Number of credit unions	1,421	1,695	688	1,026	237	308	3,376	1,999	2,554	3,804
Number of members (millions)	1.1	5.2	5.3	21.8	13.9	68.9	61.3	54.9	48.6	11.6
Total assets ($ billions)	6.0	42.7	49.3	230.9	166.7	957.8	753.6	699.9	542.4	97.9
Total loans ($ billions)	3.1	22.9	29.2	158.7	121.4	708.3	532.7	510.9	402.2	55.2
Total deposits ($ billions)	5.0	36.9	42.9	199.8	140.9	794.3	625.5	594.3	459.4	84.8
Key ratios (percent)										
Return on average assets	0.25	0.50	0.60	0.67	0.77	1.05	0.93	0.90	0.91	0.53
Net worth ratio	16.02	12.90	11.98	11.35	11.31	11.15	11.40	11.19	11.21	12.63
Loan-to-share ratio	62.2	62.2	68.0	79.4	86.1	89.2	85.2	86.0	87.6	65.1
Net interest margin (median)	3.42	3.23	3.24	3.29	3.23	3.02	3.25	3.27	3.40	3.29
Long-term assets, percent of assets	5.5	14.9	19.1	23.0	27.8	29.9	28.7	26.6	24.5	16.4
Cost of funds / average assets (median)	0.25	0.26	0.33	0.42	0.55	0.65	0.31	0.38	0.33	0.27
Delinquency rate	1.83	1.10	0.91	0.84	0.68	0.66	0.77	0.65	0.72	1.04
Net charge-offs to average loans	0.65	0.50	0.50	0.55	0.48	0.60	0.69	0.46	0.54	0.51
Growth from a year earlier (percent)										
Shares (total deposits)	-7.2	-4.1	-3.1	0.4	-4.1	9.5	5.2	5.2	5.7	-3.8
Total loans	-2.2	0.4	1.1	4.8	-2.0	12.9	8.7	9.4	9.8	0.6
Total assets	-6.5	-3.5	-2.6	0.7	-3.4	9.4	4.9	6.0	6.2	-3.3
Members	-8.0	-4.9	-3.9	-0.1	-4.7	9.8	3.8	5.0	4.3	-4.8
Net worth	-2.9	0.4	0.4	3.8	0.0	12.9	8.4	9.2	9.0	0.1
Historical Data (same quarter)										
Return on average assets (percent)										
2018	0.25	0.50	0.60	0.67	0.77	1.05	0.93	0.90	0.91	0.53
2017	0.06	0.30	0.44	0.46	0.71	0.93	0.80	0.75	0.78	0.35
2016	0.04	0.25	0.38	0.51	0.59	0.94	0.77	0.75	0.73	0.30
2015	0.03	0.28	0.39	0.54	0.66	0.91	0.74	0.75	0.76	0.31
2014	0.02	0.26	0.45	0.59	0.79	0.97	0.77	0.83	0.82	0.33
Net worth ratio (percent)										
2018	16.02	12.90	11.98	11.35	11.31	11.15	11.40	11.19	11.21	12.63
2017	15.42	12.40	11.63	11.01	10.92	10.80	11.04	10.86	10.92	12.20
2016	15.14	12.32	11.50	10.92	10.96	10.71	10.97	10.80	10.88	12.10
2015	15.05	12.32	11.45	10.92	11.08	10.70	10.94	10.89	10.94	12.09
2014	14.81	12.30	11.45	10.92	11.09	10.74	11.02	10.89	10.95	12.08
Loan to Share Ratio (percent)										
2018	62.22	62.15	68.00	79.45	86.15	89.17	85.17	85.97	87.55	65.11
2017	59.04	59.36	65.14	76.10	84.31	86.45	82.42	82.72	84.29	62.25
2016	58.04	57.77	63.95	73.69	81.18	83.58	79.40	79.70	80.96	60.86
2015	57.53	57.35	63.03	72.41	77.82	81.90	77.52	77.40	78.58	60.11
2014	57.28	57.24	62.37	70.74	75.94	79.12	74.72	75.13	76.37	59.67

Appendix

NCUA Board Member Bios

Chairman J. Mark McWatters

President Donald J. Trump designated J. Mark McWatters as the tenth Chairman of the NCUA Board on June 23, 2017.

