2017 ANNUAL REPORT

National Credit Union Administration

About This Report

The National Credit Union Administration's *2017 Annual 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 *2017 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. 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/NewsRoom/Pages/publications/annual-reports.aspx.

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

Certificate of Excellence in Accountability Reporting

The NCUA's *2016 Annual Report* received the Certificate in Excellence in Accountability Reporting from the Association of Government Accountants. This was the agency's first time receiving the award, which is presented to federal government agencies whose annual reports achieve the highest standards in demonstrating accountability and communicating results. *The 2016 Annual Report* also received a Best-in-Class Award for Best Presentation of Future Challenges and Agency Impact.

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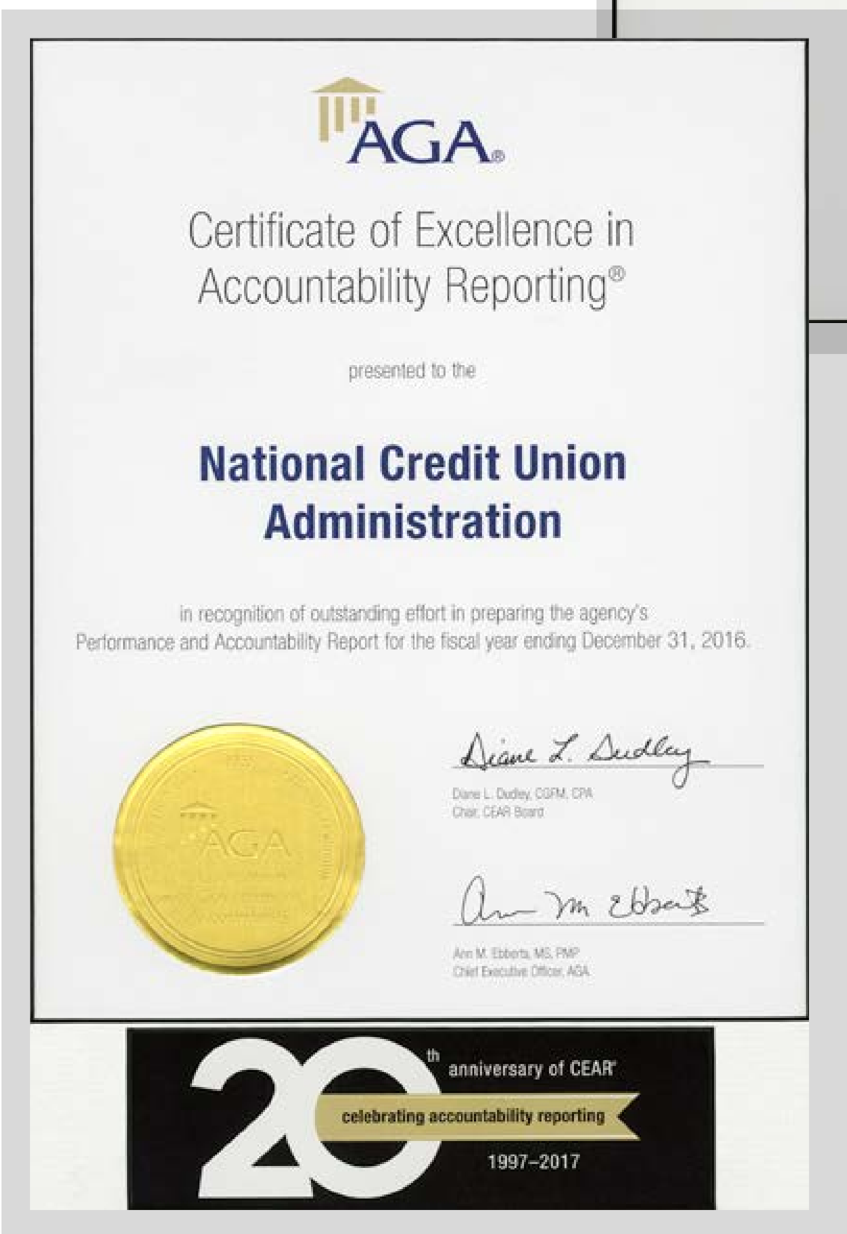
Diane L. Dudley, CGFM, CPA
Chair, CEAR Board

Ann M. Ebberts

Ann M. Ebberts, MS, PMP
Chief Executive Officer, AGA



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in recognition of outstanding effort in preparing the agency's Performance and Accountability Report for the fiscal year ending December 31, 2016.

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Message from the Board

J. Mark McWatters
Chairman

Rick Metsger
Board Member

On behalf of the National Credit Union Administration, we are pleased to present our *2017 Annual Report*.

In accordance with section 102(d) of the Federal Credit Union Act, this report reviews the agency's performance in 2017 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.

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 more than 111 million credit union members, and safeguards the Share Insurance Fund from losses. As outlined in the agency's *2017–2021 Strategic Plan*, the NCUA's strategic goals in 2017 were:

- Ensure a safe, sound, and sustainable credit union system;
- Promote consumer protection and financial literacy; and
- Cultivate an inclusive, collaborative workplace at NCUA that maximizes productivity and enhances impact.

As credit unions carried out their role of providing affordable financial services to their members, the NCUA engaged in a number of important initiatives in 2017.

The most significant was closing the Temporary Corporate Credit Union Stabilization Fund prior to its scheduled expiration in 2021 and transfering its assets into the Share Insurance Fund. The NCUA also continued to improve its efficiency and effectiveness through an agency-wide realignment of its resources that will consolidate functions at the start of 2018 and will close two regional offices in 2019. Additionally, we continued to make sizable investments in new technology that will allow the agency to carry out its supervisory and examination functions in the future more efficiently and with fewer disruptions to credit union operations. We continued to enhance the transparency and accountability of our decisions, operations, and budget. Finally, we took action to provide meaningful and significant regulatory relief to credit unions during the year.

Closing the Stabilization Fund and Merging it into the Share Insurance Fund

The Stabilization Fund has been a vital tool for the NCUA to minimize the losses associated with the collapse of five corporate credit unions during the financial crisis nearly a decade ago. It provided short-term and long-term funding to resolve a portfolio of legacy assets, including residential mortgage-backed securities, commercial mortgage-backed securities, other asset-backed securities and corporate bonds, that had to be managed as part of the Corporate System Resolution Program. Through the Stabilization Fund, the long-term costs of the failed corporates were contained within the credit union system.

With the improvements in the value of the legacy assets from the corporates, projections that any future assessments on credit unions will no longer be necessary, the success of our legal recovery efforts, and the repayment of $6 billion in borrowings from the U.S. Department of the Treasury in 2016, the Stabilization Fund's purpose and utility ended. As a result, in September 2017, the NCUA Board voted to close the Stabilization Fund and to transfer its remaining assets and obligations into the Share Insurance Fund, as prescribed in the Federal Credit Union Act.

In addition to merging the two funds, we also set the normal operating level of the Share Insurance Fund to 1.39 percent to strengthen the resilience of the fund, which has seen its equity ratio decline for several quarters due to increased share growth, declining investment income because of the low-interest rate environment, and insurance losses. This action also allows us to meet the remaining obligations of the Stabilization Fund, manage the potential risks associated with the introduction of the legacy assets into the Share Insurance Fund's portfolio prudently, and protect the Share Insurance Fund against any potential future losses. This action also allowed us in February 2018 to approve a distribution of additional equity above the normal operating level that will be paid to credit unions in 2018, in accordance with the Federal Credit Union Act.

Restructuring the Agency's Functions to Meet Future Challenges

The financial services marketplace is evolving, and so too must the NCUA. It is critical that the agency continue to fulfill its mission in a fully transparent, accountable, and efficient manner.

To improve our efficiency and effectiveness, and to account for anticipated future changes in the credit union system, we announced and began implementation of an agency-wide restructuring of our offices and operations in 2017. Under this initiative, we:

- Planned the consolidation of the agency's five regional offices into three by closing the Albany, New York, and Atlanta, Georgia, offices beginning in 2019, and eliminating 80 percent of the agency's leased facilities;

- Created the Office of Credit Union Resources and Expansion by redefining and realigning our chartering and field-of-membership, credit union development, grants and loans, and minority depository institutions programs. This office began operations on January 7, 2018;

- Restructured the Office of Examination and Insurance into specialized working groups; and

- Changed the Asset Management and Assistance Center's business model and reporting structure.

We also eliminated overlapping responsibilities within our agency's offices and improved functions such as records management and procurement. We improved our process for issuing examination and supervision reports to improve their quality and increase consistency. With these structural changes, we anticipate a reduction in our workforce through attrition over the next two years.

We also made further refinements to our examination program. During the year, we fully implemented an extended examination cycle for well-managed, low-risk federal credit unions with assets of less than $1 billion. We also made other improvements such as better coordination with our state-level partners during exams on state-chartered credit unions, and we tested new processes designed to reduce the amount of time examiners spent on site at credit unions. Through these initiatives, we are learning new ways to decrease our regulatory footprint, while simultaneously reducing costs and improving the quality of life for our employees.

Additionally, we continued to make significant investments in new technology and systems in 2017 under our Enterprise Solution Modernization Program. These will improve our data collection efforts, reduce our examination footprint, and give us better tools and data to analyze potential risks and emerging trends within the credit union system.

Advancing Our Transparency and Accountability Efforts

It is essential the NCUA carry out its responsibilities in a fully transparent and accountable manner. In 2017, we took additional steps to ensure those principles applied to all aspects of the agency's operations and budget. The first step was the approval of two final rules that improved the ability of credit unions to appeal agency actions to the NCUA Board and to appeal examination-related supervisory decisions to the agency's Supervisory Review Committee. Both of these rules ensure that credit unions have an open and transparent process when they have a conflict with an NCUA action or supervisory determination.

We also continued the practice of holding public briefings on the staff-proposed budget for the agency. In 2017, we developed an improved budget justification and analysis that provided stakeholders with additional detailed information on the agency's budget and the strategic decisions we are making to better align our resources to meet the evolving needs of credit unions.

Along with improving the quality of the information available on the NCUA's budgetary process, we also provided greater transparency on how the agency's operations are funded. In November 2017, the NCUA Board approved a final rule that changed the methodology for the overhead transfer rate, which represents insurance-related costs in the agency's operating budget funded by the Share Insurance Fund. Since its introduction in 2003, the overhead transfer rate has been a source of controversy between federal and state-chartered credit unions. The new overhead transfer rate methodology is principles-based, simpler, more equitable, and transparent, and it will result in lower administrative costs for the agency.

Reducing the Regulatory Burden

Financial services regulators must recognize that rules and regulations should prevent or correct potential problems without unduly impeding the viability of the institutions that must comply with them. That is why we issued for public comment our proposed Regulatory Reform Agenda in August 2017. The proposed agenda laid out a plan for achieving meaningful regulatory relief that conforms to the goals of Executive Order 13777, which directs executive branch agencies to set up a task force to identify rules that limit job creation, are outdated, impose excessive costs, create serious inconsistencies, or interfere with other regulatory reform initiatives.

Our task force's recommendations in the proposed agenda were presented in three time-line tiers:

- **Tier 1:** Changes to be reviewed by the NCUA Board in the first two years after it adopts the final reform agenda. These include revising the rule on loan maturities and extending the compliance date for the risk-based capital rule, among others;

- **Tier 2:** Changes to be considered in year three after the agenda is approved. These include areas like alternative and secondary capital; and

- **Tier 3:** Changes to be taken up in year four or after. These include areas like loan participations, the low-income designation, and investments, among others.

While we are continuing to review the comments received, the proposed Regulatory Reform Agenda represents a comprehensive effort to develop a set of regulatory relief recommendations that can be significant to credit unions.

Looking to Challenges Ahead

While 2017 was a successful year for both federally insured credit unions and the NCUA, there are a number of challenges that will confront the agency and credit unions in the future. Some of the areas of concern include:

Cybersecurity Threats—Cyberattacks on the nation's financial services infrastructure will increase in frequency and severity as interconnectedness in all aspects of society grows and as criminals, hackers, and terrorists become more sophisticated and the tools they use become easier to acquire. With financial institutions increasingly targeted, the NCUA must continue to strengthen the resiliency of individual credit unions, the entire credit union system, and the agency against these threats and actors.

Share Insurance Fund Equity Ratio—Since the end of the Great Recession, the Share Insurance Fund's equity ratio has declined, primarily from strong growth in insured shares and reduced investment income resulting from a low interest-rate environment. The transfer of the Stabilization Fund's assets into the Share Insurance Fund and the increase in the normal operating level have improved the Share Insurance Fund's resiliency. Yet, the equity ratio of the fund could continue to experience stress in the future from such factors as an economic downturn, continued share growth, low investment returns, or increased insurance losses. The NCUA Board is carefully monitoring these trends, and it will take appropriate actions as necessary to ensure the health and stability of the Share Insurance Fund.

Legacy Asset Disposition—The closure of the Stabilization Fund means that its remaining obligations and cash needs must be borne by the Share Insurance Fund. To ensure the Share Insurance Fund's ability to meet these obligations between now and when the remaining NCUA Guaranteed Notes mature in 2021, the NCUA Board approved increasing the fund's normal operating level to 1.39 percent. This will provide the fund with sufficient equity to account for any potential decline in the value of the legacy assets and other factors that may affect the Share Insurance Fund.

As 2021 approaches, the NCUA will carefully monitor the value of the legacy assets to ensure we satisfy our remaining obligations and maintain the health of the Share Insurance Fund.

Troubled Credit Unions—At the end of 2017, the NCUA managed two credit unions that were in conservatorship because of their focus on certain types of specialized loan products where the underlying assets that support these loans have declined in value significantly due to changes in the marketplace and consumer preferences. Additionally, other credit unions have experienced financial stress because of their participation in these loan products. While the credit union system's exposure to these specialized loan products is limited and manageable, the NCUA must work to mitigate any potential risk these institutions may pose to the system and the Share Insurance Fund.

Credit Union Performance Disparities—The largest credit unions, those with assets greater than $500 million, have produced most of the system's growth in recent years. At the same time, credit unions with less than $100 million in assets have experienced lagging loan growth and declining membership, and we have seen the long-standing trend of consolidation of these institutions continue. By merging our chartering, field-of-membership, training, grants, and loan functions into the new Office of Credit Union Resources and Expansion, we have improved our ability to support the growth and viability of credit unions.

New Technology Investments—Many of the information technology systems that support both NCUA and state-level examination, data collection and reporting efforts are outdated and in need of replacement. Continued investments will be necessary to develop and maintain technology systems essential to support the NCUA's mission in the future. Although these investments will take time to implement fully, they will allow us to meet our safety and soundness mission more efficiently and with fewer disruptions to credit union operations.

Regulatory Relief—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 will implement meaningful regulatory relief for credit unions through an extensive review of our existing rules and regulations, and further reforms and enhancements to our supervision and examination programs.

During the year, we took a number of significant steps to improve the efficiency, effectiveness, transparency, and accountability of the agency. These accomplishments will allow the NCUA to meet the needs of credit unions better in the future, and they are a testament to the professionalism and dedication of our employees. In 2018 and beyond, we will advance several initiatives that will further reduce the regulatory burden on credit unions. Through these efforts, and with the continued support of stakeholders in the credit union community and in Congress, we can lay the foundation for a more innovative and dynamic credit union community of the future.

J. Mark McWatters
Chairman
March 20, 2018

Rick Metsger
Board Member
March 20, 2018

Introduction to the Report

The NCUA's *2017 Annual Report* provides financial and performance information for the calendar year beginning January 1, 2017, and ending on December 31, 2017, 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 presents our operations, accomplishments and challenges. The *2017 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 2017. 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.

Financials Section

This section begins with a message from the Chief Financial Officer. This section 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 2017, 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.

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

"NCUA will protect consumer rights and member deposits."

Values

Integrity, Accountability, Transparency, Inclusion, Proficiency

Created by the U.S. Congress in 1970, the 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 the NCUA's operations by setting policy, approving budgets and adopting rules.[1]

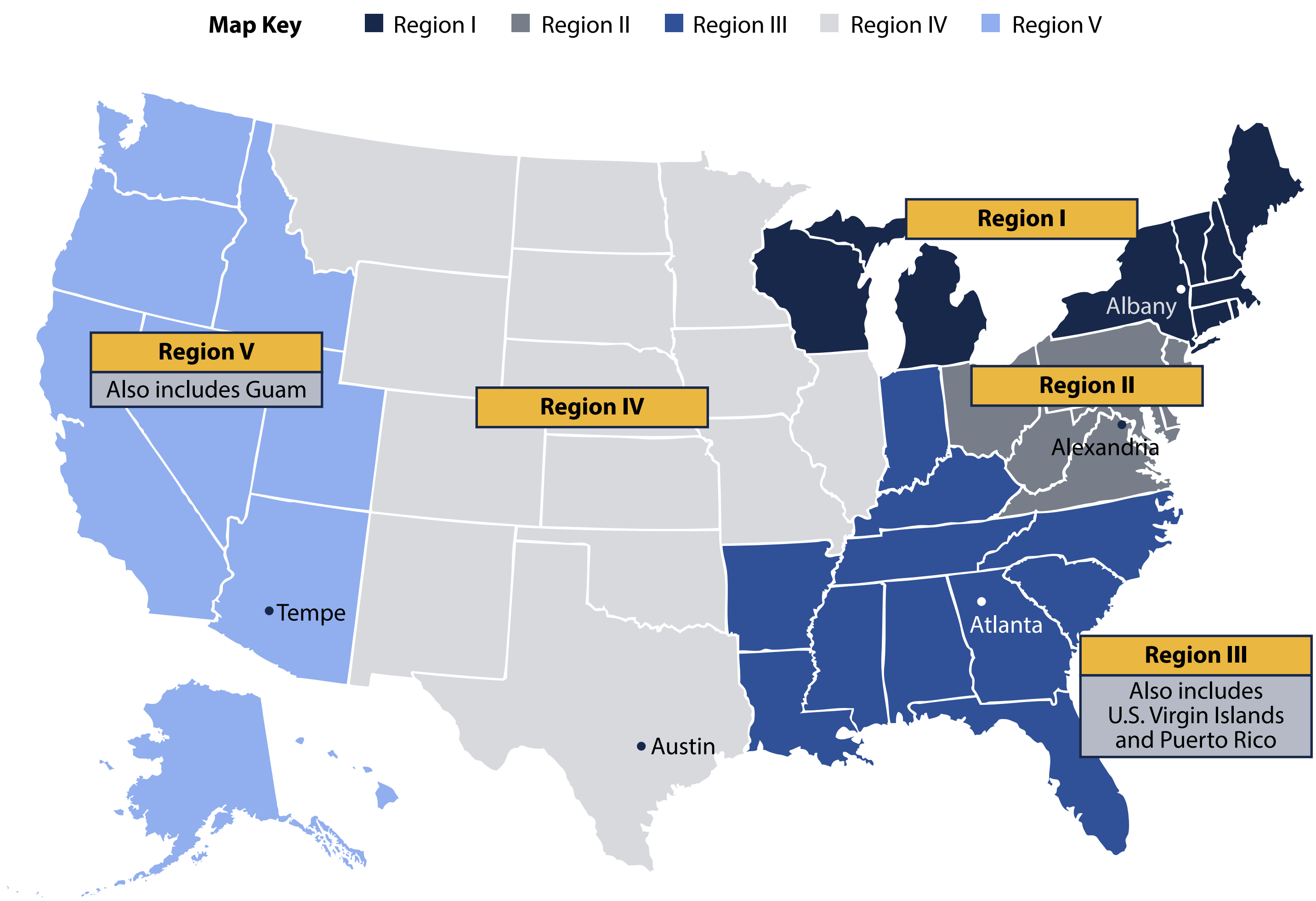
The NCUA protects the safety and soundness of the credit union system by identifying, monitoring and reducing risks to the National Credit Union Share Insurance Fund. Backed by the full faith and credit of the United States, the Share Insurance Fund provides up to $250,000 of federal share insurance to more than 111 million account holders in all federal credit unions and the overwhelming majority of state-chartered credit unions.

[1] In 2017, there were only two members on the NCUA Board.

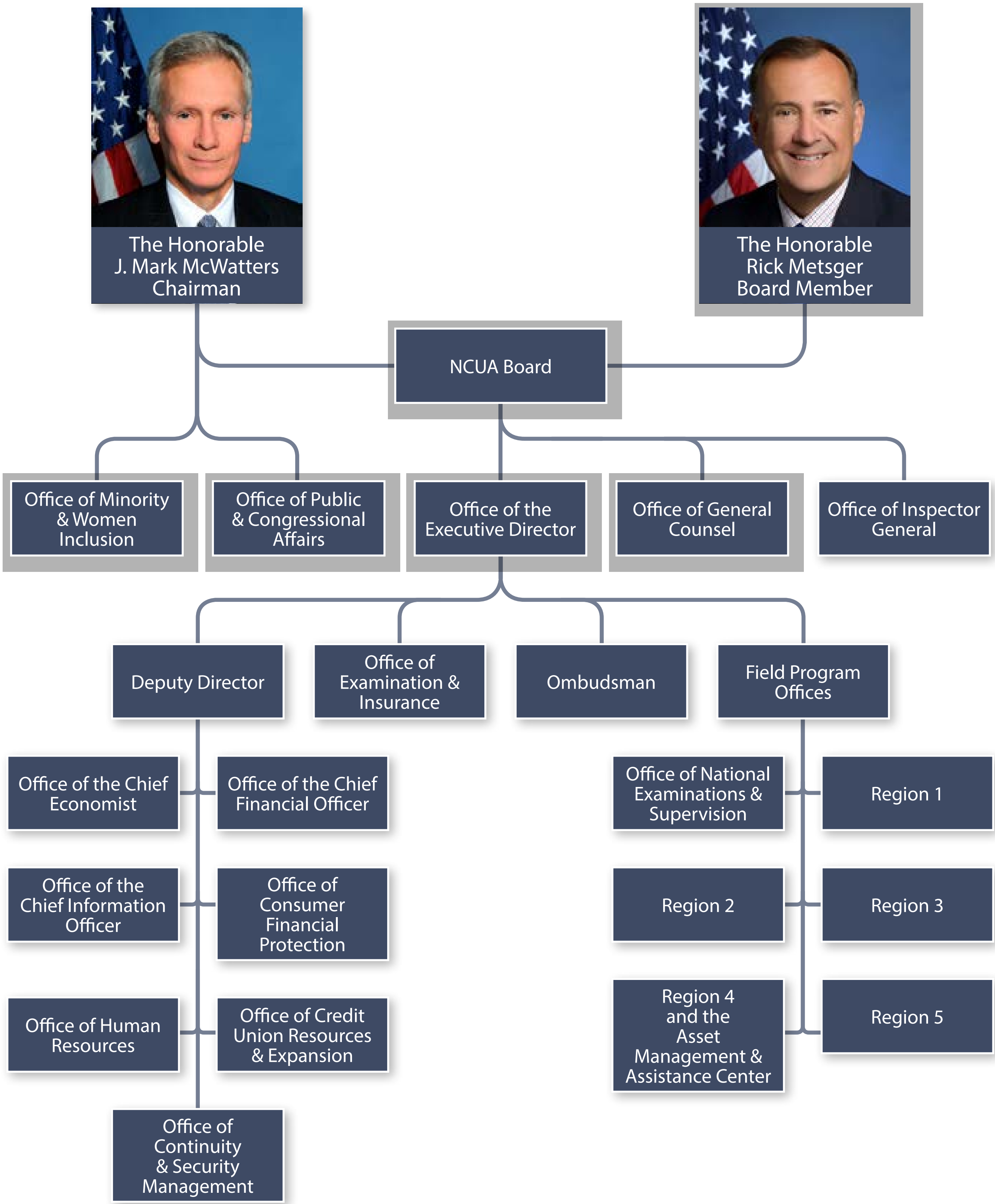
The NCUA also plays a role in helping to ensure broader financial stability as a member of the Federal Financial Institutions Examination Council. This council is responsible for developing uniform principles, standards and report forms, and for promoting uniformity in the supervision of depository financial 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.

In 2017, the NCUA relied upon 1,162 employees to perform all the vital tasks in the agency's insurance, consumer protection, and regulatory roles. The agency operates its central office in Alexandria, Virginia; its Asset Management and Assistance Center in Austin, Texas, to liquidate credit unions and recover assets; and five regional offices, which carry out the agency's supervision and examination program.

The NCUA's Regional Offices



National Credit Union Administration **Organizational Chart**



Year in Review

Federally insured credit unions continued to perform well in 2017. By year's end, credit union membership grew to more than 111 million members, assets in the credit union system increased to $1.37 trillion, and the system's aggregate net worth ratio stood at 10.96 percent, well above the 7-percent statutory level for well capitalized.

As credit unions continued to provide their members with essential financial services, the NCUA continued to execute its congressionally mandated safety and soundness mission. The following is a discussion of our significant accomplishments in 2017, as outlined in the *2017–2021 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 our performance in meeting these strategic goals and objectives.

Ensuring a Safe and Sound Credit Union System

The NCUA's primary mission is to ensure that our 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 up to $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 all other credit unions, we conduct 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, our staff focuses on interest rate risk, evaluates lending and credit practices, and assesses information technology, cybersecurity, and payment system risks. In addition, these institutions undergo annual stress tests to assess their capital levels under a series of adverse financial and economic scenarios.

The Office of National Examinations and Supervision also supervises 11 corporate credit unions, which range in size between $136 million and $4.2 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 2017, our supervisory priorities were:

- **Cybersecurity**—Our field staff evaluated credit unions' cybersecurity risk-management practices.

- **Bank Secrecy Act Compliance**—Our staff assessed compliance with the Bank Secrecy Act, focusing on credit unions' relationships with money services businesses.

- **Internal Controls and Fraud Prevention**—We evaluated the adequacy of internal controls and the systems in place to prevent and detect fraud in credit unions.

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

- **Commercial Lending**—Our modernized member business lending rule went into effect at the beginning of 2017. Our field staff 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**—Our staff evaluated credit unions' compliance with recent changes to the Military Lending Act, along with the Servicemembers Civil Relief Act.

In 2017, our field staff completed 6,024 supervisory contacts and reported 579,330 examination hours, compared to 9,465 supervisory contacts and 679,759 examination hours in 2016. Most of the reduction in supervisory contacts and examination hours was due to the implementation of the Exam Flexibility Initiative, which put into practice an extended examination cycle for well-managed and low-risk credit unions.