Prior to that, Mr. McWatters served as Acting NCUA Board Chairman from January 23 to June 23, 2017. He was nominated to the NCUA Board by then-President Barack Obama on January 7, 2014. Following Senate confirmation, he took office as an NCUA Board Member on August 26, 2014.

Prior to his joining the NCUA Board, Mr. McWatters served as the Assistant Dean for Graduate Programs and as a Professor of Practice at the Southern Methodist University Dedman School of Law, and as an Adjunct Professor at the university's Cox School of Business. He also served on the Governing Board of the Texas Department of Housing and Community Affairs and the Advisory Committee of the Texas Emerging Technology Fund.

Previously, Mr. McWatters served as a member of the Troubled Asset Relief Program Congressional Oversight Panel and as counsel to Representative Jeb Hensarling (R-Texas). He also practiced law as a partner with three large, cross-border law firms and as counsel to an international hedge and private equity firm where he specialized in taxation, corporate finance and mergers, and acquisitions. Immediately after graduating from law school, Mr. McWatters served as a judicial clerk to the Honorable Walter Ely of the U.S. Ninth Circuit Court of Appeals in Los Angeles.

Mr. McWatters is licensed to practice law in Texas and New York and as a Certified Public Accountant in Texas. He earned a J.D. degree from the University of Texas at Austin School of Law and an LL.M. degree from each of Columbia University School of Law and New York University School of Law.

Board Member Rick Metsger

Then-President Barack Obama nominated Rick Metsger to serve on the Board of the National Credit Union Administration on May 16, 2013. The U.S. Senate confirmed Mr. Metsger on August 1, 2013, and he took the oath of office on August 23, 2013. He served as the ninth NCUA Board Chairman from May 1, 2016, through January 22, 2017.

Mr. Metsger has extensive public policy and private-sector experience in the areas of financial services, consumer protection, taxation, transportation and strategic communications. He previously served as the NCUA's representative on the NeighborWorks America Board of Directors.

Prior to joining the NCUA Board, Mr. Metsger owned his own strategic communications consulting firm focused on financial services, capital construction, energy and transportation issues.

Mr. Metsger previously served for 12 years in the Oregon State Senate, where he chaired the Business and Transportation Committee and served on committees with jurisdiction in the areas of education, revenue, the judiciary, human services and consumer protection. He was a member of Oregon Senate leadership from 2009 to 2011 and was elected President Pro Tem in 2009. His Senate service included his chief sponsorship of a law to expand state-chartered credit unions' field of membership, as well as co-sponsorship of sweeping utility regulation to refund millions of dollars to consumers, legislation to combat predatory payday lending, and a bill creating the largest public transportation investment in the state's history.

Mr. Metsger also served on the State Treasury Debt Policy Advisory Commission and as a Director of Financial Beginnings, a non-profit organization providing financial education to children and young adults.

In addition to consulting and public service, Mr. Metsger has worked as a teacher and a radio and television journalist. From 1993 to 2001, he served on the board of directors of the Portland Teachers Credit Union. While in college, the credit union gave him a $350 loan to purchase his first car. Twenty years later, he joined the credit union's board as a volunteer director.

Mr. Metsger holds a B.S. in Communications and an M.A. in Teaching from Lewis and Clark College.

Senior Staff Reporting to the NCUA Board

- Sarah Vega, Chief of Staff to Chairman McWatters
- Michael Radway, Senior Policy Advisor to Board Member Metsger
- Gerard S. Poliquin, Secretary of the Board
- Mark A. Treichel, Executive Director
- Michael McKenna, General Counsel
- James Hagen, Inspector General
- Monica Davy, Office of Minority and Women Inclusion Director

NCUA Offices and Regions

The **Office of Minority and Women Inclusion** oversees issues related to diversity in the agency's management, employment and business activities. The office works to ensure equal opportunities for everyone in the NCUA's workforce, programs and contracts. The Office of Minority and Women Inclusion also assesses the diversity policies and practices of credit unions regulated by the NCUA.

The **Office of Public and Congressional Affairs** handles public relations, including communications with the media and trade associations, serves as the NCUA's liaison with Capitol Hill and other government agencies, and monitors federal legislative issues.

The **Office of General Counsel** addresses legal matters affecting the NCUA. The duties of the office include representing the agency in litigation, executing administrative actions, interpreting the Federal Credit Union Act and the NCUA's rules and regulations, processing Freedom of Information Act requests and advising the Board and the agency on general legal matters, and maintaining the agency's records management program. The General Counsel's office also drafts regulations designed to ensure the safety and soundness of credit unions.

The **Office of the Executive Director** is responsible for the agency's daily operations. The executive director reports directly to the NCUA Chairman. All regional directors and most central office directors report to the Office of the Executive Director.

The **Office of Inspector General** promotes the economy, efficiency, and effectiveness of NCUA programs and operations. The office also detects and deters fraud, waste and abuse in support of the NCUA's mission of monitoring and promoting safe and sound federally insured credit unions. Additionally, it conducts independent audits, investigations and other activities and keeps the NCUA Board and Congress fully informed.

The **Ombudsman** provides consumer complainants with an objective third party to resolve disputes that cannot be resolved through the NCUA Consumer Assistance Center. The Ombudsman reports to the Executive Director and is independent from the agency's operational programs.

The **Office of Examination and Insurance** is responsible for the agency's examination and supervision program and manages the agency's data gathering, surveillance and national risk-assessment programs. The office also oversees the day-to-day operations of the Central Liquidity Facility and the NCUA Guaranteed Notes program.

The **Office of the Chief Economist** supports the NCUA's safety and soundness goals by developing and distributing economic intelligence. The office also enhances the NCUA's understanding of emerging microeconomic and macroeconomic risks by producing modeling and risk identification tools and participating in agency and interagency policy development.

The **Office of the Chief Financial Officer** oversees the agency's budget preparation and management, ongoing finance and accounting functions, facilities management, and procurement. The office also handles billing and collection of credit union Share Insurance Fund premiums and deposit adjustments, and federal credit union operating fees. The NCUA's strategic planning process is also housed here.

The **Office of the Chief Information Officer** manages the NCUA's automated information resources. The office's work includes collecting, validating and securely storing electronic agency information; developing, implementing and maintaining computer hardware, software, and data communications infrastructure; and ensuring related security and integrity risks are recognized and controlled. Additionally, the office manages the NCUA.gov and MyCreditUnion.gov websites.

The **Office of Consumer Financial Protection** is responsible for the agency's consumer financial protection program. Within the office, the Division of Consumer Affairs is responsible for the NCUA's consumer financial literacy efforts, consumer website MyCreditUnion.gov and the NCUA's Consumer Assistance Center, which handles consumer inquiries and complaints. The Division of Consumer Compliance Policy and Outreach is responsible for consumer financial protection compliance policy and rulemaking, fair lending examinations, interagency coordination on consumer financial protection compliance matters and outreach.

The **Office of Human Resources** provides a full range of human resources functions to all NCUA employees. The office administers recruitment and merit promotion, position classification, compensation, employee records, employee and labor relations, training, employee benefits, performance appraisals, incentive awards, adverse actions, and grievance programs.

The **Office of Credit Union Resources and Expansion** is responsible for chartering and field-of-membership matters, low-income designations, charter conversions and bylaw amendments. The office also provides online training to credit union board members, management, and staff, and technical assistance through grants and loans funded by the Community Development Revolving Loan Fund. Additionally, the office is responsible for the agency's minority depository institutions preservation program.

The **Office of Continuity and Security Management** evaluates and manages security and continuity programs across the NCUA and its regional offices. The office is responsible for continuity of operations, emergency planning and response, critical infrastructure and resource protection, cybersecurity and intelligence threat warning and the security of agency personnel and facilities.

The **Office of Business Innovation** began operations on January 1, 2019. This office is responsible for the NCUA's information technology modernization and business-process optimization efforts, as well as information security support, data management, and data governance for the agency.

Field Program Offices

The **Office of National Examinations and Supervision** supervises the corporate credit union system and consumer credit unions with $10 billion or more in assets.

The NCUA's **Eastern Region** is headquartered in Alexandria, Virginia. The region covers Delaware, the District of Columbia, Maryland, New Jersey, Ohio, Pennsylvania, Virginia, West Virginia, Connecticut, Maine, Massachusetts, Michigan, New Hampshire, New York, Rhode Island, and Vermont.