Improving Our Examination Program

Over time, we have adjusted our examination approach by adding minimum scope requirements and removing the yearly examination requirement for eligible low-risk credit unions. In 2017, we made further improvements to our examination program, which include:

- Implementing an extended examination cycle for well-managed, low-risk federal credit unions with assets of less than $1 billion;

- Adjusting the examination cycle for all other federal credit unions;

- Continuing targeted examinations under the Small Credit Union Examination Program;

- Enhancing coordination with our state-level partners on examinations of federally insured, state-chartered credit unions;

- Creating a joint working group with state supervisors;

- Establishing applicable provisions for all federally insured credit unions, such as random sampling examinations and examination cycle measurement;

- Enhancing planning and notice procedures for examinations; and

- Piloting a new examination process that focused on reducing the amount of time examiners spend onsite at credit unions.

In 2017, the NCUA also developed, tested, and trained examiners on our new Automated Cybersecurity Examination Tool that improves and standardizes our supervision related to cybersecurity. This new examination tool provides the NCUA with a repeatable, measurable, and transparent process for assessing the level of cybersecurity preparedness across all federally insured credit unions.

Using Supervisory Tools to Address Compliance Concerns

In working to protect the credit union system and the Share Insurance Fund from losses, our agency 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 306 at the end of 2016, to 296 at the end of 2017.

Outstanding Enforcement Actions at the End of 2017						
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
Federal Credit Unions						
Preliminary Warning Letters	123	128	77	48	56	51
Unpublished Letters of Understanding and Agreement	284	253	209	171	135	145
Published Letters of Understanding and Agreement	1	2	0	0	0	0
Cease-and-Desist Orders	1	2	2	0	1	0
Conservatorship	3	3	2	3	2	1
Federal Credit Union Totals	412	388	290	222	194	197
Federally Insured, State-Chartered Credit Unions						
Preliminary Warning Letters	24	19	18	16	11	13
Unpublished Letters of Understanding and Agreement	149	154	139	115	91	77
Cease-and-Desist Orders	10	4	5	6	8	7
Conservatorship	4	3	2	3	2	2
Federally Insured, State-Chartered Credit Union Totals	187	180	164	140	112	99
Federally Insured Credit Unions Totals	**599**	**568**	**454**	**362**	**306**	**296**

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 2017, we assessed 79 credit unions $24,744 in penalties. In comparison, we assessed 103 credit unions $60,928 in penalties in 2016. As required by law, the NCUA remitted all funds collected from late filers to the U.S. Treasury. For more information on the civil monetary penalties the NCUA can impose, please see the Other Information section of this report.

In 2017, the NCUA issued administrative actions prohibiting 45 individuals from participating in the affairs of any federally insured financial institution, compared to 56 administrative actions issued in 2016.

Closing the Corporate Stabilization Fund into the Share Insurance Fund

In September 2017, the NCUA Board approved the closure of the Temporary Corporate Credit Union Stabilization Fund prior to its originally planned sunset in 2021, and the transfer of its assets into the Share Insurance Fund.[1]

Since its creation in 2009, the Stabilization Fund has a played a critical role in minimizing and containing the long-term resolution costs from the failure of five corporate credit unions during the financial crisis. However, with the improvements in the value of the legacy assets from the corporates, projections that future assessments on credit unions will no longer be necessary, the success of our legal recovery efforts, and the repayment of $6 billion in borrowings from the U.S. Department of the Treasury in 2016, the purpose the Stabilization Fund has been achieved.

At its closure, the Stabilization Fund reported a net income of $1.0 billion and a net position of $2.6 billion for the nine months ending on September 30, 2017. The net income level was due primarily to interest revenue received by the fund resulting from of a partial recovery of the $1 billion capital note from the asset management estate of U.S. Central Federal Credit Union, one of the failed corporates. Also contributing to net income during the third quarter was a $43.6 million reduction in the provision for insurance losses and $5.6 million in guarantee fee income.

Additionally, the final audit of the Stabilization Fund was issued on November 15, 2017, and the result was an unmodified or "clean" audit opinion with no material weaknesses. The financial statements for the Stabilization Fund are not included in this *Annual Report*, but they can be found on our public website.

With the closure of the Stabilization Fund, the Board also set the normal operating level for the Share Insurance Fund at 1.39 percent to address an increase in the volatility of the Share Insurance Fund's equity ratio from changes in the economy and the performance of the legacy assets securing the NCUA Guarantee Notes program. At the end of 2017, the Share Insurance Fund had an equity ratio of 1.46 percent on an insured base of $1.1 trillion. Total assets in the fund stood at more than $16.7 billion.

The NCUA will continue to monitor the health of the Share Insurance Fund. The agency will also continue to analyze the Share Insurance Fund's risk exposure, and each subsequent year the NCUA Board will evaluate what the normal operating level needs to be, based on an analysis of data and trends as they evolve over time.

[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

NCUA Board Chairman J. Mark McWatters (then Acting Chairman) poses a question to Chief Financial Officer Rendell Jones during the February 2017 meeting of the NCUA Board.

Continuing Our Legal Recovery Efforts

Throughout 2017, the NCUA continued to hold institutions that sold faulty mortgage-backed securities to the five failed corporates accountable. During the year, the NCUA reached settlement agreements with UBS and Credit Suisse for $445 million and $400 million in gross legal recoveries, respectively.

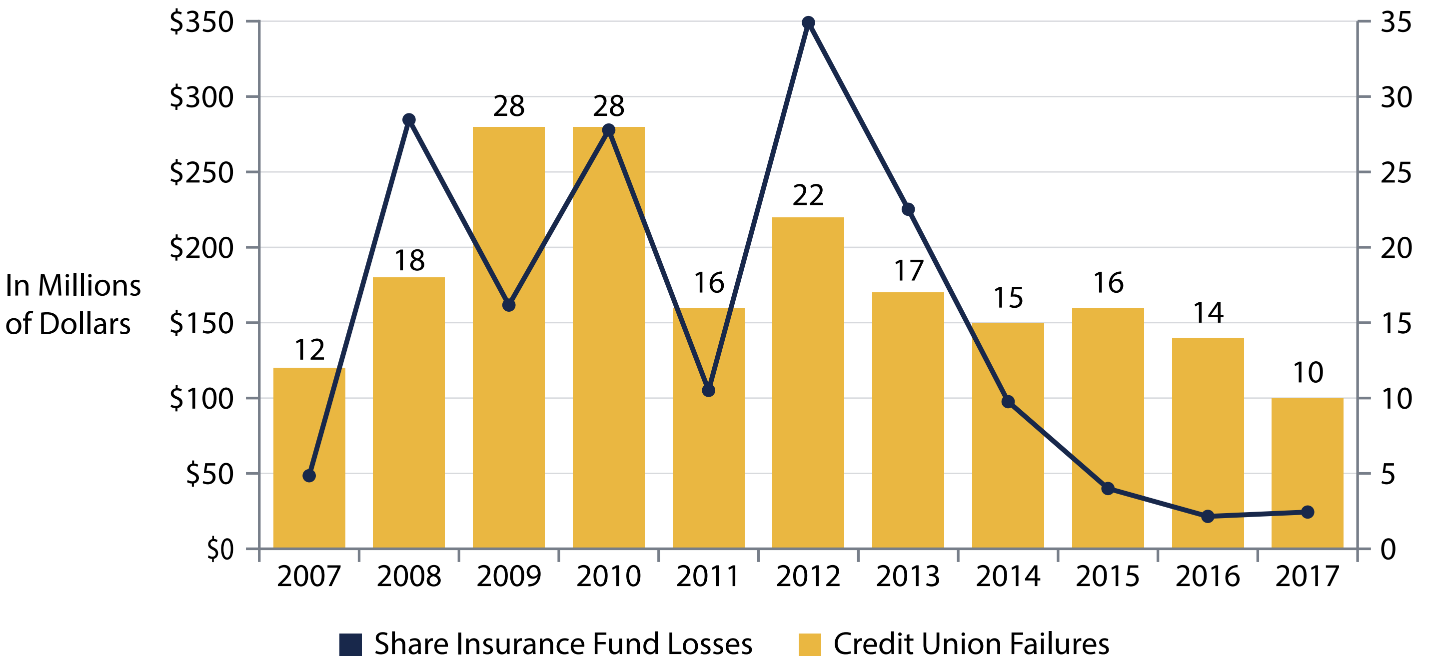
Gross Legal Recoveries from NCUA's Legal Efforts 2011–2017 (in millions)								
Year	2011	2012	2013	2014	2015	2016	2017	Total Gross Recoveries
Gross Recoveries	$165.5	$5.3	$1,591.6	$0	$742.1	$1,817.5	$845.0	$5,167.0

The NCUA was the first federal financial institutions regulator to recover losses from investments in faulty mortgage-backed securities. Since 2011, the NCUA's gross legal recoveries from various financial institutions have totaled more than $5.1 billion. At the end of 2017, the NCUA still had six pending lawsuits against various residential mortgage-backed securities trustees and LIBOR banks related to corporate credit union losses.

Resolving Troubled Credit Unions

The NCUA uses its conservatorship authority provided in the Federal Credit Union Act to protect the Share Insurance Fund and the interests of credit union members. In all, we were the conservator of nine credit unions at various times throughout 2017. At the end of the year, the NCUA operated five credit unions in conservatorship. These institutions had 42,219 members and more than $1.7 billion in assets. We continue to work with these institutions to resolve their issues and to minimize any potential risks they may pose to the Share Insurance Fund.

Share Insurance Fund Losses and Credit Union Failures 2007–2017



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

Protecting Member Deposits

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

These failures cost the Share Insurance Fund $24.4 million, an increase from $8.6 million in 2016. Fraud was a contributing factor in three of the failures in 2017, costing the Share Insurance Fund $23.2 million, compared to $6.5 million in 2016.

Gross assets managed by the NCUA's Asset Management and Assistance Center, which are comprised primarily of loans, were more than $425 million at the end of 2017, down from more than $743 million at the end of 2016. The reduction in gross assets managed was due to loan sales and the final resolution of several asset estates.

Creating a Modernized Regulatory Environment

The NCUA continues to create a regulatory environment that allows for innovation and flexibility, creates new avenues for growth, and acknowledges that the economic, competitive, and regulatory environment is constantly evolving. In addition, we took steps to provide regulatory relief while still maintaining safety and soundness.

Here we highlight our most significant rulemakings and actions for 2017. A full listing and description of the final and proposed rules approved by the NCUA Board in 2017 is available on our website.

- **Sought Stakeholder Input on Alternative Capital**—In January, the NCUA Board issued an advance notice of proposed rulemaking on potential changes to the rules governing alternative forms of capital that credit unions could use to meet their risk-based net worth requirements. The notice asked stakeholders for their views on a range of topics, including:

    - Any regulatory changes that would be necessary to facilitate greater use of alternative capital;
    - Potential tax implications related to issuing alternative capital, particularly for state-chartered credit unions;
    - Potential director and management liability issues from issuing alternative capital;
    - Investor protection issues and whether the sale of supplemental capital, like secondary capital, should be restricted to knowledgeable institutional investors;
    - The impact of alternative capital on the mutual ownership structure of credit unions; and
    - The application of securities law to both supplemental and secondary capital.

  The NCUA Board is currently reviewing the comments received.

- **Improved Communications to Members During Voluntary Mergers**—This proposal, approved for public comment by the NCUA Board in May, would provide members whose federal credit unions are seeking a voluntary merger with better access to information about the merger and a longer period of time to consider their votes. Specifically, the proposed rule would:

    - Increase the required time for notice to members before a merger vote to at least 45 days;
    - Require the merging credit unions to disclose all merger-related compensation for certain employees and officials of the merging credit union;
    - Simplify the contents and format of the members' notice for greater clarity and transparency; and
    - Create a member-to-member communications process similar to those for credit union conversions to or mergers with banks.

  The NCUA Board is reviewing the comments received.

- **Enhanced Due Process in Supervisory Appeals**—The NCUA Board approved a final rule that created a better process for the appeals of material, examination-related supervisory determinations. The approved changes include:

    - Expanding the number of material supervisory determinations that can be appealed to the agency's Supervisory Review Committee;

- Creating an optional intermediate level of review before an appeal goes to the committee; and
- Changing the nature and composition of the Supervisory Review Committee.

Under the new rule, an appeal at any level would not affect, delay, or impede any formal or informal supervisory or enforcement action in progress. Likewise, it would not affect our authority to take any supervisory or enforcement action against a federally insured credit union.

This rule became effective on January 1, 2018.

- **Improved Our Appeals Process**—In October, the NCUA Board approved a final rule that made the process of appealing agency decisions more efficient, consistent, and transparent. The new rule replaced all previous appeal processes with a uniform and comprehensive set of procedures that apply in cases in which a decision by a regional director or other program office director is appealed to the NCUA Board.

  The new rule affects appeals of decisions in areas like chartering and field of membership, investment authority, conversions and mergers, creditor claims in liquidations, and share insurance determinations. The new rule does not cover certain areas, such as formal enforcement actions, prompt corrective action, and material supervisory determinations.

  This rule became effective on January 1, 2018.

- **Established a New Overhead Transfer Rate Methodology**—In November, the NCUA Board approved a new methodology for calculating the overhead transfer rate, which is one of two sources of funding for the agency's budget, the operating fee being the other. The overhead transfer rate accounts for the allocation of funds from the Share Insurance Fund to cover insurance-related expenses paid by both federally chartered credit unions and state-chartered credit unions. The new overhead transfer rate methodology is simpler, more equitable, and transparent, and it will result in lower administrative costs.

  The revised methodology became effective on November 14, 2017.

- **Proposed More Tailored Capital Planning and Stress Testing Requirements**—In October, the NCUA Board proposed a rule that would tailor our rules on capital planning and stress testing for credit unions with assets greater than $10 billion to account for the credit union's size, complexity, and financial condition. The proposed rule would also allow federally insured credit unions with more than $10 billion in assets to conduct their own stress tests in accordance with the NCUA's requirements and would allow these credit unions to incorporate the results into the capital plans they submit to the agency.

  Additionally, the proposed rule would classify covered credit unions into three tiers, each with tailored requirements:

- **Tier 1**: Credit unions with assets greater than $10 billion in their first three capital planning cycles. Stress testing would not be required.
- **Tier 2**: Credit unions with three or more capital planning cycles and with assets greater than $10 billion, but less than $20 billion. These credit unions would run stress tests under our scenarios and guidance, but they would not be subject to the 5 percent minimum stress-test ratio.
- **Tier 3**: Credit unions with $20 billion or more in total assets. These credit unions would run stress tests under our scenarios and guidance, and would be subject to the 5 percent minimum stress-test ratio.

The NCUA is currently reviewing the comments received.

- **Increased Flexibility in Emergency Mergers**—Approved in December, this final rule amended the definition of "in danger of insolvency" in the agency's *Chartering and Field of Membership Manual*. The previous definition required the NCUA to project when a credit union would fall into at least one of three net worth categories over a period of time in order to be found in danger of insolvency. The new rule lengthens the time for two of the current categories by six months and adds a fourth category that includes credit unions that have been granted or received Section 208 assistance within the 15 months before an "in danger of insolvency" determination was made.

  This rule became effective on January 19, 2018.

Responding to Natural Disasters

NCUA staff from across the country assisted credit unions during several natural disasters that occurred in the second half of 2017. These actions played a critical role in maintaining public confidence in the credit union system during these disruptions.

Our staff contacted and coordinated responses with more than 500 affected credit unions, including:

- Determining the affected credit union's operational status;
- Assisting members and other consumers that contacted our Consumer Assistance Center to get information on the status of their institutions, and where they could access vital financial services;
- Providing financial assistance to affected low-income designed credit unions in the form of urgent needs grants; and
- Providing information to state-level and federal partners, including the Department of the Treasury, the Federal Emergency Management Agency, and the agencies that comprise the Financial and Banking Information Infrastructure Committee.

In addition, our staff assisted credit unions in Puerto Rico and the U.S. Virgin Islands with their efforts to notify federal and local first responders of issues related to cash delivery, the inability of their staffs to access credit union facilities due to road closures, and the lack of generator fuel.

Promoting Consumer Protection and Financial Literacy

As a prudential regulator, the NCUA plays a critical role in ensuring that credit unions comply with all federal consumer financial protection laws and regulations. In addition, we promote the importance of financial literacy through our consumer website, MyCreditUnion.gov, and our participation in national financial literacy initiatives and programs. These two areas, protecting consumers and raising awareness about the importance of financial literacy and education, complement our safety and soundness mission.

Enforcing Federal Consumer Financial Protection Laws and Regulations

In 2017, our Office of Consumer Financial Protection spent 4,079 hours examining 26 credit unions for compliance with fair lending laws and regulations.[2] Agency staff spent an additional 1,222 hours performing 49 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 our enforcement of consumer financial protection laws and regulations is our Consumer Assistance Center, which receives and handles consumer complaints. The NCUA uses a two-step process for addressing the complaints we receive. First, a complaint filed with our Consumer Assistance Center involving a federal consumer financial protection matter is sent to the credit union for attempted resolution, as appropriate. The second phase of the process is initiated if the complaint remains unresolved after 60 days, at which point our Consumer Assistance Center may begin its own investigation to determine compliance with applicable federal consumer financial protection laws and regulations.

During the year, the Consumer Assistance Center assisted 52,635 consumers, up from 49,543 in 2016, and recorded more than $1.8 million in monetary benefits for complainants.[3]

Promoting Financial Literacy

Promoting financial literacy is a core credit union mission. Better-informed consumers make better financial decisions and are able to utilize fully the products and services that federally insured credit unions offer.

[2] In 2017, the Office of Consumer Financial Protection was named the Office of Consumer Financial Protection and Access. The office's name and areas of responsibility were changed as part of the agency's realignment at the start of 2018.
[3] 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.

NCUA Board Member Rick Metsger delivers remarks during the April 2017 meeting of the NCUA Board.

The NCUA participated in several national financial literacy initiatives throughout 2017, including the Financial Literacy and Education Commission, a commission comprised of 21 federal agencies tasked with developing a national strategy on financial education. We also participated in the Military and America Saves campaigns, National Consumer Protection Week, Financial Capabilities Month, the CFPB's Youth Employment Success Roundtable, the National Youth Involvement Board Conference, and the Jump$tart National Educators Conference, among other outreach events and initiatives.

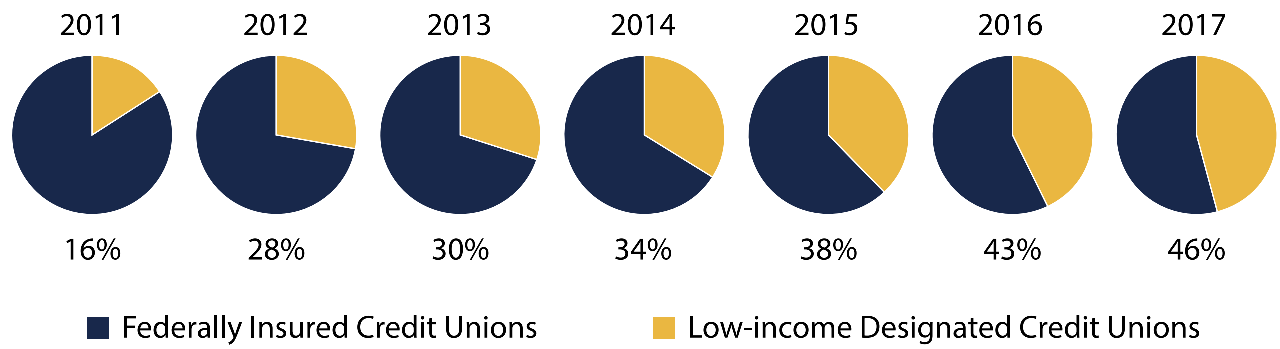
In addition, we continued to see interest in our online consumer financial protection and financial literacy resources. The English and Spanish-language versions of NCUA's consumer website, MyCreditUnion.gov, had 753,588 visits in 2017. We also saw increased engagement with credit unions, educators, students and other stakeholders during two financial literacy Twitter Chats we hosted, and through the growing use of our financial tools and resources, including the learning games *Hit the Road* and *World of Cents*.

Helping Credit Unions Remain Viable

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 communities, yet they face the challenges of increased competition, stagnant membership, and lagging earnings.

Small credit unions, defined as those with $100 million in assets or less, make up 72 percent of all credit unions in the system. These 4,016 credit unions had 12.2 million members and more than $101.2 billion in assets at year-end 2017.

Low-income Designated Credit Union as a Percentage of all Federally Insured Credit Unions 2011–2017



Source: NCUA Call Report Data

A critical component of the 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 2017, there were 2,542 low-income credit unions, up from 2,491 at the end of 2016. This means approximately 46 percent of all federally insured credit unions have a low-income designation. Altogether, low-income credit unions had 43.4 million members and more than $467.6 billion in assets at year-end, compared to 39.3 million members and more than $409.1 billion in assets at the end of 2016.

Another initiative we use to support credit unions is our 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.

At no cost to these institutions, our agency 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 2017, 562 federally insured credit unions had self-certified as a minority depository institution, a decrease of 4.1 percent from the 586 minority credit unions at the end of 2016. The decline in the number of minority depository institutions can be attributed to mergers, liquidations, including purchase and assumptions, and net changes in self-certifications. At the end of 2017, minority depository institutions served 4.3 million members and held more than $41 billion in assets. These institutions represent 10.2 percent of all federally insured credit unions.

Throughout the year, the NCUA provided small, low-income, new, and minority credit unions with consulting assistance, training, and additional funding opportunities to remain viable, become more efficient, and provide new and better services to their members. In 2017, 316 credit unions received 11,346 hours of customized assistance on their particular business needs such as net worth restoration plans, marketing, new product development, budgeting and strategic planning.[4]

In 2017, we also launched our new Learning Management Service that consolidated our webinars, training courses and resources guides into a single platform that credit union managers, directors, volunteers and staff can access at no charge for their training needs. By the end of the year, users accessed our training material on the Learning Management Service 8,130 times. In addition, users completed 4,852 hours of video- and webinar-based training in 2017.

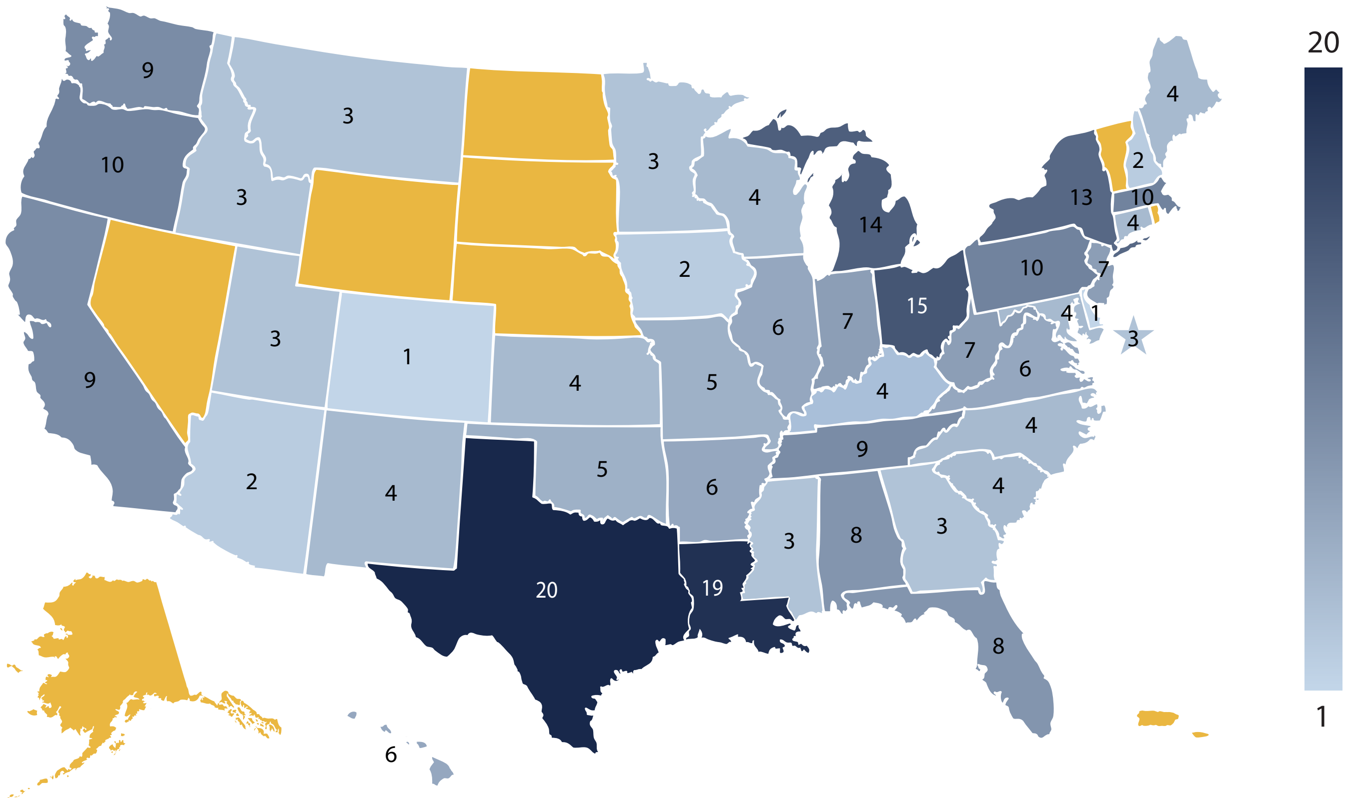
We also support credit union growth by working to get more credit unions certified as community development financial institutions or CDFIs. CDFI-certified credit unions are eligible to apply for multiple funding programs offered by the U.S. Treasury, including grants and bond guarantees. This funding can lay the foundation for greater access to affordable financial services and more investment in local communities, especially in areas with limited options. During 2017, our staff helped 34 credit unions become qualified to use the CDFI Fund's streamline 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 2017, the NCUA awarded more than $2.4 million in technical assistance and urgent needs grants to 275 low-income designated credit unions. Recipients of these funds used them to provide financial literacy education and critical financial services to underserved communities, and to restore operations following Hurricanes Harvey, Irma, and Maria, and other disruptions. In addition, the NCUA approved two low-interest loans for $1 million to two credit unions during the year.