The NCUA's **Southern Region** is headquartered in Austin, Texas. The region covers Texas, Oklahoma, Alabama, Arkansas, Florida, Georgia, Indiana, Kentucky, Louisiana, Mississippi, North Carolina, Puerto Rico, South Carolina, Tennessee, and the U.S. Virgin Islands.

The **NCUA's Asset Management and Assistance Center** is also located in the Southern Region. This office conducts credit union liquidations and performs asset management and recovery. AMAC also helps the NCUA's regional offices review large, complex loan portfolios and actual or potential bond claims. AMAC staff participate extensively in the operational phases of credit union conservatorships and record reconstruction.

The NCUA's **Western Region** is headquartered in Tempe, Arizona. The region covers Colorado, Illinois, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, South Dakota, Wyoming, Alaska, Arizona, California, Guam, Hawaii, Idaho, Nevada, Oregon, Utah, Washington, and Wisconsin.

NCUA Leadership

Monica Davy
Office of Minority and Women Inclusion

Michael McKenna
Office of General Counsel

Mark A. Treichel
Office of the Executive Director

James Hagen
Office of Inspector General

Larry Fazio
Office of Examination and Insurance

Rendell L. Jones
Office of the Chief Financial Officer

Robert Foster
Office of Chief Information Officer

Matthew J. Biliouris
Office of Consumer Financial Protection

Towanda Brooks
Office of Human Resources

Martha Ninichuk
Office of Credit Union Resources and Expansion

Kelly Gibbs
Office of Continuity and Security Management

Scott Hunt
Office of National Examinations and Supervision

Jane A. Walters
Eastern Region

Keith Morton
Southern Region and Asset Management and Assistance Center

Cherie Freed
Western Region

Not Pictured: Kelly Lay, Director, Office of Business Innovation; Andrew Leventis, Chief Economist.

Key Terms

Automated Integrated Regulatory Examination System or AIRES: This is the computer program that the NCUA and nearly all state supervisory authorities use to document and complete their examinations of federal and state-chartered credit unions. The program uses a series of workbooks and questionnaires to guide examiners through their reviews of credit unions' financial performance, compliance with regulations and relevant laws, and potential risks.

Call Report: A call report is a report that must be filed by credit unions with the National Credit Union Administration on a quarterly basis. The NCUA uses the Call Report and Profile to collect financial and nonfinancial information from federally insured credit unions. The resulting data are integral to risk supervision at institution and industry levels, which is central to safeguarding the integrity of the Share Insurance Fund.

CAMEL Rating: NCUA's composite CAMEL rating consists of an assessment of a credit union's **C**apital adequacy, **A**sset quality, **M**anagement, **E**arnings and **L**iquidity. The CAMEL rating system is designed to take into account and reflect all significant financial, operational and management factors field staff assess in their evaluation of credit unions' performance and risk profiles.

CAMEL ratings range from 1 to 5, with 1 being the best rating. Credit unions with a composite CAMEL rating of 3 exhibit some degree of supervisory concern in one or more components. CAMEL 4 credit unions generally exhibit unsafe or unsound practices, and CAMEL 5 institutions demonstrate extremely unsafe or unsound practices and conditions. NCUA collectively refers to CAMEL 4 and 5 credit unions as "troubled credit unions."

Central Liquidity Facility: This is a mixed-ownership government corporation that serves as an important source for emergency funding for credit unions and corporate credit unions that join the facility. Membership is voluntary and open to all credit unions that purchase a prescribed amount of stock. The NCUA Board has direct oversight of the fund's operations.

In situations where a credit union may be experiencing a shortage of liquidity (essentially a shortage of cash or assets that can be easily converted into cash), a credit union can borrow funds from the Central Liquidity Facility for a period not to exceed one year, though the typical period is 90 days.

Community Development Revolving Loan Fund: Congress created this fund in 1979 to stimulate economic development in low-income communities. Congress provides funding for the Revolving Loan Fund through the yearly appropriations process.

NCUA administers the fund and uses it to provide eligible low-income credit unions with technical assistance grants and low-interest loans. Credit unions use these funds to develop new products and services, train staff and weather disasters or disruptions in their operations. This support helps these credit unions continue to serve low- to moderate-income populations throughout the country.

Community Development Financial Institutions or CDFIs: To support emerging community development financial institutions, the Community Development Financial Institutions Fund, or CDFI Fund, was established by the Riegle Community Development and Regulatory Improvement Act of 1994 and is overseen by the U.S. Department of the Treasury. The CDFI Fund's purpose is to promote economic revitalization and community development in low-income communities through investment in and assistance to CDFIs. CDFIs can be banks, credit unions, loan funds, microloan funds, or venture capital providers and share a common goal of expanding economic opportunity in low-income communities by providing access to financial products and services for local residents and businesses.

Corporate Credit Union: These are member-owned and controlled, not-for-profit cooperative financial institutions that act as "credit unions for credit unions" and provide a number of critical financial services to credit unions, such as payment processing. Most federally insured credit unions are members of at least one corporate credit union.

Credit Union Service Organization: More commonly known as a CUSO, these are corporate entities owned by federally chartered or federally insured, state-chartered credit unions. These institutions provide a number of services to credit unions, including loan underwriting, payment services and back-office functions like human resources and payroll, among others.

Federal Credit Union Act: Signed into law in 1934, the Federal Credit Union Act establishes the legal framework for federally chartered credit unions in the U.S. The act also defines the coverage and terms of federal share insurance at all federally insured credit unions, and it outlines the structure, duties, and authority of the NCUA.

Field of Membership: A credit union's field of membership defines who is eligible to join the credit union. Depending on the credit union's charter, a field of membership can include individuals who:

- Are members of an association like a civic association or religious institution;
- Are part of a community, like a county or town;
- Are employed in a particular occupation, like a firefighter or teacher;
- Are a part of an underserved area, like a rural county; or
- Who share a common bond, such as those that work at a factory and those that work for the factory's suppliers.

Low-income Designated Credit Union: The Federal Credit Union Act allows the NCUA to designate a credit union as low-income if it meets certain criteria. This designation gives these credit unions a greater ability to help stimulate economic growth and provide affordable financial services in communities that have been historically underserved.

To qualify as a low-income credit union, a majority of a credit union's membership must meet certain low-income thresholds based on data from the U.S. Census Bureau.

The designation offers several benefits for credit unions that qualify, including the ability to accept non-member deposits, an exemption from the member business lending cap, eligibility for technical assistance grants and loans, and the ability to obtain supplemental capital from organizations, such as banks or outside investors.

Member: A person who uses a credit union is referred to as a member rather than a customer. This is because a credit union member actually owns a portion, or share, of their credit union. This differs from a bank, which is owned by its shareholders, not its customers. A credit union member also has the ability to determine the credit union's board of directors through a democratic election.

Modern Examination and Risk Identification Tool or MERIT: This is a new examination platform that is replacing AIRES. Through MERIT, credit unions will be able to securely exchange documents with examiners.

Minority Depository Institution: This term is used to describe a credit union that has a majority of its current or potential membership composed of minorities (in this case Black American, Hispanic American, Asian American, Native American or Multi-cultural) and a majority of minority members on its board of directors.

Normal Operating Level: The Share Insurance Fund's normal operating level is the desired equity level for the Share Insurance Fund that is set by the NCUA Board. The Federal Credit Union Act allows the NCUA Board to set the normal operating level between 1.20 percent and 1.50 percent. If the equity ratio of the Share Insurance Fund is above normal operating level at the end of the calendar year, a distribution is triggered and paid to federally insured credit unions. The normal operating level set by the NCUA Board in December 2018 is 1.38 percent.

Regulatory Burden: Is defined as the administrative cost of a single regulation or the totality of all regulations in terms of dollars, time, and the rules complexity, that a regulated entity like a credit union must incur to operate in compliance with various laws and regulations in the United States.

Regulatory Reform Task Force: The Regulatory Reform Task Force was established in the NCUA, to oversee the implementation of the agency's regulatory reform agenda. This is consistent with the spirit of Executive Order 13777, "Enforcing the Regulatory Reform Agenda."

Safety and Soundness: Federal and state supervision of credit unions is designed to provide for a financially stable system that meets the financial needs of credit union members, as well as to prevent runs and panics by providing assurances that funds deposited will be protected from loss. A credit union is considered to be safe and sound if it is being run effectively and is compliant with all applicable laws and regulations.

Share Insurance Fund Equity Ratio: The equity ratio approximates the overall heath and financial position of the Share Insurance Fund.