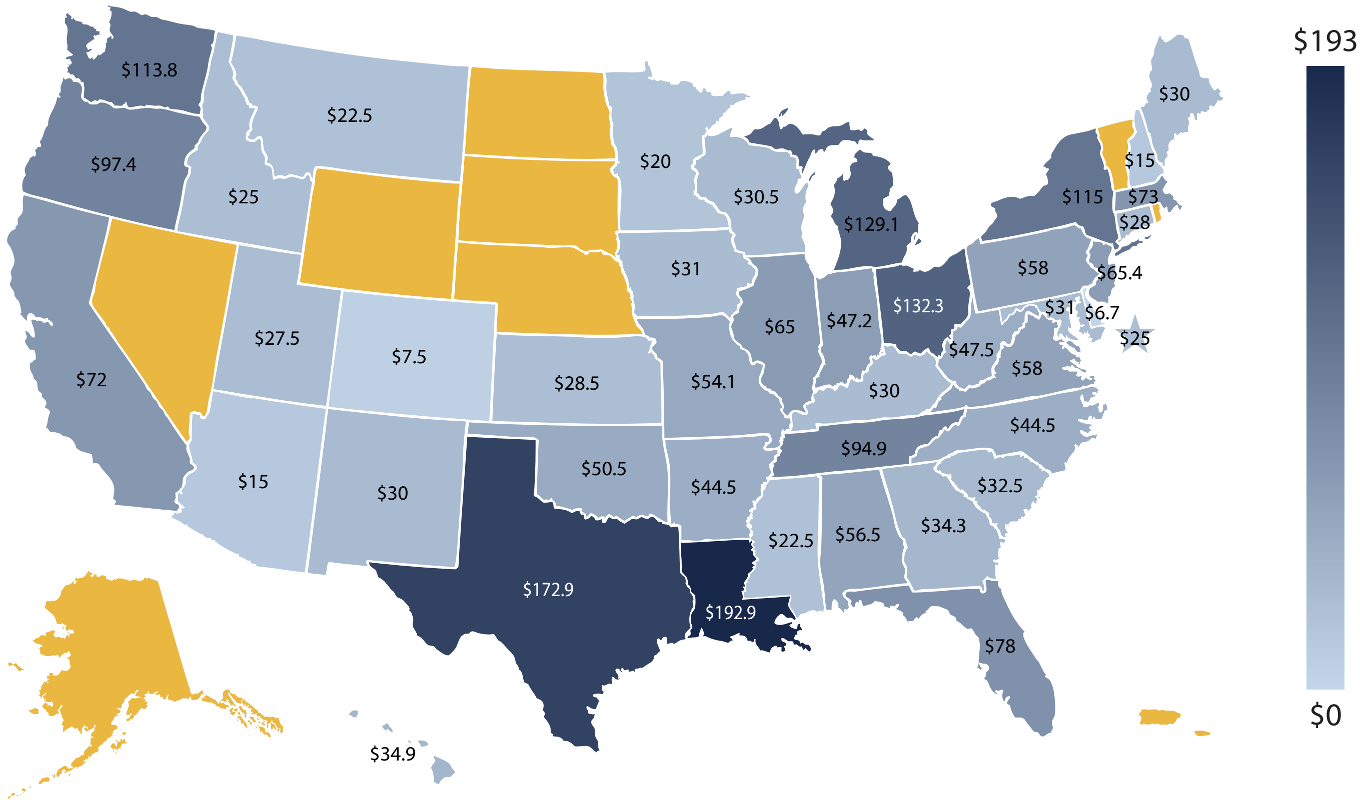
[4] As part of our agency-wide realignment, the consulting program for low-income credit unions ended on December 31, 2017.

List of Urgent Needs Grant Awardees in 2017				
Credit Union	**City**	**State**	**Urgent Needs Project**	**Grant Amount**
Community Hope	Lincoln	Nebraska	Newly Chartered	$7,500
Glamour Community	Quebradillas	Puerto Rico	Emergency or Natural Disaster Relief	$7,500
Universal Coop	Rio Grande	Puerto Rico	Emergency or Natural Disaster Relief	$7,500
Navy Army Community	Corpus Christi	Texas	Emergency or Natural Disaster Relief	$7,500
Frederiksted	Frederiksted	U.S. Virgin Islands	Emergency or Natural Disaster Relief	$7,500
Vitelco Employees	Charlotte Amalie	U.S. Virgin Islands	Emergency or Natural Disaster Relief	$7,500

Map of Technical Assistance Grants by Number of Awards



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



Expanding Access to Affordable Financial Services

In 2017, as part of the agency's chartering and field-of-membership responsibilities, we implemented our modernized field-of-membership rule that went into effect on February 6, 2017. With the rule's implementation, we updated our internal processes and educated credit unions on the new strategic options available to them.

During the year, the NCUA approved 21 community-charter conversions, the expansion of 52 existing community charters, and 20 expansions into underserved areas. We also approved the addition of 9,632 groups to the fields of membership of multiple common-bond credit unions.

Charter Type	2010	2011	2012	2013	2014	2015	2016	2017
Multiple Common-Bond Expansion	9,424	8,831	8,773	8,297	7,536	8,098	9,236	9,632
Community Expansion	12	25	18	27	20	30	29	52
Community Charter Conversion	18	16	22	15	22	13	21	21
Underserved Area Expansion	30	20	18	23	13	30	23	20

Additionally, the NCUA issued four new federal credit union charters in 2017:

- Firefighters First located in Los Angeles, California
- Community HOPE Federal Credit Union located in Lincoln, Nebraska
- Clean Energy Federal Credit Union located in Boulder, Colorado

- Civic Federal Credit Union located in Raleigh, North Carolina

Cultivating an Inclusive, Collaborative Workplace at NCUA that Maximizes Productivity and Enhances Impact

The NCUA's most important resource is a highly qualified and skilled staff. To maximize our staff's contributions to the agency's mission, efficient processes, effective tools, and leading-edge technology must support our operations. Throughout 2017, the agency took a number of steps to develop its human capital and to improve its systems and processes further.

Attracting and Retaining a Diverse and Highly Skilled Workforce

As a financial services regulator, the NCUA needs employees with expertise in accounting and finance, but it also needs staff who understand commercial and residential lending, consumer financial protection laws and regulations, payment systems, and cybersecurity, among other critical skills. To attract, retain, and develop talent, the NCUA uses a number of approaches, including strategically focused hiring events, the use of social media channels like LinkedIn, targeted outreach to women and minorities, and mentorship and professional development programs, among other initiatives.

In 2017, the NCUA reached a new milestone in regards to the employment of individuals with disabilities. At the end of the year, 14 percent of the agency's workforce reported having a disability, and 3 percent reported having a targeted disability. This was the first time the NCUA achieved its target goal for disability levels in the federal government. This achievement did not come only by hiring more people with disabilities. Rather it was the result of a sustained effort of cultivating an inclusive environment within the agency over the last few years so that more employees are willing to share their disability information.

In addition, our Office of Minority and Women Inclusion surveyed select employees with disabilities on their level of employment satisfaction. Their responses will be used to help the agency address physical, cultural, and environmental challenges experienced by our employees with disabilities.

One of the hallmarks of an organization strategically focused on diversity and inclusion is a formal mentoring program. In 2017, we continued to refine and develop our mentor program that was launched in 2016. This program has 36 employees and it works to build cross-cultural understanding, create a more inclusive environment and serve as a developmental resource for all agency employees. The program also allows new or less experienced employees to connect with seasoned staff and managers.

Another critical aspect of creating a highly skilled workforce is developing an organization's existing workforce. This is especially true for federal agencies like the NCUA, which has a large percentage of employees who have reached or will soon reach retirement age, including many in senior levels of management. In 2017, three employees successfully completed NEXT, the agency's 18-month executive leadership development program. We also graduated a diverse group of 11 potential managers from our management development program.

We also increased the number of leadership and professional development training courses available to our employees and enhanced the courses that are necessary to designate examiners as subject matter examiners in consumer financial protection, capital markets, information technology and other specialties during the year. We also worked with several state supervisory authorities to enhance their examiner training tools and programs. In addition, we successfully completed an audit of our training program to ensure that it continues to meet the National Association of State Boards of Accountancy Continuing Professional Education Program requirements.

Lastly, the agency and the National Treasury Employees Union, which represents nearly 75 percent of the NCUA's employees, negotiated updates to several articles in the agency's collective bargaining agreement that was signed in 2015. The revised articles include changes to compensation and benefits, travel, and career ladder promotions.

Realigning the Agency for the Future

To improve our efficiency and effectiveness, and to account for anticipated future changes in the credit union system, we announced and implemented an agency-wide restructuring of our offices and operations in July 2017. Under this initiative, we:

- Approved the consolidation of the agency's five regional offices into three by closing the Albany, New York, and Atlanta, Georgia offices beginning in 2019. These closures will eliminate 80 percent of our leased facilities. NCUA's Alexandria, Virginia; Austin, Texas; and Tempe, Arizona regional offices will remain.

- Closed the Office of Small Credit Union Initiatives and created the Office of Credit Union Resources and Expansion by redefining and realigning our chartering and field-of-membership, credit union development, grants and loans, and minority depository institutions programs. This office began operations on January 7, 2018.

- Restructured the Office of Examination and Insurance into specialized working groups; and

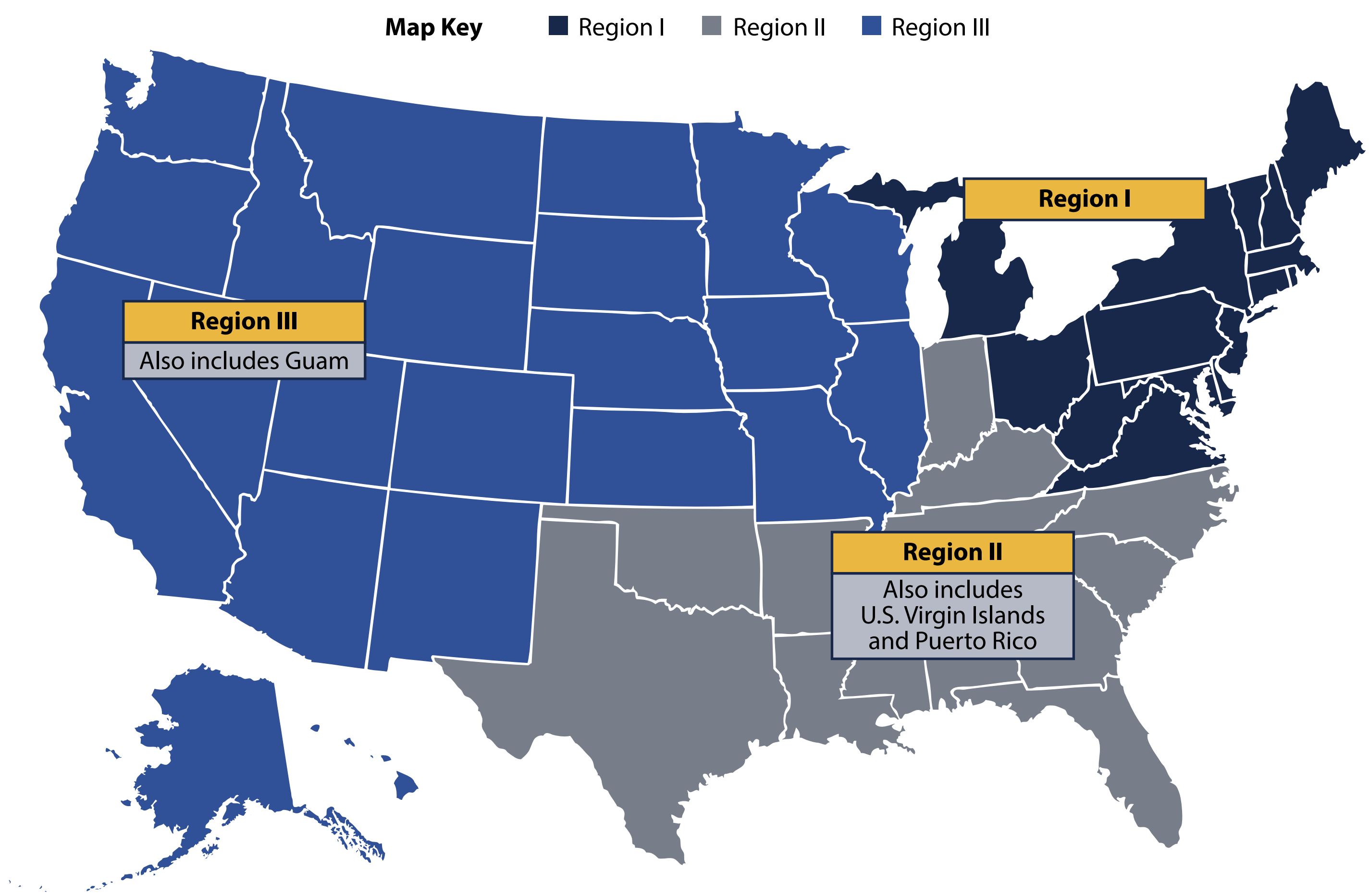
- Changed the Asset Management and Assistance Center's business model and reporting structure.

We also eliminated overlapping responsibilities in our agency's offices and improved and consolidated functions such as examination reporting, accounting, records management, and procurement. The first phase of the realignment went into effect at the beginning of 2018. With these structural changes, we anticipate a reduction in our workforce through attrition over the next two years.

Modernizing Our Information Technology Systems

In 2017, we continued to make investments in new technology through our Enterprise Solution Modernization Program, a multi-year effort launched in 2016 to introduce emerging and secure technology that will support the NCUA's examination, data collection and reporting efforts in the future. In 2017, the program established the business objectives and requirements for the agency's

Proposed NCUA Regional Structure Beginning in 2019



next generation of examination and supervisory tools. We also had an ongoing dialogue throughout the year with credit union stakeholders and representatives from several state supervisory authorities to get their viewpoints and recommendations on such issues as data analytics and data collection.

Additional accomplishments in 2017 included:

- Issuing a request for proposal to prospective companies for the services and technologies needed to implement a secure, cloud-based platform to replace the NCUA's legacy examination system, known as AIRES;
- Issuing a request for information for a credit and deposit analytic solution that would allow us to gather and analyze data on a credit union's loan and share portfolio; and
- Issuing a request for information on our plans for modernizing the formats for loan, deposit and investment data collected electronically during examinations.

Enhancing Our Security and Resiliency

The NCUA successfully implemented its Insider Threat and Counterintelligence program in 2017. This program is a partnership between our Offices of General Counsel, Human Resources, Information Technology and Continuity and Security Management. By the end of the year, we successfully completed our first agency-wide compliance assessment and had no material findings. The NCUA is one of eight non-defense related agencies and one of only 12 other programs in the executive branch to achieve "full operating capability" for its insider threat program.

Throughout the year, an internal working group conducted a business process analysis and a business impact analysis to determine the agency's mission essential functions, resource requirements, workflows, and IT system needs during a disaster recovery or continuity of government situation. We will use this analysis to improve our operations and ensure the agency is able to continue its mission during these types of events.

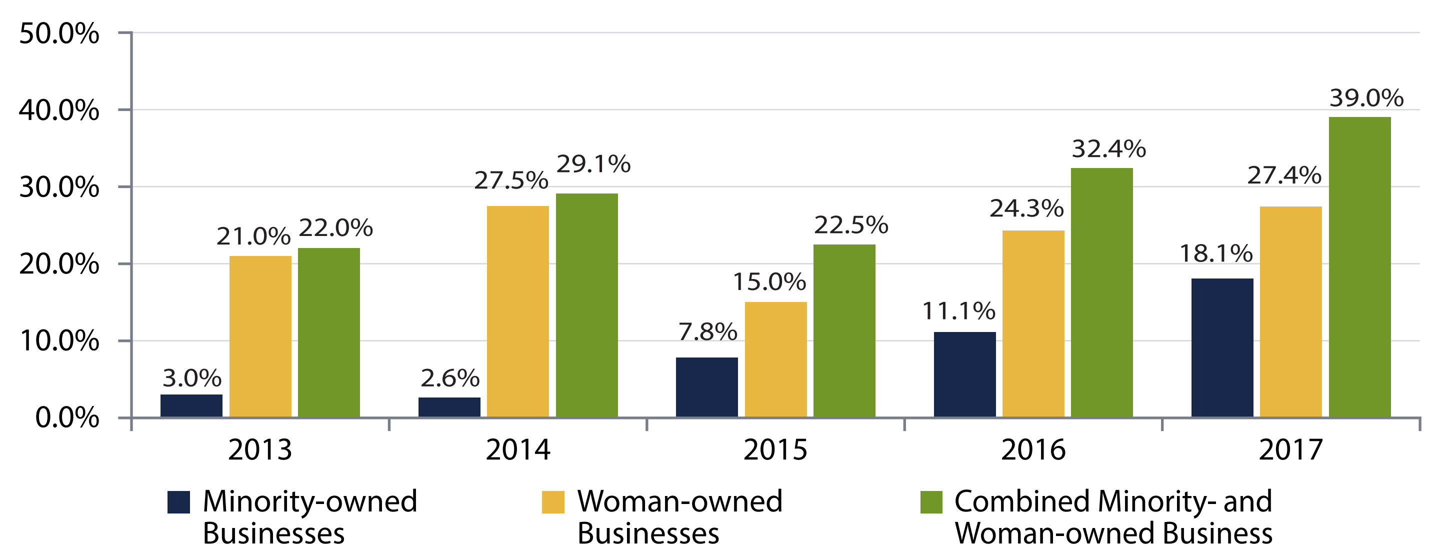
Reaching a New Milestone in Supplier Diversity

Our supplier diversity efforts promote the inclusion of minority- and women-owned businesses in NCUA's contracting opportunities. In 2017, 39 percent of our reportable contracting dollars were awarded to minority- and women-owned businesses, up 7 percentage points from 32.4 percent in 2016. 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.

Establishing a New Agency Seal

In December 2017, President Trump signed an Executive Order establishing a new official seal for the NCUA. The new seal replaces the previous NCUA seal, which was created through Executive Order

Supplier Diversity Results 2013–2017 (percentage of total awards)



Source: NCUA Supplier Data

11580 signed by then-President Nixon in 1971. The new design also brings the agency's seal more in line with the official seals of other federal financial services regulators. It clearly communicates that the NCUA is an arm of the federal government, helping to ensure continued confidence in the federally insured credit union system.

Looking Forward

Both the NCUA and federally insured credit unions achieved much in 2017. However, there are a number of challenges and risks emerging that could potentially affect the safety and soundness of the credit union system and the Share Insurance Fund. Also, the NCUA faces a number of complex challenges that could potentially affect its operations in the future.

Addressing Risks to the Credit Union System

As a whole, federally insured credit unions operate in a safe and sound manner. However, there are several risks and challenges facing the credit union system on the horizon. Some of the areas of concern to us include:

- **Growing Cyber Threats**—The greater 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 cybercrime 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. In 2018, our examiners began using our new Automated Cybersecurity Examination Tool in credit unions with $1 billion or more in assets. This tool provides the agency with a repeatable, transparent, and measureable process for determining the level of cyber preparedness across all federally insured credit unions.

  Additionally, we will continue to work with our fellow federal financial institutions regulators to develop and issue updated guidance and information on emerging cyber threats and how best to address them. Additionally, we will work with our partners in Congress and with other stakeholders to ensure effective cybersecurity safeguards are in place for third-party vendors.

- **Managing Interest Rate Risk**—With economic activity increasing and with the Federal Reserve signaling that it intends to raise rates in 2018 and beyond, the NCUA and credit unions will need to continue to manage and mitigate the potential for interest rate risk.

  Surveys of economic forecasters show the current economic environment is expected to continue into 2018. Steady growth, rising employment, and low unemployment are expected to put upward pressure on wages and the price level more generally. It is anticipated that this will boost inflation from approximately 1.5 percent at the end of 2017 to the Federal Reserve's 2-percent inflation target by 2019. As a result, the Federal Open Market Committee's projections suggest three more rate increases will be appropriate, raising the median projection for the fed funds target rate at the end of 2018 to 2.1 percent and 2.7 percent by the end of 2019.

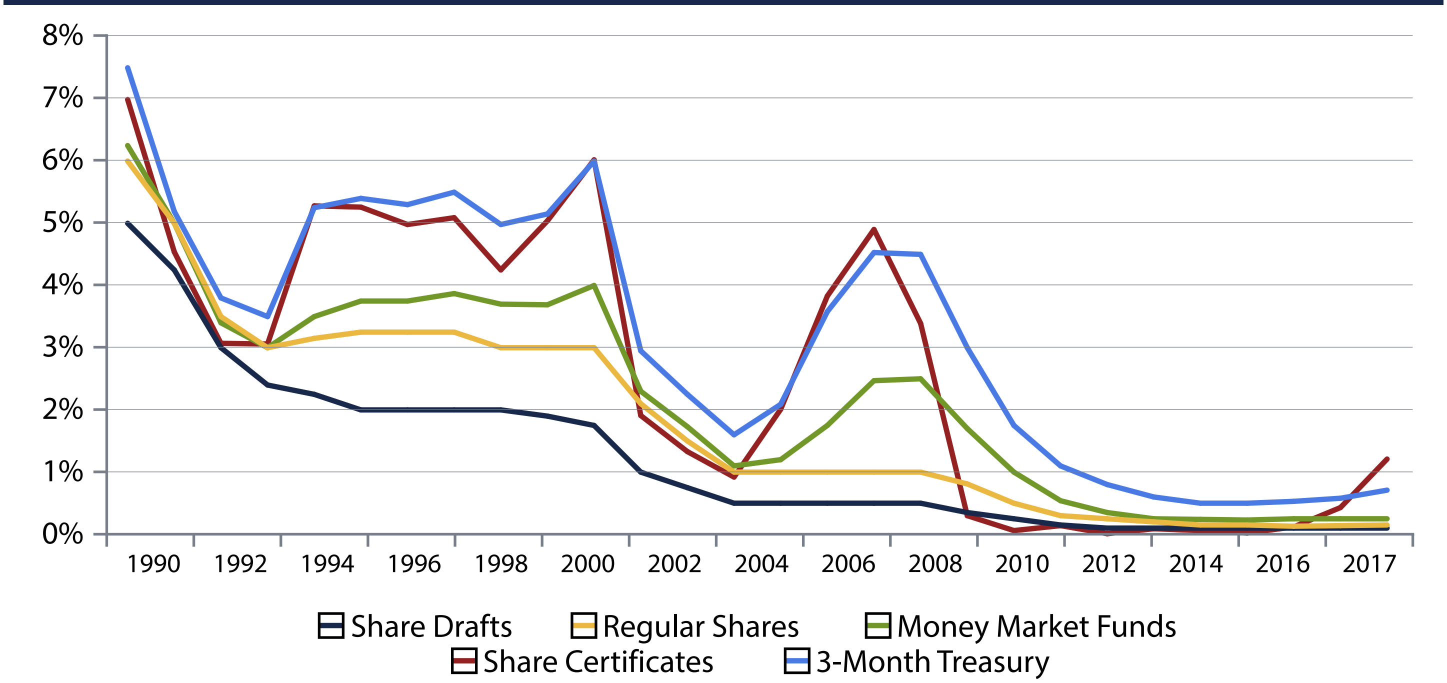
In a rising interest rate environment, credit unions may face pressure to raise their deposit rates to retain shares, as regular and money market shares are the most sensitive to interest rate changes. Members may reallocate their savings to higher-yielding products within the credit union, or transfer 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.

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. Credit union managers will need to take appropriate actions to ensure their balance sheets remain stable in a variety of interest rate environments.

Interest rate risk remains a supervisory focus for the agency in 2018 and we will continue to monitor credit union balance sheets closely.

- **Resolving Troubled Credit Unions**—At the end of 2017, we managed two credit unions in conservatorship because of their focus on certain types of specialized loan products where

Credit Union Deposit Rates and 3-Month Treasury Bill Rate 1990–2017



Source: NCUA Call Report Data

the underlying assets that supported these loans had declined in value significantly due to changes in the marketplace and consumer preferences. Additionally, other credit unions are also experiencing financial stress because of their participation in these loan products.

While the credit union system's exposure to these troubled assets is limited and manageable, the NCUA is working to mitigate any potential risk these institutions may pose to the system and to the Share Insurance Fund. However, it is possible that some of these credit unions may fail, and these failures may increase the amount of losses absorbed by the Share Insurance Fund in the future. Member accounts at these credit unions remain protected and insured by the Share Insurance Fund up to the limits provided by law.

- **Maintaining the Equity Ratio of the Share Insurance Fund**—The Share Insurance Fund is capitalized through a combination of credit union funds held on deposit and retained earnings. In recent years, the Share Insurance Fund's equity ratio has declined, primarily from consistently strong growth in insured shares, reduced investment income due to the low interest-rate environment, and insurance losses.

  Any incident, like a significant credit union failure, that drops the equity ratio below 1.0 percent would result in a direct expense to credit unions through the impairment of the 1.0 percent capital deposit they contribute to the fund, which credit unions have recorded as an asset on their balance sheets. Additionally, if the equity ratio falls below 1.20 percent, or is expected to within six months, the Federal Credit Union Act requires the NCUA Board to assess a premium on federally insured credit unions to restore the fund to at least 1.20 percent or adopt a fund restoration plan. As of September 2017, we projected the equity ratio could reach that critical level in 2019. [5]

Projected Share Insurance Fund Equity Ratios 2018–2022				
2018	2019	2020	2021	2022
1.21%	1.20%	1.18%	1.17%	1.14%

  The closure of the Stabilization Fund and the transfer of its assets into the Share Insurance Fund at the end of September 2017 has helped the NCUA to manage and mitigate the stresses affecting the Share Insurance Fund. This action increased the equity ratio of the fund to 1.46 percent at the end of 2017. With this additional equity, along with the setting of the normal operating level at 1.39 percent, we estimate there is sufficient equity to maintain the fund's ability to absorb losses from failed credit unions, withstand a moderate recession, and meet the remaining obligations of the Stabilization Fund.

  Additionally, this action allowed us to issue a distribution of additional equity above the normal operating level to credit unions in 2018, in accordance with the Federal Credit Union Act. The NCUA Board approved this distribution of $736 million on February 15, 2018.

[5] These projections were presented at the September 2017 NCUA Board meeting and were based on trends and data as of the end of the second quarter of 2017.

However, changes in the economy or the performance of the legacy assets that are now a part of the Share Insurance Fund's portfolio could increase the volatility of the Share Insurance Fund's equity ratio. Additionally, the stresses on the equity ratio from continued strong share growth and the low interest-rate environment remain. The agency will continue to analyze the Share Insurance Fund's risk exposure, and each subsequent year the NCUA Board will evaluate what the normal operating level needs to be, based on the relevant data and trends as they evolve over time.

- **Changing Demographics**—As more Americans retire and as new and diverse populations continue to grow and enter the financial system, credit unions may see shifting growth trends and changing demand for products and services. Credit unions need to be aware of these demographic and marketplace trends, and adjust their business plans accordingly.