The equity ratio is calculated as the ratio and consists of the contributed 1-percent deposit that all federally insured credit unions must make, plus the cumulative results of operations, excluding net cumulative unrealized gains and losses on the fund's investments, divided by the aggregate amount of the insured shares in all federally insured credit unions.

By law, the equity ratio of the Share Insurance Fund cannot decline below 1.20 percent. When the NCUA Board projects that the equity ratio will fall below 1.20 percent within six months, the NCUA Board must establish and implement a restoration plan to rebuild the equity ratio, which may include a premium assessment to each insured credit union.

Taxi Medallion Loans: A form of business lending, taxi medallion loans are secured by taxi medallions. A taxi medallion is a physical fixture (usually a metal plate or sticker) that represents an owner's license to operate a vehicle as a taxicab within a certain municipality. Each city with a taxi medallion system has a governing body, or taxi authority, which licenses and regulates taxi industry operations within its jurisdiction. The value of a medallion is derived from the intangible licensing right it gives the owner; this right is transferable, and is not associated with a specific vehicle.

Temporary Corporate Credit Union Stabilization Fund: Created by Congress, the Stabilization Fund assumed the losses associated with the failure of five corporate credit unions — U.S. Central, WesCorp, Members United, Southwest and Constitution — in 2010. This fund has allowed the credit union system to absorb these losses over time. The Stabilization Fund closed on October 1, 2017. As required by statute, the Stabilization Fund's remaining funds, property, and other assets were distributed to the Share Insurance Fund. Through the distribution, the Share Insurance Fund assumed the assets and obligations of the Stabilization Fund, including the NCUA Guaranteed Notes (NGN) Program.

The National Credit Union Share Insurance Fund: This fund provides deposit insurance for member accounts at all credit unions that are federally insured. The Share Insurance Fund is funded by premiums paid by credit unions, which is 1 percent of the shares or deposits at credit unions. It is backed by the full faith and credit of the United States.

The Share Insurance Fund insures individual accounts up to $250,000, and a member's interest in all joint accounts combined is insured up to $250,000. The fund separately protects IRA and KEOGH retirement accounts up to $250,000.

List of Acronyms

AIRES	Automated Integrated Regulatory Examination System
AMAC	Asset Management and Assistance Center
AME	Asset Management Estate
ASC	Accounting Standards Codification
C.F.R.	Code of Federal Regulations
CDFI	Community Development Financial Institution
CDRLF	Community Development Revolving Loan Fund
CLF	Central Liquidity Facility
CSA	Community Services Association
CSRS	Civil Service Retirement System

CUMAA	Credit Union Membership Access Act of 1998, Public Law 105–219
CURE	Office of Credit Union Resources and Expansion
CUSO	Credit union servicing organization
DOL	U.S. Department of Labor
E&I	NCUA Office of Examination and Insurance
EGRPRA	Economic Growth and Regulatory Paperwork Reduction Act
ESC	Department of Transportation's Enterprise Services Center
ESM	Enterprise Solutions Modernization
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FBWT	Fund Balance with Treasury
FCU	Federal Credit Union
FECA	Federal Employees' Compensation Act
FERS	Federal Employees Retirement System
FFB	Federal Financing Bank
FFIEC	Federal Financial Institutions Examination Council
FISCU	Federally Insured, State-chartered Credit Union
FISMA	Federal Information Security Management Act, Public Law 107-347
FMFIA	Federal Managers' Financial Integrity Act of 1982, Public Law 97–255
Fund	National Credit Union Share Insurance Fund
GAAP	U.S. generally accepted accounting principles
HHS	Department of Health and Human Services
KPMG	KPMG LLP
MERIT	Modern Examination and Risk Identification Tool
NCUA	National Credit Union Administration
NCUSIF	National Credit Union Share Insurance Fund
NGN	NCUA Guaranteed Notes
NOL	Normal Operating Level
NTEU	National Treasury Employees Union
OCFO	Office of the Chief Financial Officer
OF	Operating Fund
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OMWI	Office of Minority and Women Inclusion
OPM	U.S. Office of Personnel Management
OTTI	Other-than temporary impairment
PACA	Public and Congressional Affairs
SBA	Small Business Administration
SFFAS	Statement of Federal Financial Accounting Standards
TCCUSF	Temporary Corporate Credit Union Stabilization Fund
the "Fund"	National Credit Union Administration Operating Fund

List of Hyperlinks to Additional Information by Report Section

About this Report

- NCUA Annual Reports
  https://www.ncua.gov/news/annual-reports

Message from the Board

- *2018–2022 Strategic Plan*
  https://www.ncua.gov/files/agenda-items/AG20180125Item3b.pdf

Year in Review

- *2018–2022 Strategic Plan*
  https://www.ncua.gov/files/agenda-items/AG20180125Item3b.pdf
- Letter to Credit Unions, 17-CU-09, "Supervisory Priorities for 2018"
  https://www.ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/supervisory-priorities-2018
- The Federal Credit Union Act
  https://www.ncua.gov/Legal/Documents/fcu_act.pdf
- Letter to Credit Union, 18-CU-01, "Examination Modernization Initiatives"
  https://www.ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/examination-modernization-initiatives
- Alternating Exam Program FAQs
  https://www.ncua.gov/files/press-releases-news/alternating-exam-program-faqs.pdf
- Flexible Examination (FLEX) Pilot Program
  https://www.ncua.gov/regulation-supervision/examination-modernization-initiatives/exam-flexibility-initiative
- NCUA's consumer website, MyCreditUnion.gov
  www.mycreditunion.gov
- NCUA's Proposed, Pending and Recently Final Regulations
  https://www.ncua.gov/regulation-supervision/rules-regulations/proposed-pending-and-recently-final-regulations
- NCUA Consumer Assistance Center
  https://www.mycreditunion.gov/consumer-assistance-center/Pages/default.aspx
- Spanish-language version of NCUA's consumer website, MyCreditUnion.gov
  https://espanol.mycreditunion.gov/
- Press Release, August 28, 2018, "NCUA Charters Everest Federal Credit Union"
  https://www.ncua.gov/newsroom/news/2018/ncua-charters-everest-federal-credit-union

- NCUA-CDFI Certification Initiative
  https://www.ncua.gov/support-services/credit-union-resources-expansion/resources/ncua-cdfi-certification-initiative
- *2018-2022 Diversity and Inclusion Strategic Plan*
  https://www.ncua.gov/files/publications/reports/diversity-inclusion-strategic-plan-2018-2022.pdf
- Press Release, July 21, 2017, "NCUA Plans Restructuring to Improve Efficiency, Meet Future Challenges,"
  https://www.ncua.gov/newsroom/Pages/news-2017-july-ncua-plans-restructuring.aspx
- Press Release, January 7, 2019, "New Year, New Look for NCUA Regions"
  https://www.ncua.gov/newsroom/press-release/2019/new-year-new-look-ncua-regions
- Enterprise Solution Modernization Program
  https://www.ncua.gov/About/Pages/open-government/enterprise-solution-modernization-program.aspx
- Call Report Modernization Program
  https://www.ncua.gov/regulation-supervision/examination-modernization-initiatives/call-report-modernization
- *2019-2020 Budget Justification*
  https://www.govinfo.gov/content/pkg/FR-2018-10-02/pdf/2018-21282.pdf

Looking Forward

- NCUA Briefing on Blockchain and Distributed Ledger Technology, December 13, 2018
  https://www.ncua.gov/files/agenda-items/AG20181213Item2a.pdf
- NCUA Regulatory Reform Task Force first report
  https://www.ncua.gov/files/board-comments/regulatory-review-notice-2017.pdf
- NCUA Regulatory Reform Task Force Final Report
  https://www.ncua.gov/files/agenda-items/AG20181213Item1b.pdf
- Implementation of the NCUA's Regulatory Reform Agenda
  https://www.ncua.gov/regulation-supervision/rules-regulations/regulatory-reform-agenda/implementation-ncuas-regulatory-reform-agenda
- *2018–2022 Strategic Plan*
  https://www.ncua.gov/files/agenda-items/AG20180125Item3b.pdf

Performance Highlights

- *2018–2022 Strategic Plan*
  https://www.ncua.gov/files/agenda-items/AG20180125Item3b.pdf
- Annual Performance Plans
  https://www.ncua.gov/about-ncua/budget-strategic-planning/strategic-plans-annual-performance-plans
- *2019 Annual Performance Plan*
  https://www.ncua.gov/files/agenda-items/AG20190117Item1b.pdf
- NCUA's Regulatory Reform Agenda
  https://www.ncua.gov/regulation-supervision/rules-regulations/regulatory-reform-agenda