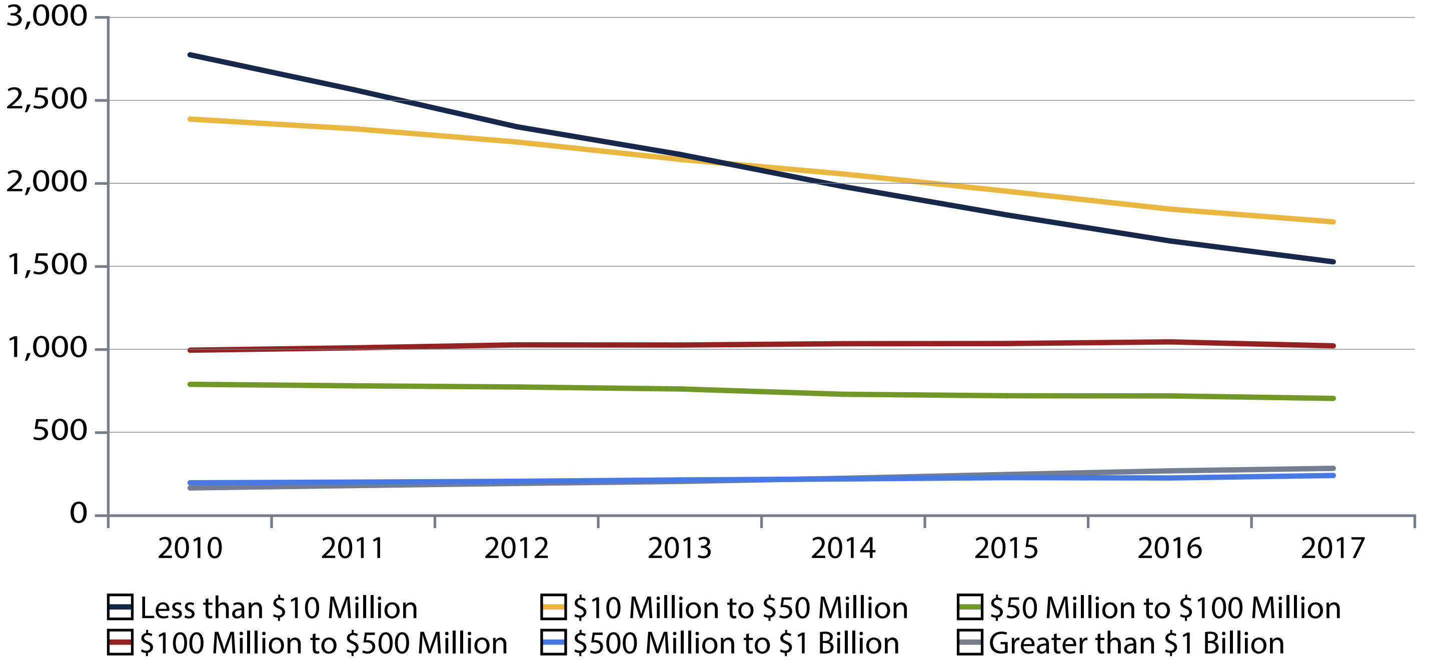
  The NCUA has taken a number of steps within its authority to address this issue. The recent updates to the agency's field-of-membership rules provide new opportunities for credit union financial and membership growth. Additionally, the creation of the Office of Credit Union Resources and Expansion consolidated many of our functions into a single office that provides a wide 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 allow us to facilitate better growth opportunities for credit unions.

- **Increasing Competition and Continuing Consolidation**—Across a variety of economic cycles and regulatory environments, the number of banks and credit unions has fallen at a steady rate for nearly three decades.

  A number of factors are contributing to this decline. First, economies of scale and consumer demand for more services have led to mergers, reducing the number of active depository institutions. Second, new marketplace competitors are expanding into areas that credit unions have traditionally operated by providing deposit-like products, such as prepaid cards, and alternative lending products, such as crowdsourcing, peer-to-peer lending and small business financing. Third, consumers are increasingly using electronic and mobile devices for their financial needs, meaning that credit unions that lack the resources necessary to acquire new technology and develop new products and services face enormous challenges.

  Together, 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, we have 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 also could 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 2010–2017



Source: NCUA Call Report Data

The NCUA will monitor these trends to ensure the continued consolidation of credit unions and system assets does not create new potential risks to the Share Insurance Fund.

- **Growing Performance Disparities between Large and Small Credit Unions**—While credit unions collectively performed well in 2017, much of the credit union system's growth was mainly due to the largest institutions. Credit unions with assets of less than $10 million saw less loan and net worth growth than credit unions with more assets. In addition, membership continued to decline at credit unions with less than $10 million in assets, and membership growth at credit unions with less than $500 million in assets lagged behind credit unions with more than $500 million in assets. This performance is consistent with long-term trends.

  We recognize that small, low-income and minority credit unions are vital to their communities. The NCUA will continue to provide these credit unions with technical assistance and training, and will create new opportunities for growth through reduced regulatory burdens, a flexible examination program for well-run, low-risk credit unions and enhanced chartering and field-of-membership options.

  As consolidation leads to larger and more complex credit unions, there is also greater risk to the Share Insurance Fund. The NCUA will need to consider further adjustments to our examination and supervision program to protect the Share Insurance Fund, and to the threshold that determines the definition of a small credit union.

  For additional information on the financial performance of federally insured credit unions in 2017, please see the Statistical Data section of this report.

Preparing the NCUA for the Future

The NCUA also faces a number of complex issues in 2018 and beyond. Some of the areas of interest to the agency include:

- **Meeting the Remaining Obligations of the Stabilization Fund**—With the Stabilization Fund's closure, its remaining obligations must be borne by the Share Insurance Fund. To ensure that we can meet the remaining NCUA Guaranteed Notes payouts to investors that must occur in 2021, the Board raised the normal operating level to 1.39 percent to make sure there is sufficient equity in the fund to meet these obligations. Within that normal operating level, there is a 0.04 percent capital to address the residual risk posed by the NGN program, along with additional capital to withstand any potential downturn in the economy. The NCUA Board believes this additional equity is sufficient to meet the remaining risks and cash needs of the NGN program and the legacy assets.

- **Providing Regulatory Relief**—The NCUA has an obligation to consider the regulatory and compliance burdens on credit unions. As permitted by law, and consistent with our safety and soundness mandate, the NCUA will continue to decrease regulatory burdens where prudent.

  The NCUA's proposed Regulatory Reform Agenda is a significant step forward in providing credit unions with meaningful regulatory relief in a number of areas. In the coming year, we will continue to review the comments we received on our proposed agenda and will make any additional adjustments as warranted.

  Additionally, we will continue to develop new policies and procedures to facilitate the greater use of offsite monitoring or examinations. It will take time to implement the necessary changes to make this possible. However, moving more of the agency's supervisory and examination functions outside of credit unions will reduce our regulatory footprint, give credit unions more time to serve their members, reduce the agency's travel costs, and improve the quality of life to our employees.

- **Consolidating Our Regional Offices**—As part of our agency realignment, we will close two of our five regional offices by the end of 2018. This action will help the agency align its resources better to account for a changing credit union industry and provide some cost savings. The regional office restructuring will have minimal effects on our field and examination staff and our examination program.

- **Deploying New Information Technology Systems**—Strengthening the agency's data security and IT system safeguards and controls to address emerging threats will continue in 2018 and beyond. As part of the Enterprise Solution Modernization Program and other modernization initiatives, we will continue to engage with internal and external stakeholders on the benefits of the new systems and processes we are developing. Additionally, we will deploy a new and secure method for exchanging information and data with external stakeholders later in 2018.

- **Building Tomorrow's Workforce**—Like many agencies in the federal government, the NCUA's workforce is changing and evolving. For example, the NCUA needs more than just examiners—we increasingly need cybersecurity specialists, and experts in capital markets, commercial lending and payment systems. We also have 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 needed skills and expertise is essential to ensuring that the NCUA can continue to achieve its mission effectively.

  Additionally, the NCUA must continue to create an inclusive workplace. An inclusive environment where all employees are able to contribute fully improves morale and leads to higher retention rates, greater productivity, better outcomes, reduced costs and a stronger and better-equipped agency to meet current and future challenges.

  To address these issues, the NCUA continues to make critical investments in human capital. We will continue to improve our recruitment program for new employees to provide us with a more diverse and highly skilled pool of applicants. The agency also continues to develop the next generation of leaders through its executive training, management development, and mentoring programs. All of these programs help the agency grow its talent pool and identify those individuals who can step into critical leadership roles in the future.

Looking to the Year Ahead

It is essential that the NCUA continue to meet its financial stability mission while continuously improving its operations, performance, technology and human capital. Additionally, it is important that we continue to advance meaningful and appropriate regulatory reform measures so that credit unions, which must compete in an increasingly competitive financial services marketplace, are able to thrive and meet the evolving needs of their members. This will require new policies and innovative solutions. Nevertheless, it is essential that we meet these challenges because our success will have implications for the continued vibrancy of the credit union system.

As outlined in our 2018–2022 Strategic Plan, we will continue to address challenges facing the credit union system, including working with the credit union community and our fellow financial institutions regulators to address current and emerging cybersecurity threats. We will also continue to make the critical investments in our human capital and technology that will improve our agency's operations and programs in the future.

The Federal Credit Union Act was signed into law nearly 85 years ago, and with it was the promise that all Americans, especially those of modest means, would have access to affordable financial services and credit that could be used to improve their lives and build communities. As we look to the coming year and beyond, the NCUA will continue to ensure that millions of Americans will be able to utilize federally insured credit unions to meet their financial needs.

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. As a financial regulator, the NCUA is committed to transparency, accountability, and stewardship. As a demonstration of this commitment, the NCUA received once again unmodified or "clean" audit opinions by an independent auditor on its financial statements for each of these funds for the years ending December 31, 2017, and December 31, 2016.

The following highlights provide an overview of the NCUA's 2017 financial statements. The complete financial statements, including the independent auditors' reports, are located in the Financials Section of this report.

The National Credit Union Share Insurance Fund

The NCUA administers the National Credit Union Share Insurance Fund. Created by Congress in 1970, the fund insures the deposits of more than 111 million members at federally insured credit unions up to $250,000.[6] The Share Insurance Fund is backed by the full faith and credit of the United States.

As of December 31, 2017, the Share Insurance Fund insured 5,573 credit unions, with insured member shares reaching $1.1 trillion, an increase of $58.8 billion or 6.0 percent from 2016. At December 31, 2017, federally insured credit unions held nearly $1.4 trillion in total assets.

The Share Insurance Fund ended 2017 with $16.7 billion in total assets, an increase of $3.8 billion from 2016. The increase came primarily from the transfer of $2.6 billion in net assets from the closure of the Temporary Corporate Credit Union Stabilization Fund on October 1, 2017. The increase is also attributable to the biannual net

The Share Insurance Fund at a Glance:

- **Assets**
  - 2017 – $16.7 billion
  - 2016 – $12.9 billion
- **Liabilities**
  - 2017 – $935.1 million
  - 2016 – $203.0 million
- **Operating Expenses**
  - 2017 – $199.0 million
  - 2016 – $209.3 million
- **Equity Ratio**
  - 2017 – 1.46%
  - 2016 – 1.24%
- **Insured Shares**
  - 2017 – $1.1 trillion
  - 2016 – $1.0 trillion

[6] 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.

collections of capital deposits of $778.0 million, and $480.0 million in interest revenue due to the remaining recovery from the $1.0 billion capital note previously held by the Stabilization Fund.

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 1.0 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 September 28, 2017, the Board set the normal operating level at 1.39 percent, increasing it from 1.30 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 2017 was 1.46 percent, which is above the normal operating level. As a result, at the February 15, 2018, public Board meeting, the NCUA Board declared a distribution of $735.7 million to eligible federally insured credit unions.

In accordance with the Federal Credit Union Act, the NCUA invested Share Insurance Fund assets in U.S. Treasury securities and earned interest revenue of $209.1 million in 2017, a decrease of $18.1 million from 2016. The decrease in interest income over the prior year was primarily due to the decrease in the rate of interest earned on investments. The average interest rate earned for the years ended December 31, 2017 and 2016, was 1.51 percent and 1.84 percent, respectively. This reflects a decrease in the weighted average maturity of U.S. Treasury securities from 5.0 years to 2.8 years. Investments in U.S. Treasury securities account for approximately 99 percent of total assets.

The Share Insurance Fund ended 2017 with total liabilities of $935.1 million, an increase of $732.2 million from 2016. The overall increase was driven by the increase in the insurance and guarantee program liabilities balance. During the year, the specific reserve increased by $815.7 million, and was partially offset by a decrease in the general reserve by $86.8 million. Specific reserves increased 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, 2017.

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 73.1 percent for 2016 to 67.7 percent for 2017. The decrease in the rate primarily reflects decreased time spent on insurance-related activities by agency staff.

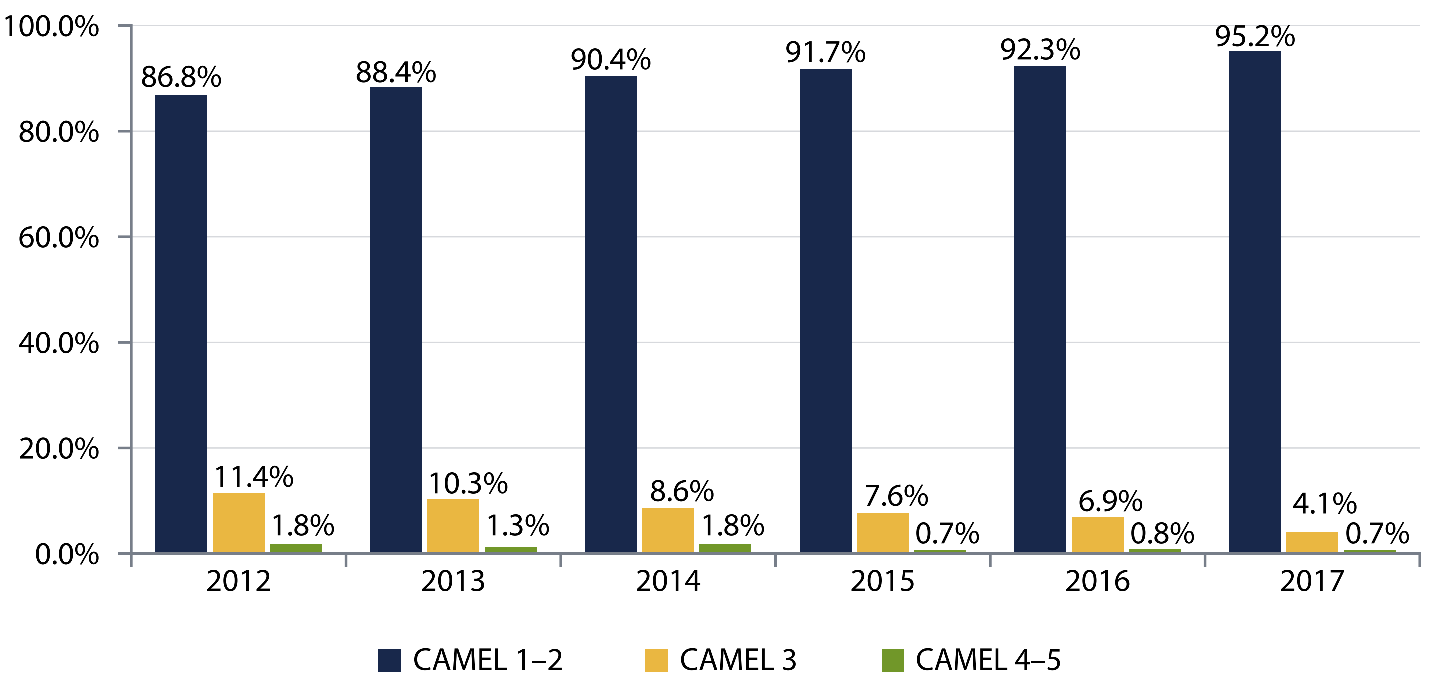
Total insured shares were estimated at $1.1 trillion and $1.0 trillion as of December 31, 2017, and 2016, respectively. In 2017, credit union membership grew by 4.2 percent to 111 million members. The NCUA expects the Share Insurance Fund will receive additional capitalization deposits of approximately $110.5 million from insured credit unions in early 2018 when the NCUA invoices for its biannual contributed capital adjustment.

The health of the credit union industry remained generally stable during 2017, as reflected by the 33 percent reduction of assets in CAMEL 3, 4, and 5 rated credit unions as compared to 2016. 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."

Assets in CAMEL 3, 4, and 5 rated credit unions decreased to $65.5 billion at the end of 2017, versus $98.2 billion at the end of 2016, continuing a trend of steady decline since 2011. The aggregate net worth ratio increased during the year, ending at 10.96 percent, versus 10.89 percent as of December 31, 2016. The ratio has shown overall improvement since 2011.

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 Financials Section of this report.

Distribution of Assets by CAMEL Ratings at Year-end 2012–2017



Source: NCUA Call Report Data

The 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.

Funding for 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 service 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 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 employees' salaries and benefits. The Share Insurance Fund and the Central Liquidity Facility reimburse the Operating Fund for administrative support. Support to the Community Development Revolving Loan Fund is not reimbursed.

Operating Fund Summary Results		
Financial Results (in thousands)	**2017**	**2016**
Total Assets	$110,057	$89,911
Total Liabilities	$46,711	$44,657
Fund Balance	$63,346	$45,254
	2017	**2016**
Total Revenue	$108,369	$82,186
Total Expenses	$90,277	$74,727
Excess Revenues Over Expenses	$18,092	$7,459

Total expenses are shown, net of reimbursements from related parties
Source: Audited financial statements for the NCUA Operating Fund

The Operating Fund ended 2017 with total assets of $110.1 million, an increase of $20.1 million from 2016. This change was primarily attributable to an increase in cash and cash equivalents, due to actual expenses being less than budgeted for the year.

Total liabilities at December 31, 2017, were $46.7 million, an increase of $2.1 million from 2016. The change was primarily attributable to an increase in accrued wages and benefits, as well as accounts payable.

The NCUA uses zero-based budgeting to ensure all office 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 mid-session budget review, the NCUA estimated $5.8 million in reduced expenses from the original 2017 operating budget. Most of this was associated with pay and benefits, and lower staffing levels. At mid-session, we projected the year-end full-time equivalent level would be 1,180. The actual year-end result was 1,162, compared to the authorized 1,230.

In 2017, the NCUA's operating expenses were under budget by $18.7 million or 6.3 percent, compared to being under budget by approximately $13.2 million for the prior year. Of the total variance, employee pay and benefits were under budget by $7.7 million or 3.6 percent. Travel costs were under budget by $5.4 million or 19.0 percent. Contracted services were under budget by $5.2 million or 19.0 percent. The remaining expense categories combined were under budget by $313,000 or 1.6 percent.

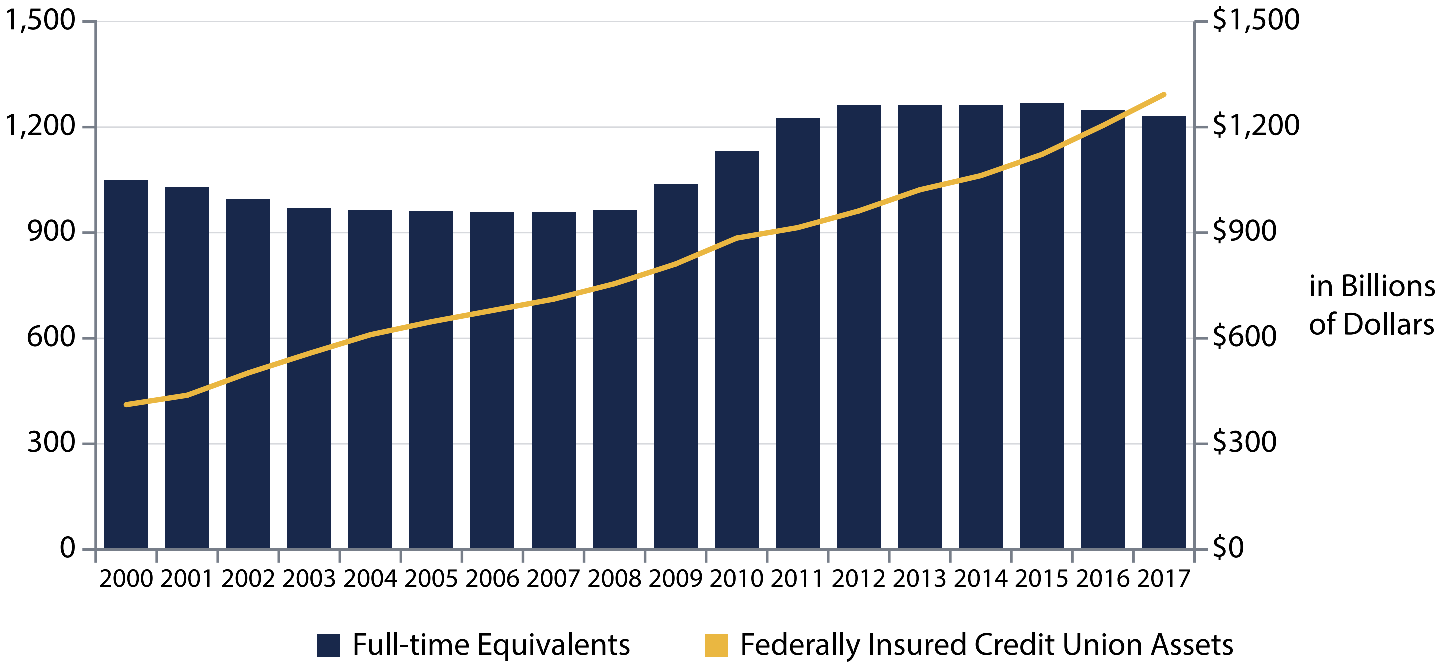
It should be noted that expenses include certain non-cash items, such as depreciation. The high vacancy rate in 2017 was the primary driver of the reduced cost of travel and personnel compensation. The reduction reflects NCUA's concerted efforts to administer its programs more efficiently. There were also information technology project delays, accounting for lower contract expenditures than planned. However, many of the projects funded from the contract and administrative budgets will continue in 2018 and will use the available resources to complete those activities.

The 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 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 of the Central Liquidity Facility by purchasing shares of capital stock. As of December 31, 2017, the Central Liquidity Facility had 269 members that contributed $257.6 million of capital stock.

NCUA Staffing Levels Compared to Credit Union System Assets at Year-end 2000–2017



Source: NCUA Annual Budgets, Call Reports

Central Liquidity Facility Capital Stock Accounts			
2017		2016	
Shares	Amount	Shares	Amount
5,152,317	$257,616	4,798,149	$239,907

Amounts in thousands, except for share data
Source: Audited financial statements for the Central Liquidity Facility

Investments totaled $286.6 million at year-end and investment income totaled $4.0 million, which funded operations and paid $2.2 million in dividends to members. 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. The borrowing authority as of December 31, 2017, is $6.6 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 Federal Financing Bank with a current maximum principal amount of $2.0 billion.

The 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 Community Development Revolving Loan Fund supports a revolving loan program and a technical assistance program. It 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.

As of December 31, 2017, the Revolving Loan Fund loan portfolio had $8.1 million in outstanding loans — 23 loans outstanding to 23 credit unions. In addition, Congress granted multi-year appropriations of $2.0 million in both 2017 and 2016, for the technical assistance program. In 2017, the fund made 275 technical assistance awards totaling $2.4 million from the multi-year appropriations received.

Performance Highlights

The performance information contained in this report is organized around the strategic goals and objectives identified in the NCUA's *2017–2021 Strategic Plan*. The strategic plan outlines our efforts to provide, through regulation and supervision, a safe and sound credit union system, which promotes confidence in the national system of cooperative credit.

Goal 1: Ensure a Safe and Sound Credit Union System

1.1 Identify, measure, monitor and promptly respond to risks in the credit union system to mitigate loss to the National Credit Union Share Insurance Fund
1.2 Provide high-quality, effective, and efficient supervision that is agile and risk-based
1.3 Maintain a modernized and responsive regulatory framework that is effective, easily understood, and transparent
1.4 Communicate effectively to examiners and credit unions about emerging risks and regulatory requirements, to facilitate awareness of NCUA's compliance resources and assistance

Goal 2: Promote Consumer Protection and Financial Literacy

2.1 Effectively enforce federal consumer financial laws and regulations in federal credit unions
2.2 Develop and promote financial literacy education programs that empower consumers to make informed financial decisions
2.3 Ensure access to federally insured financial services for consumers of all backgrounds and income levels, with an emphasis on those of modest means

Goal 3: Cultivate an Inclusive, Collaborative Workplace at NCUA that Maximizes Productivity and Enhances Impact

3.1 Recruit and retain a skilled, highly engaged, and diverse workforce
3.2 Deliver secure, reliable, and innovative technology solutions to support NCUA business imperatives
3.3 Promote sound financial management, internal control, and stewardship principles
3.4 Ensure a secure environment that protects the safety of our staff and security of our facilities
3.5 Enhance NCUA's position as one of the best places to work in the federal government

Managing Performance

The NCUA's performance management process begins with the agency's strategic plan. The strategic plan serves as the cornerstone for the performance management process by defining our mission, long-term goals, strategies planned and the approaches we will use to monitor our progress in addressing the challenges and opportunities related to our mission. The annual performance plan functions as the agency's operational plan. It outlines our annual or short-term objectives, strategies, and corresponding performance goals that contribute to the accomplishment of our established strategic goals.

The NCUA's three strategic goals are supported by 12 strategic objectives. These objectives contribute to the broader impact described in the strategic goal, while also indicating how the strategic goal will be achieved. These objectives are assessed by 38 performance goals, which are measurable outcomes to achieve within the plan's period. The performance goals include one or more indicators with quantitative levels of performance or targets to be accomplished within a specific timeframe. At year-end, the data was reviewed and analyzed to determine our progress in achieving our planned performance levels. We then used these results as a basis for developing the *2017 Annual Report*.

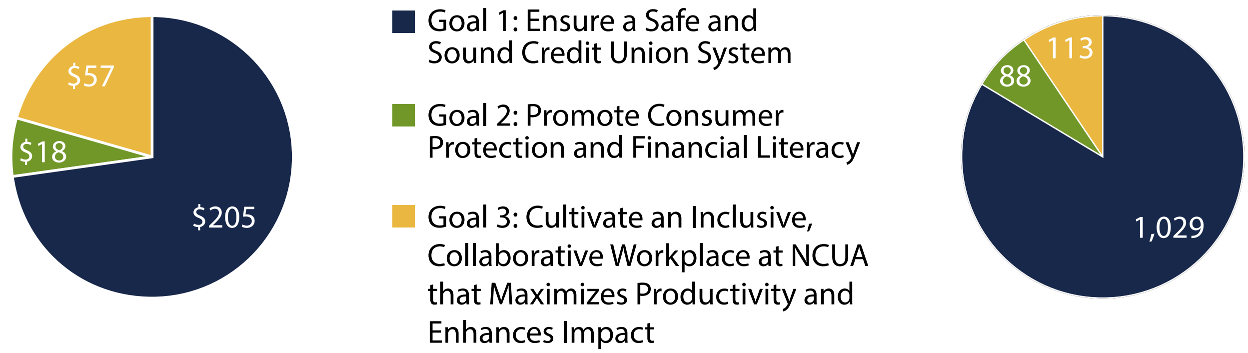
Resource Allocation by Strategic Goal

As part of the agency's continued efforts to strengthen our 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 expenses for 2017 totaled $280.2 million. We allocated the majority of this cost, $205.1 million, for Strategic Goal 1-related programs, followed by $56.7 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. Remaining costs were $18.4 million for Strategic Goal 2-related programs. In addition, we proportionally allocated general and administrative costs across all three strategic goals.