Management Assurances and Compliance

- Office of Inspector General Report, OIG-18-07, "FY 2018 Independent Evaluation of the NCUA's Compliance with FISMA 2014"
  https://www.ncua.gov/files/audit-reports/oig-audit-compliance-fisma-2018.pdf
- U.S. Government Accountability Office Report, GAO-15-593SP, "A Framework for Managing Fraud Risks in Federal Programs"
  https://www.gao.gov/products/GAO-15-593SP
- USASpending.gov
  https://www.usaspending.gov/#/
- PaymentAccuracy.gov
  https://paymentaccuracy.gov/
- Office of Inspector General Report, OIG-17-09, "Audit of the NCUA's Compliance Under the Digital Accountability and Transparency Act of 2014"
  https://www.ncua.gov/files/audit-reports/inspector-general-data-act-report-2017.pdf
- Office of Inspector General Report, OIG-18-06, "FY 2017 Risk Assessments of the NCUA's Charge Card Programs"
  https://www.ncua.gov/files/audit-reports/oig-audit-risk-assessments-ncua-charge-card-programs-2017.pdf
- Office of Inspector General Reports
  https://www.ncua.gov/About/Pages/inspector-general/reports.aspx

Performance Results

- *2018–2022 Strategic Plan*
  https://www.ncua.gov/files/agenda-items/AG20180125Item3b.pdf
- *2018 Annual Performance Plan*
  https://www.ncua.gov/About/Documents/Agenda%20Items/AG20180125Item3c.pdf
- Performance.gov
  https://www.performance.gov/
- NCUA's consumer website, MyCreditUnion.gov
  www.mycreditunion.gov
- NCUA's Regulatory Reform Agenda
  https://www.ncua.gov/regulation-supervision/rules-regulations/regulatory-reform-agenda
- NCUA's Recent Final and Interim Final Regulations
  https://www.ncua.gov/regulation-supervision/Pages/rules/reg-history/recent-final-interim.aspx
- NCUA's Proposed, Pending and Recently Final Regulations
  https://www.ncua.gov/regulation-supervision/rules-regulations/proposed-pending-and-recently-final-regulations

Civil Monetary Penalty Adjustment for Inflation

- Final Rule, Part 747, Civil Monetary Penalty Inflation Adjustment, *The Federal Register*, February 6, 2019
  https://www.govinfo.gov/content/pkg/FR-2019-02-06/pdf/2019-01123.pdf

Contact Information

Public Information:	(703) 518-6330	pacamail@ncua.gov
Office of the Board:	(703) 518-6300	boardmail@ncua.gov
Office of the Chief Financial Officer:	(703) 518-6570	ocfomail@ncua.gov
General Counsel Fraud Hotline:	(800) 827-9650	ogcmail@ncua.gov
Credit Union Investments:	(800) 755-5999	ocmpmail@ncua.gov
NCUA Consumer Assistance Center:	(800) 755-1030	https://www.mycreditunion.gov/consumer-assistance-center
Report Improper or Illegal Activities:	(800) 778-4806	oigmail@ncua.gov
Share Insurance Hotline:	(877) 452-1463	ncusif@ncua.gov
Technical Support:	(800) 827-3255	csdesk@ncua.gov

Thank you for your interest in NCUA's *2018 Annual Report*. This report and prior annual reports are available on NCUA's website at https://www.ncua.gov/news/annual-reports.

Please send any comments or suggestions about this report to pacamail@ncua.gov.

NCUA's *2018 Annual Report* was produced through the energies and talents of NCUA staff, to whom we offer our most sincere thanks and acknowledgement. We would also like to acknowledge NCUA's Office of Inspector General for the professional manner in which they conducted the audit of the 2018 financial statements.

National Credit Union Administration
Office of Public and Congressional Affairs
1775 Duke Street
Alexandria, VA 22314-3428
Fax: (703) 837-2852

NATIONAL CREDIT UNION ADMINISTRATION

1775 DUKE STREET | ALEXANDRIA, VA 22314-3428

WWW.NCUA.GOV