Expenses by Strategic Goal (in millions)

Full-time Equivalent Employees by Strategic Goal



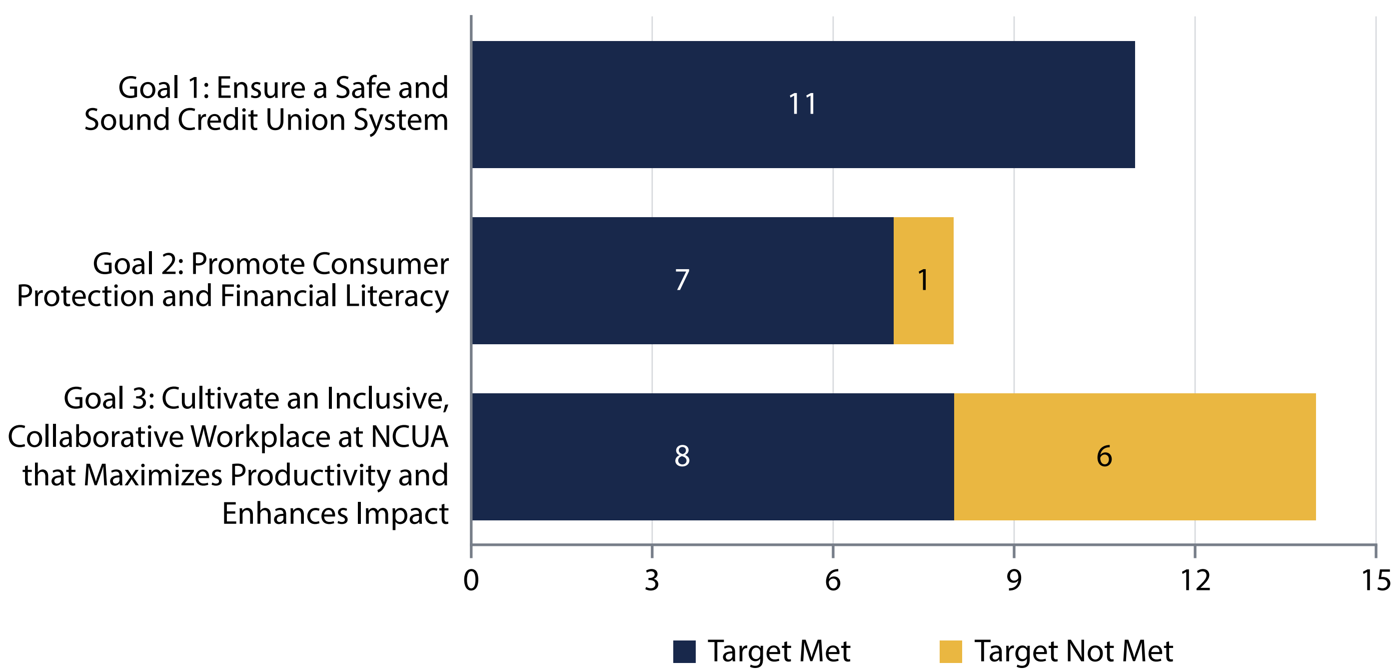
Source: NCUA Budget Data

We allocated the majority of our workforce in 2017 to Strategic Goal 1, followed by Strategic Goal 3. In 2017, the NCUA was authorized to have 1,230 full-time equivalent employees.

Performance at a Glance

We identified 33 measures to help evaluate and assess progress towards the goals stated in the *2017–2021 Strategic Plan*. We made steady progress against the goals we set in 2017, meeting or exceeding the target for 26 performance measures. The Performance Results section of this report includes a complete discussion on our progress toward meeting our goals and objectives, and discusses causes of variance or changes in trends for the performance indicators.

2017 Performance by Strategic Goal



Source: NCUA Performance Data

Management Assurances and Compliance with Laws

National Credit Union Administration

Office of the Chairman

February 14, 2018

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

Dear Mr. President:

The National Credit Union Administration's (NCUA) management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the *Federal Managers' Financial Integrity Act*. 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 control over operations, reporting, and compliance was operating effectively as of December 31, 2017.

In addition, NCUA conducted an assessment of the effectiveness of internal control over financial reporting, which includes the safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements in Appendix A to OMB Circular A-123, *Internal Control Over Financial Reporting*. Based on the results of this evaluation, NCUA can provide reasonable assurance that its internal control over financial reporting as of December 31, 2017, was operating effectively and no material weaknesses 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 our 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 provides guidance for implementing the act through Circular A-123.

The NCUA continues to demonstrate our commitment to maintain a strong internal control environment. Enterprise risk management and internal controls are embedded in our management of activities and operations that help achieve our strategic goals and objectives. In 2017, NCUA management conducted reviews including annual internal control assessments aimed to ensure 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 internal controls were identified in our assessment, the NCUA remains committed to continuously enhancing and improving our systems of internal controls and operational efficiencies. As a result of our assessments and annual internal reviews, the NCUA Chairman can provide reasonable assurance that we have 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.

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 Circular A-123, Appendix A, "Internal Control over Financial Reporting;"
- Qualitative and quantitative risk assessments in accordance with Circular A-123, Appendix C, "Requirements for Effective Estimation and Remediation of Improper Payments;"
- Reviews of financial management systems under Circular A-123, Appendix D, "Compliance with the Federal Financial Management Improvement Act;"
- 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 Circular A-130, "Management of Federal Information Resources;" 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 Circular A-123, Appendix A, "Internal Control over Financial Reporting." 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 a material weakness existed in the financial reporting processes. No deficiencies, or combination of deficiencies, rose to the level of a material weakness.

Throughout 2017, NCUA management endeavored to strengthen our procurement process to include revisions to policies and procedures related to information technology acquisitions and the development of system requirements for an information technology acquisition-management system to support the property management life cycle, end-to-end. Management anticipates that the Office of Inspector General will issue a report on the agency's information technology equipment inventory process later in 2018 with recommendations related to strengthening policies and enhancing process controls. We do 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 2017. The assurance statements from all 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 NCUA Chairman as to whether the agency has any deficiencies in internal control significant enough to be reported as a material weakness.

The Chairman's 2017 assurance statement for the Federal Managers' Financial Integrity Act and internal controls over financial reporting provided 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 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 to the Office of Management and Budget.

The NCUA's Chief Information Officer, Inspector General, and the 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 2017 to the Office of Management and Budget on October 31, 2017.

As prescribed by the act, the Office of Inspector General performs an annual independent evaluation of the NCUA's 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 2017 audit in November 2017, and the report is available on our website.

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 our continuous quality improvement efforts, the NCUA enhances financial management systems and strengthens process controls designed to ensure operational efficiencies, transparency, production of reliable and useful data to decision makers and stakeholders, and compliance with applicable laws and regulations. In January 2017, the NCUA implemented Enterprise Services Center's Portable Reusable Integrated Software Modules, a procurement application. As evidenced by our post-implementation assessments, this solution effectively supports the agency with enhanced monitoring as well as full life-cycle management and reporting of acquisitions.

Fraud Reduction And Data Analytics

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; strong internal controls; appropriate segregation of duties, risk and internal control assessments; and quality assurance and control activities. In addition, our Enterprise Risk Management Council, which consists of senior leadership throughout the NCUA'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 2017, the agency commenced formal documentation of our fraud risk-management plan to outline current practices and to identify targeted opportunities to strengthen the program Further, we evaluated certain processes for fraud risk and designed tests to detect fraud using data analytics. We plan to expand the scope of this evaluation as our fraud program matures.

While no instances of fraud in our 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 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 Digital Accountability and Transparency 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, as 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 Digital Accountability and Transparency 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 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 Digital Accountability and Transparency Act 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 improper 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 the NCUA are not included on this website because we do 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 Circular A-123, Appendix C, "Requirements of Effective Measurement and Remediation of Improper Payments." Based on the risk assessments performed, the agency has concluded that we do not have programs that are risk-susceptible as identified by 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 2017, the NCUA paid $10,870 in interest penalties or 0.0080 percent of $135 million in invoices subject to prompt payment.

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 debt less than 120 days delinquent. All eligible, nonexempt debts greater than 120 days old are transferred to the U.S. Department of the Treasury for cross-servicing. Additionally, in accordance with the provisions of the Debt Collection Improvement Act, the NCUA's recurring payments are processed via electronic funds transfer.

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 our effective internal control structure, the NCUA implemented sound controls to mitigate the risk of fraud, waste, and abuse. These controls are documented in our 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.

Further, 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 December 2017 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.

Performance Results

Throughout 2017, the NCUA implemented strategies and initiatives designed to achieve our 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 in the *2017 Annual Report* includes:

- An overview of the NCUA's performance structure and our 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 the current year 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 on the ways in which performance data are verified and the completeness and reliability of the data contained within the *Annual Report*.

Performance Planning and Process

The annual performance plan sets forth performance measures and targets in support of the goals and objectives in the agency's *2017–2021 Strategic Plan*. Developing the performance plan is a collaborative process that includes the NCUA's central and regional offices. Senior executive leaders develop performance measures, as well as the means and strategies that describe how we will assess progress towards achieving our objectives.

The NCUA uses a data driven review process, which includes substantiating the 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.

Program Evaluation and Review

The NCUA periodically reviews its performance framework and focuses on tracking and reporting the most appropriate and meaningful performance goals to show efficiency, effectiveness, and results. We use the results of these data driven reviews and our annual performance report as data points for the development of future 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 were new for 2017. Therefore, historical data is not available. These indicators are marked as "- -" in the performance results indicator and target tables. Baseline data collected in 2017 will be used to formulate performance goal targets for future years.

As part of our collaborative performance planning process, the Office of the Chief Financial Officer works closely with our 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, the NCUA's Rules and Regulations, formal instructions, or policy statements guide our target selection.

Measure Quality

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

Enterprise Risk Management

Through the NCUA's Enterprise Risk Management program, the agency is pro-actively 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 our Enterprise Risk Management Council, looks at the full spectrum of the agency's risks related to achieving our 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 2017, the NCUA identified enterprise-level risks, performed an initial risk assessment and began to prioritize the agency's enterprise-level risks. In 2018, the agency will continue to refine its risk profile and assign roles and responsibilities for risk monitoring activities.

Cross-Agency Priority Goals

The NCUA is involved in numerous cross-agency initiatives by collaborating with the other financial regulatory agencies through participation in several councils. Significant councils include 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.

Performance Results by Strategic Goal

The NCUA made progress across all three strategic goals in 2017, meeting or exceeding 26 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 the agency's performance.

Target Met	The 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 Identify, measure, monitor, and promptly respond to risks in the credit union system to mitigate loss to the National Credit Union Share Insurance Fund	1.1.1 Fully and efficiently execute the requirements of the agency's examination and supervision program for federally insured credit unions
	1.1.2 Manage yearly National Credit Union Share Insurance Fund losses to a target percentage of total insured shares
	1.1.3 Minimize total assets in CAMEL Code 4/5 status through timely rehabilitation
	1.1.4 Conduct credit union resolutions effectively and efficiently
1.2 Provide high-quality, effective, and efficient supervision that is agile and risk-based	1.2.1 Implement market leading analytic tools to enable risk analysis, identify key trends and target examinations where most needed
	1.2.2 Provide a supervision framework for NCUA's financial regulations
	1.2.3 Advance examiner specialization to effectively identify and evaluate risk in larger, more complex credit union portfolios
1.3 Maintain a modernized and responsive regulatory framework that is effective, easily understood, and transparent	1.3.1 Identify financial services industry risks and marketplace developments necessitating new or revised regulations
	1.3.2 Develop guidance that explains regulatory changes, implementation considerations, and related examination procedures
	1.3.3 Increase target audience awareness of regulatory activities
1.4 Communicate effectively to examiners and credit unions about emerging risks and regulatory requirements, to facilitate awareness of NCUA's compliance resources and assistance	1.4.1 Identify, assess and issue guidance on regional and national emerging risks and related threats
	1.4.2 Issue information on new and changed regulations through multiple delivery channels
	1.4.3 Assist small, low-income and minority credit unions to secure the proper resources to identify and manage risks and ensure regulatory compliance

The Federal Credit Union Act assigns statutory responsibility for the National Credit Union Share Insurance Fund and oversight of the credit union system to the NCUA. 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 our examination and supervision programs, including the proper allocation of resources and timely resolution of issues.

Strategic Goal 1's objectives focus on minimizing unacceptable levels of current and future risk as early as possible and encouraging stability within the credit union system. This goal is supported by four strategic objectives and 11 performance indicators. During the year, the agency performed well, meeting our targets for all 11 indicators.

Strategic Objective 1.1 – Identify, measure, monitor, and promptly respond to risks in the credit union system to mitigate loss to the National Credit Union Share Insurance Fund

The NCUA minimizes losses to the Share Insurance Fund by managing risks in the credit union system. Our Office of the Chief Economist provides economic information and enhances the agency's understanding of emerging microeconomic and macroeconomic risks. The Office of the Chief Economist 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, real estate and member-business loan concentrations, 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 NCUA's 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	2012	2013	2014	2015	2016	2017 Target	2017 Result	Status
Maintain the aggregate corporate credit union leverage ratio above 5 percent, annually	6.3%	7.1%	7.7%	7.6%	5.6%	Greater than 5%	7.1%	✔
98 percent of credit unions are well capitalized according to prompt corrective action	96.1%	97.0%	97.6%	97.9%	97.8%	98%	97.7%	✔
Resolve troubled credit unions within an average of 24 months of initial downgrade	19	20	21	19	29	24	22	✔
Within 3 business days following a credit union failure, issue payments to members for the balance of their verified insured funds or ensure members have access to their funds through a continuing institution	--	1.7	1.4	1.5	3.2	Average 3 days	0[1]	✔

Strategic Objective 1.2 – Provide high-quality, effective, and efficient supervision that is agile and risk-based

The NCUA works continuously to improve its supervision program and operate more efficiently. In 2017, the NCUA moved to an extended examination cycle for well-managed, low-risk federal credit unions with assets of less than $1 billion. Additionally, NCUA examiners performed streamlined examinations of financially and operationally sound credit unions with assets less than $50 million. The agency's Office of National Examinations and Supervision supervised and examined the largest and most complex credit unions in the 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 our

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

supervision and examination functions. This system is essential to the NCUA's operations because it is the primary system for assessing and documenting the industry's safety and soundness levels.

Performance Indicators	2012	2013	2014	2015	2016	2017 Target	2017 Result	Status
Review and assess all capital plans and stress tests for credit unions with assets greater than $10 billion within time lines outlined in regulation	--	--	Regulation Established	Achieved	Achieved	Achieve	Achieved	✔
Improve nine examiner training courses with enhanced specialist curriculum	--	--	--	--	--	9	9	✔

Strategic Objective 1.3 – Maintain a modernized and responsive regulatory framework that is effective, easily understood, and transparent

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 while maintaining the safety and soundness of the system. The NCUA's goal is to issue straightforward regulations, while addressing emerging issues before they become major problems.

In 2017, the NCUA established a Regulatory Reform Task Force to oversee the development of the agency's regulatory reform agenda. 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. This initiative complements the NCUA's previous efforts under the Economic Growth and Regulatory Paperwork Reduction Act and our rolling three-year regulatory review, which we have undertaken since 1987. The report outlines recommendations for the amendment or repeal of regulatory requirements the task force believes are outdated, ineffective, or excessively burdensome. The agency has already taken steps towards reform in several areas, including field of membership, alternative capital, asset securitization, and appeals to the NCUA's supervisory review committee.

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 our website.

Performance Indicators	2012	2013	2014	2015	2016	2017 Target	2017 Result	Status
Review one-third of all regulations, annually	1/3	1/3	1/3	1/3	1/3	1/3	1/3	✔
Provide industry with appropriate training and written guidance on significant regulatory changes 30 days prior to the effective date of the regulatory change	--	--	--	--	--	Achieve	Achieved	✔
Provide NCUA staff with appropriate training and written guidance on significant regulatory changes 30 days prior to the effective date of the regulatory change	--	--	--	--	--	Achieve	Achieved	✔

Strategic Objective 1.4 – Communicate effectively to examiners and credit unions about emerging risks and regulatory requirements to facilitate awareness of NCUA's compliance resources and assistance

The NCUA maintains open and transparent communications with credit unions to help increase their understanding and implementation of NCUA's regulations and initiatives. We offer informative webinars on current risk issues and relevant guidance, and we produce YouTube videos that discuss NCUA Board actions, economic data, and regulatory information. The NCUA's quarterly newsletter, *The NCUA Report*, also highlights important regulatory actions and key issues for credit unions.

In 2018, the NCUA created the Office of Credit Union Resources and Expansion. The new office's primary mission is to assist credit unions through all the stages of growth and strategic development. The Office of Credit Union Resources and Expansion provides support to any credit union, including low-income and minority credit unions, looking for assistance with chartering, charter conversions, by-law amendments, field-of-membership expansions, and navigating the low-income designation process.

This office also administers the Community Development Revolving Loan Fund. Created by Congress, this fund provides grants and low-interest loans to credit unions serving low-income communities. In 2017, the NCUA awarded more than $2.4 million in technical assistance and urgent needs grants to 275 low-income designated credit unions.

We also approved two loan applications for $1 million in low-interest loans in 2017. Credit unions used these low-interest loans to expand member services, fund new loan demand, open new locations, and provide affordable alternatives to predatory payday loans.

Performance Indicators	2012	2013	2014	2015	2016	2017 Target	2017 Result	Status
Publish the *NCUA Quarterly U.S. Map Reviews* **on the NCUA website which assist with identifying regional and national risks**	4	4	4	4	4	4	4	✔
Notify credit unions newly qualifying for low-income status of their eligibility, semi-annually	2	2	2	2	2	2	2	✔

Strategic Goal 2: Promote Consumer Protection and Financial Literacy

Strategic Objectives	Performance Goals
2.1 Effectively enforce federal consumer financial laws and regulations in federal credit unions	2.1.1 Administer the risk-based fair lending exam program to identify compliance issues and required corrective actions
	2.1.2 Ensure consistency with other regulators on consumer issues to safeguard member interests
	2.1.3 Increase guidance to the credit union system to improve compliance with consumer protection laws
2.2 Develop and promote financial literacy education programs that empower consumers to make informed financial decisions	2.2.1 Monitor issues or trends in consumer complaints to develop effective financial literacy education programs and initiatives
	2.2.2 Effectively market the availability of financial literacy programs
	2.2.3 Issue information on new and changed consumer protection regulations and consumer compliance guidance through multiple delivery channels targeted at consumers
2.3 Ensure access to federally insured financial services for consumers of all backgrounds and income levels, with an emphasis on those of modest means	2.3.1 Support broader economic inclusion by increasing the usability of contemporary information on MyCreditUnion.gov, including Pocket Cents
	2.3.2 Timely review credit unions' new and expanded community charters and marketing and business plans

Strategic Goal 2 ensures a framework exists to provide consumers with appropriate and timely financial disclosures, sufficient protections against unscrupulous products or services, and financial literacy programs to help them make better-informed financial decisions.

The Office of Consumer Financial Protection is responsible for overseeing the NCUA's fair lending and consumer financial protection programs. This office also provides consumer financial protection and financial literacy information directly to consumers through the agency's consumer website, MyCreditUnion.gov.

The NCUA uses three strategic objectives and eight indicators to support this strategic goal. The NCUA performed well, meeting our target for seven performance indicators. An explanation is provided for the indicator that did not meet its target during the year.

Strategic Objective 2.1 – Effectively enforce federal consumer financial laws and regulations in federal credit unions

Our fair lending examination program is designed to ensure credit unions comply with the rules and regulations established to protect consumers. In 2017, our Division of Consumer Compliance Policy and Outreach spent 4,073 hours examining 26 credit unions for compliance with fair lending laws and regulations. Agency staff spent an additional 1,222 hours performing 49 off-site 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 Task force on Consumer Compliance and the Financial Literacy and Education Commission, we contribute to the development of balanced regulations and policy statements related to consumer financial protection and financial literacy.

Performance Indicators	2012	2013	2014	2015	2016	2017 Target	2017 Result	Status
Complete 25 fair lending examinations, annually	11	25	25	25	24	Greater than or Equal to 25	26	✔
Complete 40 offsite fair lending supervision contacts, annually	--	45	50	50	50	Greater than or Equal to 40	49	✔
Conduct webinar with the credit union industry on financial consumer protection law changes	--	--	1	1	1	1	1	✔

Strategic Objective 2.2 – Develop and promote financial literacy education programs that empower consumers to make informed financial decisions

The Office of Consumer Financial Protection is focused on empowering consumers to make informed financial decisions by developing and promoting financial literacy education. 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.

The NCUA also promotes the importance of making good 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.

Our agency also informs and educates credit union staff, boards, and management on a variety of issues through reports, guidance letters, webinars, and videos. Credit union board of directors, managers, and professionals viewed the NCUA's training videos 109,475 times during the year.

Performance Indicators	2012	2013	2014	2015	2016	2017 Target	2017 Result	Status
Conduct quarterly reviews of top 10-consumer complaints to ensure existing and planned education programs align with complaint trends	--	--	--	--	4	4	4	✔
Produce virtual events or videos related to consumer financial protection	--	--	4	4	2	2	2	✔
Increase the number of visitors to MyCreditUnion.gov, including Pocket Cents	156,546	332,596	564,970	742,613	829,064	800,000	753,588	✘

Discussion.

The NCUA did not increase the number of visitors to MyCreditUnion.gov in 2017.

MyCreditUnion.gov ended the year with 753,588 visitors, coming in short of the 800,000 target. Several factors affected the number of visitors in 2017. In late 2016, the office responsible for managing the website began evaluating the site for better mobile and search engine performance. The team also evaluated how best to maximize and adapt the existing content to new, mobile-responsive page templates that will help the site meet the increasing use of smartphones and tablets by our audience. In addition, the development of new content for MyCreditUnion.gov was delayed until the launch of the new website, which is now expected to occur in 2018. As a result, MyCreditUnion.gov's traffic slowed in 2017. The NCUA anticipates the new content and the site's improved search engine performance will return MyCreditUnion.gov's user growth rate to its previous levels.

Strategic Objective 2.3 – Ensure access to federally insured financial services for consumers of all backgrounds and income levels, with an emphasis on those of modest means

The NCUA works to expand access to affordable financial services. In 2017, as part of the agency's chartering and field-of-membership responsibilities, we implemented our modernized field-of-membership rule that went into effect on February 6, 2017. With the rule's implementation, we updated our internal processes and educated credit unions on the new strategic options available to them with respect to community charters, rural districts, and multiple common-bond expansions.

During the year, we approved 52 community-charter conversions, the expansion of 21 existing community charters and 20 expansions into underserved areas as part of our chartering and field-of-membership responsibilities.

Performance Indicators	2012	2013	2014	2015	2016	2017 Target	2017 Result	Status
Release all consumer focused videos with Spanish subtitles	--	--	Achieved	Achieved	Achieved	Fourth Quarter 2017	Achieved	✔
Make a determination on completed field-of-membership expansion applications within an average of 60 days	--	--	--	42 days	30.6 days	60 days	54 days	✔

Strategic Goal 3: Cultivate an Inclusive, Collaborative Workplace at NCUA that Maximizes Productivity and Enhances Impact

Strategic Objectives	Performance Goals
3.1 Recruit and retain a skilled, highly engaged, and diverse workforce	3.1.1 Fill vacancies timely and efficiently with the best qualified applicants available
	3.1.2 Increase workforce diversity at all levels, specifically in management
	3.1.3 Deliver timely and relevant training and leadership development programs for staff at all grade levels
	3.1.4 Maintain an effective plan of succession to ensure continuity of leadership throughout all levels of the organization
3.2 Deliver secure, reliable, and innovative technology solutions to support NCUA business imperatives	3.2.1 Replace end-of-life technology with a modern, robust platform to address technical risk and provide a foundation for future expansion of capabilities
	3.2.2 Implement the Enterprise Business Information Technology Vision & Strategy to ensure technology investments are prioritized and focused on delivering the highest return to the mission of NCUA
	3.2.3 Raise the minimum standards for our data to increase the completeness and accuracy of our information, while still accommodating new data points
	3.2.4 Increase virtual, remote and telework employee efficiency through the use of technology
3.3 Promote sound financial management, internal control, and stewardship principles	3.3.1 Develop and implement an enterprise risk-management framework that defines, measures, and manages NCUA's risks and related opportunities
	3.3.2 Align NCUA's budgetary resources to focus on high priority areas in an efficient manner
	3.3.3 Achieve favorable financial statement audit results annually
3.4 Ensure a secure environment that protects the safety of our staff and security of our facilities	3.4.1 Strengthen the security program in the areas of personnel, facilities, continuity of operations and secure communications
	3.4.2 Deliver exceptional quality security and safety training to improve preparedness and safeguard NCUA staff
	3.4.3 Conduct security and safety inspections and drills, assess information on findings, and implement any necessary corrective actions
3.5 Enhance NCUA's position as one of the best places to work in the federal government	3.5.1 Foster a culture of labor-management collaboration at all levels of the organization
	3.5.2 Promote inclusive leadership that values and leverages diverse perspectives
	3.5.3 Obtain employee feedback that measures engagement and supports continuously improving the workplace

Goal 3 is inherently collaborative and primarily encompasses key management areas within the NCUA: human capital, security, information technology, finance, and employee engagement. The goal emphasizes staff effectiveness through hiring, training, diversity and inclusion, and career development. It also focuses on reliable and innovative technology, strong security programs, and sound financial stewardship.

The NCUA made progress on the five strategic objectives and 14 indicators supporting this strategic goal, meeting our target for eight performance indicators. An explanation is provided for each indicator that did not meet its target.

Strategic Objective 3.1 – Recruit and retain a skilled, highly engaged, and diverse workforce

Developing a well-diversified and highly qualified workforce begins with recruitment. The NCUA is committed to filling vacancies in a timely matter with the best-qualified applicants available. We also incorporate the principles of diversity as one of our core values. These principles serve as the foundation for building an inclusive environment where the talents of all individuals are utilized fully. Our Diversity Advisory Council supports the agency's diversity goals, serves as a resource to assist and advise decision-makers on diversity and inclusion efforts, and ensures diversity- and inclusion-related goals are met.

To supervise federally insured credit unions properly, staff must be trained to have the requisite skills and abilities to identify and mitigate risk. Providing ongoing training in emerging risk areas is necessary to maintain an effective examination program. In addition, the NCUA is focused on advancing examiners' ability to effectively identify and evaluate risks in large, complex credit unions. We also hold regular staff webinars, produce videos to highlight regulatory changes, and provide extensive training on required examination processes.

Performance Indicators	2012	2013	2014	2015	2016	2017 Target	2017 Result	Status
Improve NCUA's score for the Partnership for Public Service's Support for Diversity Indicator (Employee Viewpoint Survey Questions 34, 45, and 55) by one percentage point	69.1	64.2	65.8	68.0	67.3	68.3	65.7	✘
Obtain at least an 88 percent average rating in training class evaluations	84%	82%	89%	88%	88%	88%	85%	✘
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	Fourth Quarter 2017	Achieved	✔

Discussion.

The NCUA did not improve its score by one-percentage point in the Support for Diversity Indicator measured by the Partnership for Public Service using the Federal Employee Viewpoint Survey in 2017.

Our score dropped 1.6 points, from 67.3 in 2016 to 65.7 in 2017. The indicator is measured by the responses to three questions in the Federal Employee Viewpoint Survey. There was no change in positive responses for question 45 (My supervisor is committed to a workforce representative of all segments of society) compared to last year. However, declines in the score for survey questions 34 (Policies and programs promote diversity in the workplace) and 55 (Supervisors work well with employees of different backgrounds), primarily contributed to the agency's decline in the overall score.

The NCUA continues its efforts to create a strong foundation with respect to its diversity and inclusion efforts.

- Beginning in February 2017, the Office of Minority and Women Inclusion hosted a series of monthly, semi-facilitated, open discussions for NCUA employees. These OMWITalks provided a safe space for employees to discuss sensitive diversity and inclusion related topics and learn how to manage the differences that can lead to challenges in the workplace. They also foster higher engagement and greater inclusion among employees.

- The agency's Diversity Advisory Council is a sub-committee of the agency's Talent Management Council and is led by the NCUA's Executive Director. The council provides guidance and recommendations to senior leadership on areas related to the fair inclusion of all groups in the agency's workforce. This year, the council received extensive diversity and inclusion training and worked with a consultant to identify opportunities in which it can have the most impact moving forward.

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

The class evaluation average decreased from 88 percent in 2016 to 85 percent in 2017. Two key contributing factors to this decrease were: 1) a significant reduction of new examiner classes offered due to the decreased number of new examiners hired in 2017, and 2) a low average rating for our subject matter examiner conferences.

Going forward, the NCUA is committed to enhancing its curriculum at every level, including new examiner training, developmental coursework, and conferences. We are working to increase the level of engagement with our staff and enhance our curriculum for many courses in 2018. We will also develop new competency based coursework to enhance the knowledge, skills, and abilities of our examiner workforce.

Strategic Objective 3.2 – Deliver secure, reliable, and innovative technology solutions to support NCUA business imperatives

The NCUA's Office of the Chief Information Officer is committed to delivering secure and innovative information technology services and solutions to the NCUA workforce, credit unions, and other stakeholders. Our 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. Our 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, work-flow management, resource and time management, data integration and analytics, data governance, document management, and customer relationship management.

Performance Indicators	2012	2013	2014	2015	2016	2017 Target	2017 Result	Status
Develop concept of operations, document solution architecture, and conduct acquisition planning for liquidation and asset management and privacy services to support AMAC	--	--	--	--	--	Fourth Quarter 2017	Achieved	✔
Initiate acquisition and develop an actionable roadmap and plan for modernizing NCUA's Call Report systems	--	--	--	--	--	Fourth Quarter 2017	Delayed	✘
Deliver at least two data reporting and analytics solutions for risk identification and key trend analysis using the internal business intelligence capabilities	--	--	--	--	--	Fourth Quarter 2017	Achieved	✔
Provide training and toolkits to support virtual, remote, and telework employees in using enhanced remote infrastructure and technologies	--	--	--	--	--	Fourth Quarter 2017	Achieved	✔

Discussion.

The NCUA did not initiate the acquisition, develop an actionable roadmap, or plan for modernizing our Call Report systems within our targeted timeframe.

The Information Technology Prioritization Council deferred the planning and acquisition activities for modernizing the NCUA's Call Report system, known as CU Online, until the third quarter 2018. This decision was based on the ability of NCUA's management and subject matter experts to successfully execute this complex activity in parallel with the Examination and Supervision Solution & Infrastructure Hosting Effort taking place simultaneously.

To mitigate the risks associated with deffering this modernization, the NCUA will refresh critical components of the existing Call Report system to mitigate obsolescence and security risks, and thereby extending the life of the system.

The Enterprise Solution Modernization Program continues to be a top priority for the agency. The NCUA's *2018 Annual Performance Plan* establishes the performance measures and current targets for these efforts.

Strategic Objective 3.3 – Promote sound financial management, internal control, and stewardship principles

The NCUA 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. We maximize the use of agency resources by continually improving our operations and strengthening our internal controls.

Performance Indicators	2012	2013	2014	2015	2016	2017 Target	2017 Result	Status
Fully utilize the ERM framework to evaluate risks across NCUA through an established ERM process	--	--	--	--	--	Fourth Quarter 2017	Achieved	✔
Receive an unmodified opinion on the NCUA financial statement audit of all five funds	Achieved	Achieved	Achieved	Achieved	Achieved	Achieve	Achieved	✔

Strategic Objective 3.4 – Ensure a secure environment that protects the safety of our staff and security of our facilities

The NCUA is dedicated to strengthening its security program and communications. Our 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 the 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	2012	2013	2014	2015	2016	2017 Target	2017 Result	Status
Establish NCUA policy and procedures to detect, deter, prevent and mitigate insider or external threats to the agency's personnel, facilities, or sensitive information	--	--	--	--	--	Third Quarter 2017	Delayed	✘
Deliver relevant, quality security trainings to all staff annually	--	--	--	100%	100%	100%	100%	✔
Maintain a favorable response rate of 70 percent or above for NCUA's Federal Employee Viewpoint Survey Question 36: "My organization has prepared employees for potential security threats."	71%	60%	63%	76%	82%	Greater than or Equal to 70%	76%	✔

Discussion.

Although the Insider Threat and Counterintelligence Program to detect, deter, and mitigate threats to the classified information and IT systems met full operational capability in 2017, the Insider Risk Management Program to detect, deter, and mitigate threats to the agency's personnel, facilities, and unclassified information was only partially achieved.

In 2017, the NCUA established the Insider Risk Management Program working group to establish and implement policies and procedures related to personnel suitability and physical security, criminal investigations, personnel performance improvement and adverse personnel action, and information security. The working group established a charter and hosted several meetings with external agencies on best practices for an insider risk management program. The working group met monthly to discuss information sharing protocols and potential scenarios related to detecting, deterring, preventing, and mitigating insider or external threats to the agency's personnel, facilities, or sensitive information.

In 2018, the working group will establish an information-sharing memorandum of understanding between the member offices to set forth the authorities and purpose for sharing information. The group will also develop a procedures manual for the program.

Strategic Objective 3.5 – Enhance NCUA's position as one of the best places to work in the federal government

NCUA leadership understands the importance of keeping all staff informed of major issues, both internal and external. The agency communicates with staff by offering webinars and teleconferences and through email. Regulatory and policy briefings are provided to staff before they are released externally and the weekly employee newsletter, *Inside NCUA Weekly*, keeps staff apprised of agency actions and changes. The agency has the goal of being an employer of choice, and the agency has remained a top performer in terms of employee satisfaction among federal agencies.

Performance Indicators	2012	2013	2014	2015	2016	2017 Target	2017 Result	Status
Improve NCUA's score for OPM's Inclusion Quotient by one percentage point. The Inclusion Quotient identifies behaviors that help create an inclusive environment	67	64	66	67	67	68	65	✘
Strive to maintain NCUA's Federal Employee Viewpoint Survey Employee Engagement Index at 72 percent	73%	70%	72%	72%	73%	Greater than or Equal to 72%	69%	✘

Discussion.

The NCUA did not improve its score for the Office of Personnel Management's Inclusion Quotient by one percentage point.

The NCUA declined in the Inclusion Quotient index as measured by the 2017 Federal Employee Viewpoint Survey. The overall score decreased by two percentage points from last year due to declines in the score for each element of the index: Fair, Open, Cooperative, Supportive, Empowering. The NCUA continues its work to establish a strong foundation for success in diversity and inclusion moving forward:

- 2016 was the inaugural year of the NCUA's mentorship program. This program was created to provide developmental opportunities, build cross-cultural understanding, and cultivate greater inclusion among employees. The year-long program served 25 mentoring pairs in its first year. The majority of participants reported that the experience was both positive and productive. In May 2017, the program launched its second class of mentoring pairs who also reported having a positive experience.

- In 2017, the NCUA further strengthened its special emphasis programs by incorporating inclusion as a core value in every program. The special emphasis programs featured events where we hosted speakers, panel discussions, or other engaging presentations designed to address the challenges faced by under-represented groups in the agency's workforce.

- The Office of Minority and Women Inclusion conducted a satisfaction survey targeted to employees with disabilities. The survey responses provided actionable data that will be used in 2018 to help the agency further address physical, cultural, and environmental challenges experienced by employees with disabilities.

The NCUA did not maintain its Employee Engagement Index score in the Federal Employee Viewpoint Survey at 72 percent.

Beginning in late 2016, the NCUA conducted an agency-wide review to improve its operational efficiencies. The NCUA's reorganization planning and execution created an atmosphere of uncertainty and change for many employees, and this may have affected the Employee Engagement Index. Scores for the *Leaders Lead* category, a component of the Employee Engagement Index, were low due potentially to turnover in senior leadership and other supervisory positions. Employee engagement scores were lower in the offices that experienced the most change during the realignment. The agency-wide realignment will not be completed until January 2019, and we anticipate the 2018 Federal Employee Viewpoint Survey scores may continue to be lower. However, senior management is performing extensive outreach to our employees to alleviate concerns and to lead the NCUA through these significant changes.

Validation and Verification of Performance Data

The agency's 2017 performance results are based on reliable and valid data that are complete as of the end of the calendar year. The Office of the 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. Cross-checks between other internal automated systems also provide assurances of data accuracy and consistency.

In 2018, the NCUA budgeted for improvements to its data management systems including the development of business intelligence tools. Combined with our enterprise data-integrity program, these investments will expand our data storage and strengthen our data analysis and reporting abilities.

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

Financials

Message from the Chief Financial Officer

Rendell Jones
Chief Financial Officer

This report provides an assessment of the NCUA's detailed financial status and demonstrates how the resources entrusted to us were used to support our important mission. I am pleased to present the National Credit Union Administration's 2017 financial statements for our 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 released unmodified opinions on all 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 2017, the NCUA Board voted to close the Temporary Corporate Credit Union Stabilization Fund and to distribute its remaining assets to the Share Insurance Fund, as prescribed in the Federal Credit Union Act. The Office of the Chief Financial Officer led this significant effort for the agency, providing essential financial management expertise and ensuring accounting and financial reporting were proper and compliant with applicable standards.

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. 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, 2018

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, 2017 and 2016. 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, 2017. 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 2017 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]
- There were no significant deficiencies related to internal controls;[2] and

[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.
[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.

- 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, 2018, 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 we provide a brief overview of the NCUA's organizational structure, its mission, and vision, as well as what we believe are the key challenges to agency management in the coming year.

Organizational Structure

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, 2017, over 111 million members have $1.1 trillion in insured deposits at 5,573 federally insured credit unions. These credit unions have $1.4 trillion in assets.

Agency Mission and Vision

Throughout 2018, the NCUA will implement initiatives to continue meeting its mission to "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

In 2018, 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. Last year I mentioned six areas where the NCUA must remain diligent in its supervisory efforts: 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 2018, I believe five of these six areas remain significant agency challenges as well as two additional risks – resolving troubled credit unions and maintaining the equity ratio of the share insurance fund – 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 — As I have noted the last two years, 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. Further, because consumers continue to interact with financial institutions through online and mobile transactions, the risk of hacking and fraud will continue to grow. 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.

Interest Rate Risk — As I also noted the last two 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. With rates now rising, the NCUA and credit unions will need to continue to work to manage this risk in 2018 and beyond.

Resolving Troubled Credit Unions — At the end of 2017, the NCUA managed two credit unions that were in conservatorship because of their focus on certain types of specialized loan products where the underlying assets that support these loans have declined in value significantly due to changes in the marketplace and consumer preferences. Additionally, other credit unions are also experiencing financial stress because of their participation in these loan products. It is possible that some of these credit unions may fail, and these failures may increase the amount of losses absorbed by the Share Insurance Fund in the future. Although this exposure is limited, the NCUA must continue to manage and mitigate any potential risk from these institutions.

Growing Performance Disparities between Large and Small Credit Unions — Although credit unions overall performed well in 2017, a trend I noted the last two years – the lack of asset growth in credit unions with assets less than $10 million and the overall decline in membership, continued. Much of the system's growth in 2017 continued to be attributed mainly to the largest institutions. Credit unions with assets of less than $10 million have seen less loan and net worth growth than credit unions with more assets. In addition, membership continued to decline in 2017 at credit unions with less than $10 million in assets, and membership growth at credit unions with less than $500 million in assets continued to lag behind credit unions with more than $500 million in assets. To try and stop this trend, the NCUA must continue to provide these credit unions with technical assistance and training, new opportunities for growth through reduced regulatory burdens, a flexible examination program for well-run, low-risk credit unions, and enhanced chartering and field-of-membership options.

Changing Demographics — I noted the last several years that the NCUA and credit unions face the challenge of an aging demographic. As more Americans retire and as new and diverse populations continue to grow and enter in to the financial system, credit unions may see shifting growth trends and changing demand for products and services. Credit unions need to be aware of these demographic and marketplace trends, and adjust their business plans accordingly.

The NCUA has taken action that will allow for continued growth, including for example, the creation of the Office of Credit Union Resources and Expansion, which 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. This action should produce greater efficiencies, allowing the NCUA to facilitate better growth opportunities for credit unions.

Increasing Competition and Continuing Consolidation — The number of banks and credit unions has fallen at a steady rate for nearly three decades. Contributing to this decline is consumer demand for more services, which has led to mergers, reducing the number of depository institutions.

In addition, new marketplace competitors providing prepaid cards and alternative lending products, such peer-to-peer lending or small business financing, encroaches into areas that credit unions have traditionally operated. Finally, consumers are increasingly using electronic and mobile devices for their financial needs, meaning that credit unions that lack the resources to acquire new technology and develop new products and services to meet these needs face enormous challenges.

Together, these trends indicate that credit unions face increased competition and the longstanding consolidation trend will likely continue. As consolidation leads to larger credit unions, 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.

Maintaining the Equity Ratio of the Share Insurance Fund — The Share Insurance Fund is capitalized through a combination of credit union funds held on deposit and retained earnings. In recent years, the Share Insurance Fund's equity ratio has declined, primarily from consistently strong growth in insured shares, reduced investment income due to the low interest-rate environment, and insurance losses.

The closure of the Stabilization Fund and its merger into the Share Insurance Fund at the end of September helped the NCUA to manage and mitigate the stresses affecting the Share Insurance Fund. With this additional equity, along with the setting of the normal operating level at 1.39 percent, it appears there is sufficient equity to maintain the fund's ability to absorb losses from failed credit unions, withstand a moderate recession, and meet the remaining obligations of the Stabilization Fund. However, changes in the economy or the performance of the legacy assets securing the NCUA Guaranteed Notes program that are now a part of the Share Insurance Fund's portfolio, could increase its volatility. The NCUA must continue to analyze the Share Insurance Fund's risk exposure and I encourage the NCUA Board to conduct yearly evaluations of what the normal operating level needs to be, based on relevant data and trends as they evolve over time.

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 Mary Anne Bradfield
Chief Financial Officer Rendell Jones
Chief Information Officer Ed Dorris
OSCUI 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, 2017 and 2016, 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 2017, the NCUSIF insures $1.1 trillion in member shares in 5,573 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 (which can result in greater NCUSIF losses on failure);
- a guaranteed line of credit; and
- cash assistance, including subordinated notes or 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 responsible for managing the NCUSIF. Regional offices and the Office of National Examinations and Supervision are responsible for 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, 2017. 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).

Temporary Corporate Credit Union Stabilization Fund Closure

On September 28, 2017, the NCUA Board voted unanimously to close the Temporary Corporate Credit Union Stabilization Fund (TCCUSF) effective October 1, 2017, ahead of its sunset date of June 30, 2021. As required by statute (12 U.S.C. §1790e(h)), the TCCUSF's remaining funds, property, and other assets were distributed to the NCUSIF on October 1, 2017. 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 activities going forward.

II. Performance Goals, Objectives, and Results

The NCUA's mission, as outlined in the *NCUA Strategic Plan 2017 - 2021*, is to "provide through regulation and supervision, a safe and sound credit union system, which promotes confidence in the national system of cooperative credit." The plan outlines how the agency will continue to effectively supervise and insure a growing and evolving credit union system.

For 2017, there were 10 failures, compared to 14 failures in 2016. The cost of these failures, or the estimated cost of resolution at the time of liquidation, for the current year is $24.4 million, compared to $8.6 million for failures that occurred in 2016. Total assets in CAMEL[2] Code 4/5 credit unions slightly decreased to $9.6 billion at the 2017 year-end, as compared to $9.7 billion at the 2016 year-end.

In measuring the performance of the NCUSIF for 2017 and 2016, the following additional measures should be considered.

2017 and 2016 Performance Measures

	December 31, 2017	December 31, 2016
Equity Ratio	1.46%	1.24%
Insurance and Guarantee Program Liabilities (Contingent Liability)	$925.5 million	$196.6 million
Net Position	$15.7 billion	$12.7 billion
Insured Shares	$1.1 trillion	$1.0 trillion
Number of Credit Union Involuntary Liquidations and Assisted Mergers	10	14
Assets in CAMEL 3, 4 and 5 rated Credit Unions	$65.5 billion	$98.2 billion

The equity ratio and contingent liability are significant financial performance measures in assessing the ongoing operations of the NCUSIF. The equity ratio serves as a measure of the overall capitalization of the NCUSIF.

Performance measures are designed to enable management and our stakeholders to assess programs and financial performance and to use this information to make improvements. Performance measures have inherent limitations including the change over time in the correlation of cause and effect. A

[2] CAMEL is the acronym for **C**apital, the quality of **A**ssets, the capability of **M**anagement, the quality and level of **E**arnings, and the asset **L**iability management.

strong correlation between cause and effect in one period may not continue into the next. In addition, performance measures may not address systemic risks, which can have a significant effect on future results.

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 Federal Credit Union Act, the NCUA Board sets the NOL between 1.20% and 1.50%. On September 28, 2017, the Board set the NOL at 1.39%, increasing it from 1.30%.

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, 2017, the equity ratio was 1.46%, which is above the NOL. As a result, the NCUA Board will convene in 2018 to declare a distribution based on actual insured shares as of December 31, 2017. For 2016, the NCUSIF ended the year with an equity ratio of 1.24%, which resulted in no distribution. In 2017 and 2016, the NCUA Board did not assess a premium charge to insured credit unions. We expect that the NCUSIF will receive additional capitalization deposits of approximately $110.5 million from insured credit unions in early 2018 when the NCUA invoices for its biannual contributed capital adjustment.

Insurance Losses (Contingent Liabilities)

Through its supervision process, NCUA employs the CAMEL rating system, which 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). CAMEL is designed to take into account and reflect all significant financial, operational, and management factors examiners assess in their evaluation of a credit union's performance and risk profile by applying a rating to the credit union ranging from "1" (strongest) to "5" (weakest). The CAMEL rating system is a tool to measure risk and allocate resources for supervisory purposes.

The NCUSIF's year-end contingent liability for insurance losses is derived by 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. In addition, specific analysis is performed on those insured credit unions where failure is probable and where additional information is available to make a reasonable estimate of losses. The NCUSIF ended 2017 with Insurance and Guarantee Program Liabilities of $925.5 million to cover probable losses as compared with $196.6 million for the previous year-end, an increase of $728.9 million.

The NCUA identifies credit unions at risk of failure through the supervisory and examination process, and estimates losses based on economic trends and credit unions' 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.

Due to uncertain economic risks and the possibility of variances from historical data, actual losses could differ materially from the contingent liabilities recorded by the NCUSIF. The NCUA's supervisory actions may result in the conservatorship of federally insured credit unions. As of December 31, 2017, four credit unions were operating in 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. Actual losses could vary and may be materially different from the estimated losses recognized as of December 31, 2017.

The credit union industry remained stable overall during 2017 as reflected by the reduction of assets in CAMEL 3, 4 and 5 rated credit unions as compared to 2016. Assets in CAMEL 3, 4 and 5 rated credit unions decreased to $65.5 billion at the end of 2017, versus $98.2 billion at the end of 2016. The aggregate net worth ratio increased during the year, ending at 11.0%, versus 10.9% at December 31, 2016.

III. Financial Statement Analysis

The NCUSIF ended 2017 with an increase in Total Assets and its Total Net Position, primarily due to the transfer of $2.6 billion in net assets from the TCCUSF in October 2017. Insurance and Guarantee Program Liabilities also increased from the prior year. Net Cost of Operations increased to $438.3 million, primarily as a result of increases in the Reserve Expense within the Provision for Insurance Losses partially offset by $480.0 million in interest income due to a recovery from the $1.0 billion capital note previously held by the TCCUSF. These changes are explained in further detail below.

Summarized Financial Information (in thousands)

	December 31, 2017	December 31, 2016
Total Assets	$16,671,818	$12,869,748
Investments, Net	16,106,500	12,724,719
Receivables from Asset Management Estates, Net	495,021	58,351
Insurance and Guarantee Program Liabilities	925,487	196,617
Contributed Capital	10,765,320	9,987,363
Net Position	15,736,687	12,666,793
Operating Expenses	199,016	209,260
Provision for Insurance Losses, Reserve Expense (Reduction)	747,777	44,432
Provision for Insurance Losses, AME Receivable Bad Debt Expense (Reduction)	(21,482)	(36,562)
Interest Revenue – Other	(480,000)	-
Total Net Cost of Operations	438,340	214,667
Cumulative Results of Operations	4,971,367	2,679,430
Interest Revenue – Investments	209,137	227,172
Transfers In from the TCCUSF	2,562,069	-

Balance Sheet Highlights
Total Assets increased by $3.8 billion in 2017. The increase came primarily from the transfer-in of net assets from the TCCUSF of $2.6 billion, which included $1.9 billion in cash and $0.7 billion in other net assets. The increase is also attributable to the net collection of capital deposits of $778.0 million, and $480.0 million in Interest Revenue due to the remaining recovery from the $1.0 billion capital note previously held by the TCCUSF, partially offset by net unrealized losses on Investments of $41.1 million.

Balances of Investments increased by $3.4 billion during 2017, primarily driven by investing net additions to Contributed Capital of $778.0 million, the transfer of $1.9 billion in cash from the TCCUSF, and $480.0 million recognized as interest revenue due to the remaining recovery from the $1.0 billion capital note previously held by the TCCUSF. During 2017, U.S. Treasury yields have generally increased in Treasury securities within the NCUSIF portfolio, resulting in an overall decrease in the market value of U.S. Treasury securities.

Receivables from Asset Management Estates, Net increased $436.7 million during 2017, due primarily to the transfer of $671.8 million in net Corporate AME Receivables that the TCCUSF had collected, partially offset by $237.5 million in net recoveries from AME activity. Receivables from Asset Management Estates, Net are funded by the collection of principal on outstanding loans, mortgages and other debt instruments. Also, Receivables from Asset Management Estates, Net were funded by various transactions that are explained in Note 7 to the financial statements.

Insurance and Guarantee Program Liabilities, referred to as contingent liabilities, were $925.5 million and $196.6 million as of December 31, 2017 and 2016, respectively. The overall increase in the Insurance and Guarantee Program Liabilities balance is due to the increase in the specific reserve of $815.7 million, partially offset by a decrease in the general reserve of $86.8 million. Specific reserves are identified for those credit unions where failure is probable and where 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 $778.0 million during 2017 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 2017, credit union insured shares grew by 5.7%.

Net Position increased $3.1 billion during 2017. Increases include the transfer of net assets from the TCCUSF of $2.6 billion, net additions of Contributed Capital of $778.0 million, and interest revenue on Investments of $209.1 million. Decreases include Net Cost of Operations of $438.3 million and net unrealized losses on Investments of $41.1 million.

Statements of Net Cost Highlights
Total Net Cost of Operations was $438.3 million for 2017, as compared to $214.7 million for 2016. The overall increase in Net Cost of Operations is attributable to an increase in the overall Provision for Insurance Losses of $718.4 million, and partially offset by the receipt of $480.0 million in interest income from the remaining recovery of the $1.0 billion capital note previously held by the TCCUSF. Additionally, there was a $10.2 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 73.1% to 67.7% for 2017. Within the Provision for Insurance Loss for 2017, the Reserve Expense was $747.8 million, 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 $21.5 million expense reduction, reflecting recoveries and increases in net realizable values of assets managed. The overall change in Provision for Insurance Losses of $718.4 million is the result of an expense of $726.3 million for 2017 compared to an expense reduction of $7.9 million for 2016.

Statements of Changes in Net Position Highlights
Cumulative results of operations increased by $2.3 billion in 2017. This increase was primarily driven by a transfer-in of net assets from the TCCUSF of $2.6 billion and Net Cost of Operations of $438.3 million, primarily offset by Interest Revenue of $209.1 million. Interest Revenue was the primary source of funds to partially offset expenses and obligations.

With the closing of the TCCUSF effective October 1, 2017, funds, property, and other assets were distributed to the NCUSIF. Through this distribution, total Transfers In from the TCCUSF was $2.6 billion, including $1.9 billion in cash and $0.7 billion in other net assets.

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's net outlays were negative, meaning that the NCUSIF had net cash inflows of $1.5 billion and $799.9 million for 2017 and 2016, respectively. This increase is primarily the result of the growth of credit union insured shares and the corresponding 1.00% contributed capital deposit adjustment received.

Fiduciary Activity Highlights
The financial results of the NPCU AMEs and Corporate AMEs with the NGN Trusts in the 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 $5.4 billion as of December 31, 2017. This amount represents the maximum potential future guarantee payments that the NCUA could be required to make without consideration of future expected cash flows from underlying Legacy Assets and possible recoveries under the terms of the guarantees or from the Corporate AMEs. The losses from the guarantees of NGNs are expected to be significantly less than the above maximum potential exposure, and such losses are based on estimated guarantee payments, net of estimated guarantor reimbursements, if any, from the NGN Trusts and expected recoveries, if any, from the Corporate AMEs. The NCUA's estimate of the expected recovery from the Corporate AMEs reflects the NCUA's expectations and assumptions about the recovery value of the Corporate AMEs assets, which include economic residual interests in the NGN Trusts.

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 Assets transferred to the NGN Trusts in the priority of payments pursuant to the governing documents 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 comprises 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.

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

Due to uncertain economic risks and the possibility of variances from historical data, actual losses could differ materially from contingent liabilities, if any, related to the NGN Program, that are recorded by the NCUSIF through December 31, 2017. The NCUSIF recorded no contingent liabilities on its Balance Sheet for NGNs as of December 31, 2017.

The table below represents the composition of Legacy Assets collateralizing the remaining 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

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

2017 and 2016 Fund Balance with Treasury and Investments		
	December 31, 2017	December 31, 2016
Fund Balance with Treasury	$ 3.2 million	$ 4.4 million
U.S. Treasury Securities		
Overnight	2,849.2 million	152.0 million
Available-for-Sale	13,257.3 million	12,572.8 million

During 2017, the FBWT account was primarily increased by maturing investments in U.S. Treasury securities and Interest Revenue collected. The FBWT account was decreased by purchases of U.S. Treasury securities and amounts expended for the purposes of the share insurance program.

The NCUSIF has multiple other sources of funding including:

- capitalization deposits contributed by insured credit unions, as provided by the *Federal Credit Union Act*, Public Law 73-467, as amended (FCU Act);
- cumulative results of operations retained by the NCUSIF;
- premium assessments on insured credit unions, as necessary;
- guarantee fees;
- interest income on recovery of $1.0 billion capital note previously held by the TCCUSF;
- borrowings from the U.S. Treasury; and
- borrowings from the Central Liquidity Facility (CLF).

Investments in U.S. Treasuries increased when $1.9 billion in cash was distributed from the TCCUSF to the NCUSIF, with the close of the TCCUSF, effective October 1, 2017.

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, 2017 and 2016, the NCUSIF's contributed capital from insured credit unions increased by $778.0 million and $634.3 million, respectively. Total insured shares were reported at $1.1 trillion and $1.0 trillion as of December 31, 2017 and 2016, respectively. The NCUA has estimated the total insured shares, subject to certified reporting of insured share amounts. We expect that the NCUSIF will receive additional capitalization deposits of approximately $110.5 million from insured credit unions in early 2018 when NCUA invoices for its biannual contributed capital adjustment.

Cumulative Results of Operations

The NCUSIF ended 2017 and 2016 with a total of $5.0 billion and $2.7 billion in cumulative results of operations, respectively. Interest Revenue from Investments and Transfers In are 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, 2017 and 2016, 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, 2017, the statutory amount of cash available to borrow based on 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, 2017 and 2016, the NCUSIF did not have any outstanding borrowing from the CLF. The CLF is authorized by statute to borrow, from any source, an amount not to exceed twelve times its subscribed capital stock and surplus. The CLF had statutory borrowing authority of $6.6 billion as of December 31, 2017. The NCUA maintains a note purchase agreement with the Federal Financing Bank (FFB) on behalf of the CLF with a maximum principal amount of $2.0 billion. Under the terms of its agreement, the CLF borrows from the FFB as needed. Under terms prescribed by the note purchase agreement, the CLF executes promissory notes in amounts as necessary and renews them annually. Advances under the current promissory note can be made no later than March 31, 2018.

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 and 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.

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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), which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of net cost, changes in net position, and 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. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 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 on the Financial Statements

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, 2017 and 2016, 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, 2017, 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, 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 herein under *Government Auditing Standards* or OMB Bulletin No. 17-03.

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 result 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

February 14, 2018

NATIONAL CREDIT UNION SHARE INSURANCE FUND

BALANCE SHEETS
As of December 31, 2017 and 2016
(Dollars in thousands)

	2017	2016
ASSETS		
INTRAGOVERNMENTAL		
Fund Balance with Treasury (Note 2)	$ 3,162	$ 4,410
Investments, Net - U.S. Treasury Securities (Note 3)	16,106,500	12,724,719
Accrued Interest Receivable (Note 3)	54,635	71,525
Note Receivable - Note due from the National Credit Union Administration Operating Fund (Note 5)	7,710	9,051
Total Intragovernmental Assets	16,172,007	12,809,705
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)	1,275	-
Accounts Receivable - Other	2	-
General Property, Plant and Equipment, Net (Note 6)	562	1,192
Other - Receivables from Asset Management Estates (AMEs), Net (Note 7)	495,021	58,351
Other Assets	1,010	500
Total Public Assets	499,811	60,043
TOTAL ASSETS	$ 16,671,818	$ 12,869,748
LIABILITIES		
INTRAGOVERNMENTAL		
Accounts Payable - Due to the National Credit Union Administration Operating Fund (Note 10)	$ 5,153	$ 4,059
Total Intragovernmental Liabilities	5,153	4,059
PUBLIC		
Accounts Payable	4,491	2,118
Other - Insurance and Guarantee Program Liabilities (Note 8)	925,487	196,617
Other Liabilities	-	161
Total Public Liabilities	929,978	198,896
TOTAL LIABILITIES	935,131	202,955
Commitments and Contingencies (Note 8)		
NET POSITION		
Contributed Capital (Note 13)	10,765,320	9,987,363
Cumulative Result of Operations	4,971,367	2,679,430
Total Net Position	15,736,687	12,666,793
TOTAL LIABILITIES AND NET POSITION	$ 16,671,818	$ 12,869,748

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, 2017 and 2016
(Dollars in thousands)

	2017	2016
GROSS COSTS		
Operating Expenses	$ 199,016	$ 209,260
Provision for Insurance Losses		
Reserve Expense (Reduction) (Note 8)	747,777	44,432
AME Receivable Bad Debt Expense (Reduction) (Note 7)	(21,482)	(36,562)
Total Gross Costs	925,311	217,130
LESS EARNED REVENUES		
Interest Revenue on Note Receivable from the National Credit Union Administration Operating Fund (Note 5)	(128)	(179)
Guarantee Fee Revenue - National Credit Union Administration Guaranteed Notes	(5,077)	-
Insurance and Guarantee Premium Revenue	(1,765)	-
Interest Revenue on Notes (Note 5)	-	(2,070)
Interest Revenue - Other (Note 1)	(480,000)	-
Other Revenue	(1)	(214)
Total Earned Revenues	(486,971)	(2,463)
NET COST	$ 438,340	$ 214,667

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, 2017 and 2016
(Dollars in thousands)

	2017	2016
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 2,679,430	$ 2,803,048
BUDGETARY FINANCING SOURCES		
Non-Exchange Revenue		
Interest Revenue - Investments	209,137	227,172
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)	(41,061)	(136,123)
Transfers-In Without Reimbursement		
Financing Sources Transferred In Without Reimbursement	673,994	-
Total Financing Sources	2,730,277	91,049
Net Cost of Continuing Operations	(438,340)	(214,667)
Net Change	2,291,937	(123,618)
CUMULATIVE RESULTS OF OPERATIONS	4,971,367	2,679,430
CONTRIBUTED CAPITAL (Note 13)		
Beginning Balances	9,987,363	9,353,113
Change in Contributed Capital	777,957	634,250
CONTRIBUTED CAPITAL	10,765,320	9,987,363
NET POSITION	$ 15,736,687	$ 12,666,793

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, 2017 and 2016
(Dollars in thousands)

	2017	2016
BUDGETARY RESOURCES (Notes 11, 12 and 15)		
Unobligated balance, brought forward, January 1	$ 12,723,150	$ 11,910,709
Other changes in unobligated balance	1,887,072	-
Borrowing authority (mandatory)	-	-
Spending authority from offsetting collections (mandatory)	2,249,175	1,086,690
TOTAL BUDGETARY RESOURCES	$ 16,859,397	$ 12,997,399
STATUS OF BUDGETARY RESOURCES		
New obligations and upward adjustments (total)	$ 731,503	$ 274,249
Unobligated balance, end of year:		
Exempt from apportionment	16,127,894	12,723,150
Total unobligated balance, end of year	16,127,894	12,723,150
TOTAL STATUS OF BUDGETARY RESOURCES	$ 16,859,397	$ 12,997,399
CHANGE IN OBLIGATED BALANCE		
Unpaid Obligations:		
Unpaid obligations, brought forward, January 1	$ 9,261	$ 10,266
New obligations and upward adjustments	731,503	274,249
Outlays (gross)	(731,741)	(275,254)
Actual transfers, unpaid obligations	1,386	-
Unpaid obligations, end of year	$ 10,409	$9,261
Uncollected payments:		
Uncollected customer payments from federal sources, brought forward, January 1	$ (71,525)	$ (59,973)
Change in uncollected customer payments from Federal sources	16,890	(11,552)
Uncollected customer payments from Federal sources, end of year	$ (54,635)	$ (71,525)
Obligated balance, start of year (net)	$ (62,264)	$ (49,707)
Obligated balance, end of year (net)	$ (44,226)	$ (62,264)
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget authority, gross (mandatory)	$ 2,249,175	$ 1,086,690
Actual offsetting collections (mandatory)	(2,266,065)	(1,075,138)
Change in uncollected customer payments from Federal sources (mandatory)	16,890	(11,552)
BUDGET AUTHORITY, NET (MANDATORY)	$ -	$ -
Outlays, gross (mandatory)	$ 731,741	$ 275,254
Actual offsetting collections (mandatory)	(2,266,065)	(1,075,138)
Outlays, net (discretionary and mandatory)	(1,534,324)	(799,884)
AGENCY OUTLAYS, NET (MANDATORY)	$ (1,534,324)	$ (799,884)

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, 2017 and 2016

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

Pursuant to the FCU Act, § 217(h), 12 U.S.C. §1790e(h), the NCUA Board was authorized to close the Temporary Corporate Credit Union Stabilization Fund (TCCUSF) at its discretion. At closure, the NCUA Board was required to distribute the funds, property, and other assets of the TCCUSF to the NCUSIF. 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 therefore 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 therefore 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. Principal liability for these NGN Trust guarantees was transferred from the former TCCUSF to the NCUSIF on October 1, 2017.

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, recoveries from the AMEs including proceeds recovered from legal claims and asset sales, and 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 August 15, 2017.

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 ending December 31, 2017. Due to the NCUSIF's assumption of receivables and obligations of the TCCUSF, effective October 1, 2017, these statements also include the last three months of the year for receivables and liabilities that were formerly administered by the TCCUSF. Accordingly, comparability differences 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

Investment securities primarily consist of marketable 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.

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.

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 2017 and 2016.

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

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.

Accrued Interest Receivable

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

Public – Notes Receivable, Net

Notes Receivable, Net represent loans to insured credit unions as authorized by the NCUA Board, including assistance under Section 208 of the FCU Act. Any related allowance for loss represents the difference between the funds disbursed and the expected repayment from the insured credit unions.

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.

Incurred costs 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

Receivables from AMEs, Net include claims to recover payments made by the NCUSIF and claims to recover payments that were formerly administered by the TCCUSF to satisfy obligations to insured shareholders and other guaranteed parties and for administrative expenses paid on behalf of AMEs. A related allowance for loss 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). Assets held by the AMEs are the main source of repayment of the NCUSIF's receivables from the AMEs. The recoveries from these AME assets are paid to the NCUSIF as AME assets are monetized and, to the extent a receivable is due to the NCUSIF from the AME.

The allowance for loss on receivables from AMEs is based on expected asset recovery rates, and come from 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.

Expected asset recovery rates are evaluated during the year, but remain subject to uncertainties because of potential changes in economic and market conditions.

Capital Leases

In accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, and SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, 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.

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. Through its supervision process, the NCUA employs the CAMEL rating system, which 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). CAMEL is designed to take into account and reflect all significant financial, operational, and management factors examiners assess in their evaluation of a credit union's performance and risk profile by applying a rating to the credit union ranging from "1" (strongest) to "5" (weakest). The CAMEL rating system is a tool to measure risk and allocate resources for supervisory purposes. The year-end contingent liability is derived by 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. 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 where 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 for any contingencies.

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 primarily consists of premium assessments, guarantee fee income, and interest revenue the purpose of which is to recover the losses of the credit union system.

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.

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
On January 28, 2009, the NCUA Board approved the issuance of a $1.0 billion capital note to U.S. Central Federal Credit Union (USCFCU). The capital note was classified as a debt security held-to-maturity and issued by the NCUSIF, and was subsequently transferred to the TCCUSF on June 18, 2009. Due to the NCUA's understanding of USCFCU's financial position as of December 31, 2009, which included independent valuation analyses, the NCUA concluded that an OTTI had occurred with the capital note, and, accordingly, recorded an impairment charge, or

bad debt expense, for the entire value of the capital note.

In accordance with FASB ASC 310-30-35-3, due to the uncertainty of the amount and timing of the expected cash flows from USCFCU AME, recoveries shall be recognized when cash is received under the cost recovery method. As of December 31, 2017, $480.0 million has been recognized as interest revenue in the NCUSIF due to the remaining recovery of the $1.0 billion capital note from the AME of USCFCU. Coupled with the previous partial recovery of $520.0 million recognized in September 2017 in the TCCUSF, the principal balance of the capital note has been fully recovered as of December 31, 2017.

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 and accordingly, no provision for income taxes is recorded for the NCUSIF.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

2. FUND BALANCE WITH TREASURY

FBWT balances and status at December 31, 2017 and 2016, consisted of the following (in thousands):

	2017	2016
Total Fund Balance with Treasury: Revolving Funds	$ 3,162	$ 4,410
Status of Fund Balance with Treasury:		
Unobligated Balance - Available	$ 16,127,894	$ 12,723,150
Obligated Balances Not Yet Disbursed	10,409	9,261
Non-Budgetary FBWT Accounts	(16,080,506)	(12,656,476)
Non-FBWT Budgetary Accounts	(54,635)	(71,525)
Total	$ 3,162	$ 4,410

As a revolving fund, the FBWT account is used for continuing business-like activities. The NCUSIF collects premiums, capitalization deposits, guarantee fees and AME recoveries, 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, 2017 and 2016, 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 marketable (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, 2017 and 2016, 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, 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
As of December 31, 2016:						
U.S. Treasury Securities						
Available-for-Sale	$ 12,789,828	$ (141,673)	$ 71,525	$ 12,600,000	$ (75,389)	$ 12,572,766
Held to Maturity	151,953	-	-	151,953	-	151,953
Total	$ 12,941,781	$ (141,673)	$ 71,525	$ 12,751,953	$ (75,389)	$ 12,724,719

Maturities of U.S. Treasury securities as of December 31, 2017 and 2016 were as follows (in thousands):

	2017 Fair Value	2016 Fair Value
Held to Maturity (Overnights)	$ 2,849,161	$ 151,953
Available-for-Sale:		
Due in one year or less	2,341,183	1,407,547
Due after one year through five years	7,675,250	4,991,625
Due after five years through ten years	3,240,906	6,173,594
	$ 16,106,500	$ 12,724,719

For the years ended December 31, 2017 and 2016, there were realized gains from sales of Treasury securities of $131.6 thousand and $0, 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, 2017 and 2016 (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, 2017:						
Available-for-Sale:						
U.S. Treasury Securities	$ (52,278)	$ 9,542,745	$ (64,769)	$ 3,023,844	$ (117,047)	$ 12,566,589
As of December 31, 2016:						
Available-for-Sale:						
U.S. Treasury Securities	$ (168,270)	$ 7,633,360	$ -	$ -	$ (168,270)	$ 7,633,360

4. ACCOUNTS RECEIVABLE

Public – Accounts Receivable

Accounts Receivable Due from Insured Credit Unions
As of December 31, 2017 and 2016, accounts receivable due from insured credit unions were $1.9 million and $0, 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, 2017, the NGN guarantee fee receivable was $1.3 million. There was no corresponding balance as of December 31, 2016, as the receivable was not transferred to the NCUSIF from the TCCUSF until October 1, 2017.

As none of these amounts were deemed uncollectible, the allowance for doubtful accounts on public accounts receivable as of December 31, 2017 and 2016 was $0.

5. NOTES RECEIVABLE

Intragovernmental – Notes Receivable

Note Due from the NCUA Operating Fund
In 1992, the NCUSIF lent $42.0 million to the NCUA Operating Fund, pursuant to a 30year note secured by the NCUA premises in Alexandria, Virginia. Interest income recognized was approximately $127.6 thousand and $179.0 thousand for the years ended December 31, 2017 and 2016, respectively. The note receivable balance as of December 31, 2017 and 2016 was approximately $7.7 million and $9.1 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, 2017 and 2016 was 1.51% and 1.84%, respectively. The interest rate as of December 31, 2017 and 2016 was 1.59% and 1.83%, respectively.

As of December 31, 2017, the above note requires principal repayments as follows (in thousands):

Years Ending December 31	Secured Term Note
2018	$ 1,341
2019	1,341
2020	1,341
2021	1,341
2022	1,341
Thereafter	1,005
Total	$ 7,710

Public – Notes Receivable

As of December 31, 2017 and 2016, the NCUSIF did not have any outstanding capital notes due from insured credit unions.

6. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

The components of General Property, Plant and Equipment as of December 31, 2017 and 2016 were as follows (in thousands):

	Cost	Accumulated Depreciation	Net Book Value
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
As of December 31, 2016:			
Assets under Capital Lease	$ 471	$ (289,590)	$ 180,991
Internal-Use Software	2,017	(1,006)	1,011
Total General Property, Plant and Equipment	$ 2,488	$ (1,296)	$ 1,192

Assets under capital lease are depreciable over 39 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.

As of December 31, 2017 and 2016, the NCUSIF had no internal labor costs attributable to internal use software during its software development stage. The NCUSIF reimburses the Operating Fund for these internal labor costs since these costs are incurred by the Operating Fund.

7. OTHER – RECEIVABLES FROM ASSET MANAGEMENT ESTATES

AMEs include assets and liabilities from failed natural person credit unions (NPCU AMEs), as well as the corporate credit union AMEs (Corporate AMEs). As of December 31, 2017 and 2016, the gross receivable from AMEs was $4.0 billion and $926.2 million, and the related allowance for loss was $3.5 billion and $867.8 million, for a net receivable from AMEs of $495.0 million and $58.4 million, respectively.

	2017			2016
	NPCU AMEs	Corporate AMEs	Total	NPCU AMEs only
Gross Receivable from AME	$ 796,436	$ 3,165,931	$ 3,962,367	$ 926,171
Allowance for Loss, beginning balance	867,820	-	867,820	922,184
Transfer-In of Allowance for Loss from TCCUSF, effective 10/1/2017	-	2,681,036	2,681,036	-
AME Receivable Bad Debt Expense (Reduction)	(20,295)	(1,187)	(21,482)	(36,562)
Increase in Allowance	18,376	-	18,376	10,708
Write-off of Cancelled Charters	(78,997)	-	(78,997)	(27,939)
Other	593	-	593	(571)
Allowance for Loss, ending balance	787,497	2,679,849	3,467,346	867,820
Receivable from AME, Net	$ 8,939	$ 486,082	$ 495,021	$ 58,351

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 for the Corporate AMEs takes into account the NCUA's assessment of expected recovery from the Corporate AMEs that reflects 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 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 and takes into account the historical loss history, 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 where 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 $925.5 million and $196.6 million as of December 31, 2017 and 2016, 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 2017 or as of December 31, 2017. There were no guarantees outstanding during 2016 or as of December 31, 2016.

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, 2017 and 2016 were approximately $410.0 million and $1.7 million, respectively. The insured credit unions borrowed $206.0 million and $0 from the third-party lender under these lines-of-credit guarantees as of December 31, 2017 and 2016. As of December 31, 2017 and 2016, the NCUSIF reserved $9.0 million and $40.0 thousand, 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, 2017 and 2016, respectively.

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

	2017		2016	
Beginning balance	$	196,617	$	164,857
Reserve Expense (Reduction)		747,777		44,432
Insurance losses claims paid		(33,758)		(27,882)
Net Estimated Recovery/Claim on AMEs		14,851		15,210
Ending balance	$	925,487	$	196,617

The Insurance and Guarantee Program Liabilities at December 31, 2017 and December 31, 2016 were comprised of the following:

- Specific reserves were $818.6 million and $2.9 million, respectively. Specific reserves are identified for those credit unions where failure is probable and where additional information is available to make a reasonable estimate of losses. During the year, specific reserves increased based on information acquired through 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, 2017.
- General reserves were $106.9 million and $193.7 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 TCCUSF was principally responsible for the guarantees related to the NGNs. Effective October 1, 2017, these guarantee obligations were transferred to the NCUSIF. 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, 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, 2017, the outstanding principal balance of the NGNs was $5.4 billion. This amount represents the maximum potential, but not the expected, future guarantee payments that the NCUA could be required to make.

The NCUA, now 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, 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 $2.7 billion, 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 $2.6 billion as of December 31, 2017; and
ii) receivables from the Corporate AMEs based on the value of their economic residual interests in NGN Trusts of up to approximately $1.3 billion as of December 31, 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 LIABILITIES

The NCUSIF leases laptops for state credit union examiners under a capital lease agreement that will run through early 2018. The capital lease liability as of December 31, 2017 and 2016 was $0 and $160.6 thousand, respectively. The future minimum lease payments to be paid over the remaining life as of December 31, 2017, is $0.

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 domestic and foreign persons and organizations outside of the federal government. Intragovernmental costs and exchange revenue as of December 31, 2017 and 2016 were as follows (in thousands):

Intragovernmental Costs and Exchange Revenue	**2017**	**2016**
Intragovernmental Costs	$ 189,217	$ 203,026
Public Costs/(Cost Reduction)	736,094	14,104
Total	925,311	217,130
Intragovernmental Exchange Revenue	(128)	(179)
Public Exchange Revenue	(486,843)	(2,284)
Total	(486,971)	(2,463)
Net Cost	$ 438,340	$ 214,667

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 2017 and 2016, the allocation to the NCUSIF was 67.7% and 73.1% of the NCUA Operating Fund expenses, respectively. The cost of the services allocated to the NCUSIF, which totaled approximately $189.2 million and $203.0 million for the years ended December 31, 2017 and 2016, 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, 2017 and 2016, amounts due to the NCUA Operating Fund for allocated administrative expenses were $5.2 million and $4.1 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	2017	2016
Employee Salaries	$ 100,606	$ 109,225
Employee Benefits	40,553	42,174
Employee Travel	15,617	19,252
Contracted Services	19,019	18,479
Administrative Costs	5,443	6,122
Depreciation and Amortization	3,655	3,591
Rent, Communications, and Utilities	4,324	4,183
Total Services Provided by the NCUA Operating Fund	$ 189,217	$ 203,026

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, 2017 and 2016, 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, 2017 and 2016, the CLF had statutory borrowing authority of $6.6 billion and $6.1 billion, respectively. As of December 31, 2017 and 2016, 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, 2018.

At December 31, 2017 and 2016, 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, 2017 and 2016. 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, 2017 and 2016, the NCUSIF's resources in budgetary accounts were $16.9 billion and $13.0 billion, respectively, and undelivered orders were $863.8 thousand and $2.9 million, 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.

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, 2017 and 2016, contributed capital owed to the NCUSIF totaled $1.9 million and $0, respectively. As of December 31, 2017 and 2016, contributed capital due to insured credit unions was $0 and $1.9 million, respectively.

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 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 1.46% as of December 31, 2017. This equity ratio is based on insured shares of $1.1 trillion as of December 31, 2017, and is above the normal operating level of 1.39%. The NCUA Board will convene in 2018 to declare a distribution based on actual insured shares as of December 31, 2017.

As of December 31, 2016, the NCUSIF equity ratio of 1.24% was below the normal operating level of 1.30%; therefore, the NCUSIF did not estimate or record a distribution in 2017. Total contributed capital as of December 31, 2017 and 2016 was $10.8 billion and $10.0 billion, respectively. Total insured shares as of December 31, 2016, was $1.0 trillion.

The NCUSIF's available assets ratio as of December 31, 2017 and 2016 was 1.40% and 1.22%, based on total insured shares as of December 31, 2017 and 2016 of $1.1 trillion and $1.0 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, 2017 and 2016 (in thousands):

Schedule of Fiduciary Activity	2017	2016
Fiduciary Net Liabilities, beginning of year	$ (871,271)	$ (929,060)
Net Realized Losses upon Liquidation	(23,774)	(6,346)
Revenues		
Interest on Loans	2,481	6,411
Other Fiduciary Revenues	451	424
Expenses		
Professional & Outside Services Expenses	(4,319)	(4,650)
Compensation and Benefits	(871)	(1,409)
Other Expenses	(667)	(1,295)
Net Change in Recovery Value of Assets and Liabilities		
Net Gain/(Loss) on Loans	16,803	32,891
Net Gain/(Loss) on Real Estate Owned	(1,090)	(1,349)
Other, Net Gain/(Loss)	7,857	5,173
(Increase)/Decrease in Fiduciary Net Liabilities	(3,129)	29,850
Write off of Fiduciary Liabilities for Cancelled Charters	78,997	27,939
Fiduciary Net Liabilities, end of year	**$ (795,403)**	**$ (871,271)**

Comparing 2017 activity in the schedule of fiduciary activity with 2016, the NPCU AMEs' fiduciary net liabilities improved by $75.9 million overall, including an increase in fiduciary net liabilities of $3.1 million and cancelled charter write-offs of $79.0 million. For 2017, the primary drivers were an improvement (decrease) in net realized losses upon liquidation, improvement in the recovery value of assets and liabilities, and cancelled charters. The net realized losses upon liquidation increased by $17.5 million due, in part, to an increase in the average cost of failure per credit union for liquidations during 2017. The net change in recovery value of assets and liabilities line items increased by $33.0 million due to rising net realizable values of assets managed. Charter cancellation write-offs increased by $51.1 million, corresponding with more credit union charter cancellations in 2017 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, as well as 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, 2017 and 2016 (in thousands):

Schedule of Fiduciary Net Assets/Liabilities	**2017**	**2016**
Fiduciary Assets		
Loans	$ 9,042	$ 61,392
Real Estate Owned	8,798	10,231
Other Fiduciary Assets	3,565	4,061
Total Fiduciary Assets	21,405	75,684
Fiduciary Liabilities		
Insured Shares	1,535	1,373
Accrued Liquidation Expenses	14,441	15,220
Unsecured Claims	1,277	409
Uninsured Shares	3,119	3,782
Due to NCUSIF (Note 7)	796,436	926,171
Total Fiduciary Liabilities	816,808	946,955
Total Fiduciary Net Assets/(Liabilities)	**$ (795,403)**	**$ (871,271)**

(b) Corporate AMEs (Legacy TCCUSF AMEs)

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

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
Decrease in Fiduciary Net Liabilities	(51,937)	-	-	(51,937)
Fiduciary Net Liabilities, December 31, 2017	$ 630,320	$ -	$ -	$ 630,320

For the three months ended December 31, 2017, the Corporate AMEs' Fiduciary Net Liabilities decreased by $51.9 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 driver of this decrease was $858.1 million in revenues from Settlements and Legal Claims. 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 three months ended December 31, 2017, this line was $627.4 million, which reflects a net loss that is the combination of the $480.0 million, paid on the $1.0 billion capital note by the AME of USCFCU and 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, 2017 (in thousands):

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

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, 2017 and December 31, 2016, the NCUA held $167.0 million and $0, 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	2017	2016
Resources Provided to Finance Activities:		
Budgetary Resources Obligated		
New Obligations and Upward Adjustments (Total)	$ 731,503	$ 274,249
Less: Spending Authority from Offsetting Collections and Change in Receivables from Federal Sources	(2,249,175)	(1,086,690)
Net Obligations	(1,517,672)	(812,441)
Other Resources:		
Net Unrealized (Gain)/Loss	41,061	136,123
Total Resources Provided to Finance Activities	(1,476,611)	(676,318)
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	3,502	(790)
Costs Capitalized on the Balance Sheet	1,095,211	822,486
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	89,179	60,483
Total Resources Provided to Fund Items Not Part of the Net Cost of Operations	1,187,892	882,179
Resources Generated to Finance the Net Cost of Operations	(288,719)	205,861
Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Provision for Insurance Losses		
Reserve Expense (Reduction)	747,777	44,432
AME Receivable Bad Debt Expense (Reduction)	(21,482)	(36,562)
Increase in Exchange Revenue	-	253
Change in Accrued Leave	2	-
Depreciation Expense	630	590
Other Expenses	132	93
Total Components of Net Cost of Operations That Do Not Require or Generate Resources During the Reporting Period	727,059	8,806
Net Cost of Operations	$ 438,340	$ 214,667

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, 2018, 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, 2017.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Risk Assumed Information

Insurance and Guarantee Program Liabilities

Insured Credit Unions
As of December 31, 2017 and 2016, the aggregate outstanding insured shares of the insured credit unions were $1.1 trillion and $1.0 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 $925.5 million and $196.6 million as of December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, the general reserves were $106.9 million and $193.7 million, respectively. At December 31, 2017 and 2016, the specific reserves were $818.6 million and $2.9 million, respectively.

The NCUSIF's contingent liability increased by $728.9 million from 2016 to 2017, reflecting the overall risk of losses due to potential credit union failures for insured credit unions, and increased by $31.7 million from 2015 to 2016. Nevertheless, the overall credit union industry generally remained stable during 2017 as reflected by the reduction in the assets in CAMEL 3, 4 and 5 rated credit unions as compared to 2016. Assets in CAMEL 3, 4 and 5 rated credit unions decreased 33.3% to $65.5 billion at the end of 2017, versus $98.2 billion at the end of 2016. The aggregate net worth ratio increased during the year, ending at 11.0%, versus 10.9% at December 31, 2016. 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 CCU system and recover such losses over time. After assuming the balances of the former TCCUSF, the NCUSIF recognized no net contingent liability for expected losses from the failed CCUs pursuant to SFFAS No. 5 at December 31, 2017 and the NCUA estimated no insurance losses from the NGNs. At December 31, 2017, the NCUSIF had accrued for losses of the CCU system of approximately $2.7 billion, consisting of allowance for loss against receivables from the Corporate AMEs.

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

Fees and Premiums

Insured Credit Unions
During 2017 and 2016, 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, 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 $42.3 million.

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 reserving 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, 2017.

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 $106.9 million in anticipated losses recognized on the NCUSIF's balance sheet at December 31, 2017. 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, 2017. 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, 2017.

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, 2017 and 2016, 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 (OF), which comprise the balance sheets as of December 31, 2017 and 2016, 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. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 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 on the Financial Statements

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, 2017 and 2016, 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, 2017, we considered the OF'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 OF's internal control. Accordingly, we do not express an opinion on the effectiveness of the OF'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 OF'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 herein under *Government Auditing Standards* or OMB Bulletin No. 17-03.

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 result of that testing, and not to provide an opinion on the effectiveness of the OF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

February 14, 2018

NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

BALANCE SHEETS
As of December 31, 2017 and 2016
(Dollars in thousands)

	2017	2016
ASSETS		
Cash and cash equivalents (Note 3)	$ 69,764	$ 49,349
Due from National Credit Union Share Insurance Fund (Note 6)	5,153	4,059
Employee advances	11	5
Other accounts receivable, Net (Notes 6 and 9)	344	437
Prepaid expenses and other assets	2,386	1,844
Fixed assets — Net of accumulated depreciation of $37,845 and $34,963 as of December 31, 2017 and December 31, 2016, respectively (Note 4)	27,087	29,362
Intangible assets — Net of accumulated amortization of $18,653 and $17,219 as of December 31, 2017 and December 31, 2016, respectively (Note 5)	5,312	4,855
TOTAL ASSETS	$ 110,057	$ 89,911
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable and accrued other liabilities	$ 7,511	$ 5,609
Obligations under capital leases (Note 7)	211	957
Accrued wages and benefits	12,280	10,270
Accrued annual leave	18,392	18,169
Accrued employee travel	607	601
Notes payable to National Credit Union Share Insurance Fund (Note 6)	7,710	9,051
Total liabilities	46,711	44,657
COMMITMENTS AND CONTINGENCIES (Notes 6, 7, 10 & 11)		
FUND BALANCE	63,346	45,254
TOTAL LIABILITIES AND FUND BALANCE	$ 110,057	$ 89,911

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, 2017 and 2016
(Dollars in thousands)

	2017	2016
REVENUES		
Operating fees	$ 106,455	$ 80,934
Interest	796	181
Other	1,118	1,071
Total Revenues	108,369	82,186
EXPENSES, NET (Note 6)		
Employee wages and benefits	67,348	55,713
Travel	7,451	7,099
Rent, communications, and utilities	2,063	1,539
Contracted services	9,074	6,800
Depreciation and amortization	1,720	1,313
Administrative	2,621	2,263
Total Expenses, Net	90,277	74,727
EXCESS OF REVENUES OVER EXPENSES	18,092	7,459
FUND BALANCE—Beginning of year	45,254	37,795
FUND BALANCE—End of year	$ 63,346	$ 45,254

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

STATEMENTS OF CASH FLOWS
For the years ended December 31, 2017 and 2016
(Dollars in thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenues over expenses	$ 18,092	$ 7,459
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization (Note 4 and 5)	5,376	4,905
Provision for loss on disposal of employee residences held for sale	-	27
Loss on fixed asset and intangible asset retirements	24	9
(Increase) decrease in assets:		
Due from National Credit Union Share Insurance Fund	(1,094)	(115)
Employee advances	(6)	33
Other accounts receivable, net	93	(105)
Prepaid expenses and other assets	(542)	(112)
(Decrease) increase in liabilities:		
Accounts payable	1,902	(35)
Accrued wages and benefits	2,010	3,094
Accrued annual leave	223	926
Accrued employee travel	6	(45)
Net Cash Provided by Operating Activities	26,084	16,041
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets and intangible assets	(3,582)	(5,473)
Proceeds from sale of employee residences held for sale	-	350
Net Cash Used in Investing Activities	(3,582)	(5,123)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of notes payable to National Credit Union Share Insurance Fund	(1,341)	(1,341)
Principal payments under capital lease obligations	(746)	(756)
Net Cash Used in Financing Activities	(2,087)	(2,097)
NET INCREASE IN CASH AND CASH EQUIVALENTS	20,415	8,821
CASH AND CASH EQUIVALENTS—Beginning of year	49,349	40,528
CASH AND CASH EQUIVALENTS—End of year	$ 69,764	$ 49,349
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Acquisition of equipment under capital lease	$ -	$ 198
CASH PAYMENTS FOR INTEREST	$ 128	$ 179

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

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. 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 five funds managed by the NCUA Board during 2017 and 2016. 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 Temporary Corporate Credit Union Stabilization Fund (TCCUSF),
c) The National Credit Union Administration Central Liquidity Facility (CLF), and
d) The National Credit Union Administration Community Development Revolving Loan Fund (CDRLF).

On September 28, 2017, the NCUA Board voted unanimously to close the TCCUSF effective October 1, 2017, ahead of its sunset date of June 30, 2021 as described in Note 6.

The Fund supports these related parties by providing office space, information technology services, and supplies, as well as paying employees' salaries and benefits. Certain types of support are reimbursed to the Fund by NCUSIF, TCCUSF, 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 2017 and 2016 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 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) 360-10-35, *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 costs 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 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. Certain office space for which the NCUA is a lessee is subject to escalations in rent, as described in Note 7.

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, 2017 and 2016 are as follows (in thousands):

	2017	2016
Deposits with U.S. Treasury	$ 7,072	$ 5,803
U.S. Treasury Overnight Investments	62,692	43,546
Total	$ 69,764	$ 49,349

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, 2017 and 2016 (in thousands):

	2017	2016
Office building and land	$ 52,381	$ 51,148
Furniture and equipment	9,288	9,851
Leasehold improvements	406	406
Equipment under capital leases	2,498	2,499
Total assets in-use	64,573	63,904
Less accumulated depreciation	(37,845)	(34,963)
Assets in-use, net	26,728	28,941
Construction in progress	359	421
Fixed assets, net	$ 27,087	$ 29,362

Depreciation expense for the years ended December 31, 2017 and 2016 totaled $3.8 and $3.9 million, respectively, before allocation to the NCUSIF as described in Note 6.

Construction in progress includes costs associated with improvements for NCUA headquarters that increase the future service potential of the capital asset (building) and does more than maintain the existing level of service.

5. INTANGIBLE ASSETS

Intangible assets are comprised of the following as of December 31, 2017 and 2016 (in thousands):

	2017	2016
Internal-use software	$ 23,664	$ 18,220
Less accumulated amortization	(18,653)	(17,219)
Total internal-use software, net	5,011	1,001
Internal-use software under development	301	3,854
Intangible assets, net	$ 5,312	$ 4,855

Internal-use software is computer software that is either acquired externally or developed internally. Amortization expense for the years ended December 31, 2017 and 2016 totaled $1,533.6 and $940.6 thousand, respectively, before allocation to the NCUSIF as described in Note 6.

Internal-use software that is in 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. The Fund charges NCUSIF for these services based upon an annual allocation factor derived from a study of actual usage. In 2017 and 2016, the allocation to NCUSIF was 67.7% and 73.1% of all expenses, respectively. The cost of the services allocated to NCUSIF, which totaled $189.2 and $203.0 million for 2017 and 2016, respectively, is reflected as a reduction of the expenses shown in the accompanying financial statements. These transactions are settled monthly.

On September 28, 2017, the NCUA Board voted unanimously to close the TCCUSF effective October 1, 2017, ahead of its sunset date of June 30, 2021. As required by statute (12 U.S.C. 1790e(h)), the TCCUSF's remaining funds, property, and other assets were transferred to the NCUSIF. Through the transfer, the NCUSIF assumed the obligations of the TCCUSF, including the NCUA Guaranteed Note Program. Accordingly, support received for the administration of the programs under TCCUSF became obligations of the NCUSIF. Effective October 1, 2017, the Fund provides related program support by paying personnel costs such as pay and benefits and other associated costs which include but are not limited to telecommunications, supplies, printing, and postage.

In addition to the allocation described above, the Fund also charges NCUSIF for certain developmental costs related to development of internal-use intangible assets requiring the use of Operating Fund labor. For the years ended December 31, 2017 and 2016, no such costs were allocated to the NCUSIF.

As of December 31, 2017 and 2016, amounts due from NCUSIF totaled $5.2 and $4.1 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 $127.6 and $179.0 thousand for 2017 and 2016, respectively. The notes payable balances as of December 31, 2017 and 2016 were $7.7 and $9.1 million, respectively. The current portion of the long-term debt is $1.3 million as of December 31, 2017. The variable rate on the note is equal to NCUSIF's prior-month yield on investments. The average interest rates during 2017 and 2016 were 1.51% and 1.84%, respectively. The interest rates as of December 31, 2017 and 2016 were 1.59% and 1.83%, respectively.

The secured term note requires principal repayments as of December 31, 2017, as follows (in thousands):

Years ending December 31	Secured Term Note
2018	$ 1,341
2019	1,341
2020	1,341
2021	1,341
2022	1,341
Thereafter	1,005
Total	$ 7,710

(b) Transactions with CLF

Certain administrative services are provided by the Fund to CLF. The Fund pays CLF's 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, with settlement and payment occurring quarterly. All other CLF reimbursement expenses are paid annually. The costs of the services provided to CLF were $658.0 and $540.0 thousand for the years ending December 31, 2017 and 2016, respectively, and are reflected as a reduction of the expenses shown in the accompanying financial statements.

Other accounts receivable include $175.6 and $144.6 thousand of amounts due from the CLF as of December 31, 2017 and 2016, 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, 2017 and 2016, unreimbursed administrative support to CDRLF is estimated at (in thousands):

	2017	2016
Personnel	$ 474	$ 499
Other	71	84
Total	$ 545	$ 583

(d) Support of TCCUSF

The Fund supports the administration of programs under TCCUSF 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.

On September 28, 2017, the NCUA Board voted unanimously to close the TCCUSF effective October 1, 2017, ahead of its sunset date of June 30, 2021. As required by statute, the TCCUSF's remaining funds, property, and other assets were transferred to the NCUSIF. Through the transfer, the NCUSIF assumed the obligations of the TCCUSF. Accordingly, support received for the administration of the programs under TCCUSF became obligations of the NCUSIF.

For the nine months ended September 30, 2017 and year ended December 31, 2016, unreimbursed administrative support to TCCUSF is estimated at (in thousands):

	2017	2016
Personnel	$ 973	$ 945
Other	24	26
Total	$ 997	$ 971

In addition, the Fund initially paid for and was reimbursed $902.7 thousand and $990.9 thousand for the salaries and related benefits of TCCUSF employees for the nine months ended September 30, 2017 and the year ended December 31, 2016, respectively. These reimbursements are reflected as a reduction of the corresponding expenses in the accompanying financial statements.

Other accounts receivable include $1.2 and $123.3 thousand of amounts due from the TCCUSF as of September 30, 2017 and December 31, 2016, respectively.

(e) Federal Financial Institutions Examination Council (FFIEC)

The NCUA is one of the five Federal agencies that fund FFIEC operations. Under FFIEC's charter, 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. For the years ended December 31, 2017 and 2016, FFIEC assessments totaled $803.8 and $817.5 thousand, respectively. NCUA's 2018 budgeted assessments from FFIEC total $1,390.8 thousand.

The NCUA also contributes to the costs associated with certain cross-agency data collection applications, including applications related to the Home Mortgage Disclosure Act. For the year ended December 31, 2017, FFIEC assessments to support these systems totaled $750.0 thousand. NCUA's 2018 budgeted assessments from FFIEC to support these systems total $750.0 thousand.

(f) 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 NCUA's office space under lease agreements that will continue through 2020. Office rental charges amounted to approximately $1.2 and $1.0 million, of which approximately $792.0 and $738.7 thousand were reimbursed by NCUSIF for 2017 and 2016, 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 $41.9 thousand of imputed interest.

The future minimum lease payments to be paid over the next four years as of December 31, 2017, before reimbursements, are as follows (in thousands):

Years ending December 31	**Operating Leases**	**Capital Leases**
2018	$ 1,195	$ 96
2019	1,222	68
2020	1,103	66
2021	-	22
Thereafter	-	-
Total	$ 3,520	$ 252

Based on the NCUA Board-approved allocation methodology, NCUSIF is expected to reimburse the Fund for approximately 61.5% of the 2018 operating lease payments.

The Fund, as a lessor, currently holds operating lease agreements with one tenant, who rents a portion of the Fund's building for retail space. The lease carries a five year term with escalating rent payments. The lease is set to expire in 2020.

The future minimum lease payments to be received from this non-cancelable operating lease at December 31, 2017 are as follows (in thousands):

Years ending December 31	**Scheduled Rent Payments**
2018	$ 318
2019	324
2020	81
Thereafter	-
Total	$ 723

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 $18.0 thousand ($24.0 thousand for age 50 and above) in 2017 and 2016. In addition, the Fund matched up to 5% of the employee's gross pay.

In 2017 and 2016, the Fund's contributions to the plans were approximately $26.0 and $25.2 million, respectively, of which approximately $17.6 and $18.4 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, and 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 2017 and 2016. The Fund's match of 2.0% remains in effect for the duration of the CBA. NCUA's contributions for 2017 and 2016 were $6.7 and $6.6 million, respectively. The gross operating expenses associated with the NCUA Savings Plan in 2017 and 2016 were $94.0 and $64.3 thousand, respectively. Costs of the NCUA Savings Plan were allocated at 67.7%

and 73.1% to the NCUSIF in 2017 and 2016, 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 Measurements and Disclosures*. 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.

The related impairment charges for 2017 and 2016 were $0 and $27.2 thousand, respectively. Impairment charges are recorded within the Statement of Revenues, Expenses, and Changes in Fund Balance and represent non-recurring fair value measures.

(a) Non-recurring Fair Value Measures

The Fund had assets held for sale during 2016, which consisted of residences from relocating employees, and the amount was presented at aggregate fair value less cost to sell. The fair value measurement recorded includes pending purchase contracts, the lower of list prices or appraisals if less than six months old (if no pending purchase contracts exist), or recent market analyses (if no recent list prices or appraisals are readily available). Additionally, the fair value incorporates estimated reductions in the fair value to recognize costs to sell the properties. The Fund believes that these measurements fairly reflect the most current valuation of the assets.

(b) Summary Financial Instrument Fair Values

The carrying values approximate the fair values of certain financial instruments as of December 31, 2017 and 2016, were as follows (in thousands):

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 69,764	$ 69,764	$ 49,349	$ 49,349
Due from NCUSIF	5,153	5,153	4,059	4,059
Employee advances	11	11	5	5
Other accounts receivable, net	344	344	437	437
Obligations under capital lease	211	211	957	957
Notes payable to NCUSIF	7,710	7,710	9,051	9,051

Cash and Cash Equivalents – The carrying amounts for cash and cash equivalents financial instruments approximates 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 approximates fair value, as the amount is scheduled to be paid within the first quarter of fiscal year 2018.

Employee Advances – The carrying amounts for receivables from employees' financial instruments approximates fair value, as the amount is scheduled to be paid in fiscal year 2018.

Other Accounts Receivable, Net – The carrying amounts for other accounts receivable approximates fair value, as the original gross amounts together with a valuation allowance reflect the net amount that is deemed collectible. As of December 31, 2017 and 2016, the Fund's Other Accounts Receivable includes an allowance in the amount of $9.2 and $8.9 thousand, respectively.

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

Notes Payable to NCUSIF – The carrying amounts for notes 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 77% of 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

The NCUA Board on July 21, 2017 approved a restructuring plan with the goals of greater efficiency, responsiveness, and cost-effectiveness. The plan will:

- Consolidate the agency's five regional offices into three by closing the Albany, New York, and Atlanta, Georgia offices and eliminate four of the agency's five leased facilities;
- Create an Office of Credit Union Resources and Expansion by redefining and realigning chartering and field-of-membership, credit union development, grants and loans, and minority depository institutions programs;
- Restructure the Office of Examination and Insurance into specialized working groups; and
- Realign the Asset Management and Assistance Center to include changes to the servicing business model and moving to a financial supervisory structure.

The plan also eliminates agency offices with overlapping functions and improves functions such as examination reporting, records management and procurement. The plan anticipates a reduction in the agency's workforce by attrition. The NCUA anticipates that the restructuring will be completed by January 1, 2019.

In accordance with FASB ASC Statement No. 420, *Accounting for Costs Associated with Exit and Disposal Activities*, the NCUA estimates the costs to be incurred for the plan will be up to $9.5 million. This includes employee termination benefits of $1.1 million, relocation costs of $2.9 million and other administrative costs of $5.5 million. Approximately $1.1 million of these costs were incurred during 2017, which included $762.5 thousand for employee termination benefits, $185.5 thousand for relocation costs, and $122.3 thousand for other administrative costs. Based on the overhead transfer rate allocation, the allocation in total to the Fund and NCUSIF was approximately $345.7 and $724.6 thousand, respectively. Incurred costs, after the overhead transfer rate allocation, are included in the Statement of Revenues, Expenses, and Changes in Fund Balance in Employee wages and benefits, Contracted services and Administrative line items.

13. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2018, 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, 2017 and 2016, 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, 2017 and 2016, and the related statements of operations, statement of 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. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 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 on the Financial Statements

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, 2017 and 2016, 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, 2017, 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 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 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 herein under *Government Auditing Standards* or OMB Bulletin No. 17-03.

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 result 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

February 14, 2018

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

BALANCE SHEETS
As of December 31, 2017 and 2016
(Dollars in thousands, except share data)

		2017		2016
ASSETS				
Cash and Cash Equivalents (Notes 3 and 5)	$	5,573	$	7,048
Investments Held to Maturity (Net of $1,372 and $1,117 unamortized premium, fair value of $284,042 and $264,463 as of 2017 and 2016, respectively) (Notes 4 and 5)		286,637		265,682
Accrued Interest Receivable (Note 5)		1,370		1,084
TOTAL ASSETS	$	293,580	$	273,814
LIABILITIES AND MEMBERS' EQUITY				
LIABILITIES				
Accounts Payable (Notes 5 and 9)	$	226	$	188
Dividends Payable (Note 5)		655		305
Stock Redemption Payable (Note 5)		-		302
Member Deposits (Notes 5 and 7)		2,446		1,552
Total Liabilities		3,327		2,347
MEMBERS' EQUITY				
Capital Stock – Required ($50 per share par value authorized: 10,304,634 and 9,596,298 shares; issued and outstanding: 5,152,317 and 4,798,149 shares as of 2017 and 2016, respectively) (Note 6)		257,616		239,907
Retained Earnings		32,637		31,560
Total Members' Equity		290,253		271,467
TOTAL LIABILITIES AND MEMBERS' EQUITY	$	293,580	$	273,814

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2017 and 2016
(Dollars in thousands)

	2017	2016
REVENUE		
Investment Income	$ 3,970	$ 3,214
Total Revenue	3,970	3,214
EXPENSES (Note 9)		
Personnel Services	415	341
Personnel Benefits	155	133
Other General and Administrative Expenses	96	78
Total Operating Expenses	666	552
Interest – Member Deposits (Note 7)	17	6
Total Expenses	683	558
NET INCOME	$ 3,287	$ 2,656

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF MEMBERS' EQUITY
For the Years Ended December 31, 2017 and 2016
(Dollars in thousands, except share data)

	Capital Stock			
	Shares	Amount	Retained Earnings	Total
BALANCE – December 31, 2015	4,362,903	$ 218,145	$ 29,936	$ 248,081
Issuance of Required Capital Stock	451,677	22,584		22,584
Redemption of Required Capital Stock	(16,431)	(822)		(822)
Dividends Declared (Notes 6 and 7)			(1,032)	(1,032)
Net Income			2,656	2,656
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

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016
(Dollars in thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 3,287	$ 2,656
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Amortization of Investments	358	204
Interest - Member Deposits	17	6
Changes in Assets and Liabilities:		
(Increase)/Decrease in Accrued Interest Receivable	(286)	(374)
Increase/(Decrease) in Accounts Payable	38	28
Net Cash Provided by Operating Activities	3,414	2,520
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investments	(65,613)	(74,783)
Proceeds from Maturing Investments	44,300	46,400
Net Cash Used in Investing Activities	(21,313)	(28,383)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of Required Capital Stock	18,423	21,577
Redemption of Capital Stock	(1,840)	(114)
Withdrawal of Member Deposits	(159)	(38)
Net Cash Provided by Financing Activities	16,424	21,425
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,475)	(4,438)
CASH AND CASH EQUIVALENTS–Beginning of Year	7,048	11,486
CASH AND CASH EQUIVALENTS–End of Year	$ 5,573	$ 7,048

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION

CENTRAL LIQUIDITY FACILITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

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. 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 privatesector standardssetting body. The Federal Accounting Standards Advisory Board (FASAB) is the standardssetting 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 shortterm or longterm 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 2017 and 2016.

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, 2017 and 2016 are as follows (in thousands):

	2017	2016
U.S. Treasury Overnight Investments	$ 4,573	$ 5,988
Deposits with U.S. Treasury	1,000	1,060
Total	$ 5,573	$ 7,048

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, 2017 and 2016 were as follows (in thousands):

	2017	2016
Carrying Amount, December 31,	$ 286,637	$ 265,682
Gross Unrealized Holding Gains	269	732
Gross Unrealized Holding Losses	(2,864)	(1,951)
Fair Value	$ 284,042	$ 264,463

Maturities of debt securities classified as held-to-maturity were as follows:

	2017		2016	
(Dollars in thousands)	Net Carrying Amount	Fair Value	Net Carrying Amount	Fair Value
Due in one year or less	$ 73,313	$ 73,202	$ 47,261	$ 47,309
Due after one year through five years	179,391	177,415	185,852	185,219
Due after five years through ten years	33,933	33,425	32,569	31,935
Total	$ 286,637	$ 284,042	$ 265,682	$ 264,463

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, 2017 and 2016.

	Losses Less than 12 Months		Losses More than 12 Months		Total	
(Dollars in thousands)	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
As of December 31, 2017						
U.S. Treasury Securities	$ (836)	$ 135,693	$ (2,028)	$ 106,297	$ (2,864)	$ 241,990
As of December 31, 2016						
U.S. Treasury Securities	$ (1,951)	$ 133,740	$ -	$ -	$ (1,951)	$ 133,740

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, 2017 and 2016. The carrying values and approximate fair values of financial instruments are as follows:

(Dollars in thousands)	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$ 5,573	$ 5,573	$ 7,048	$ 7,048
Investments held-to-maturity	286,637	284,042	265,682	264,463
Accrued interest receivable	1,370	1,370	1,084	1,084
Accounts payable	226	226	188	188
Dividends payable	655	655	305	305
Stock redemption payable	-	-	302	302
Member deposits	2,446	2,446	1,552	1,552

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 onehalf of one percent of their paidin and unimpaired capital and surplus, onehalf of which is required to be remitted to the CLF. Member credit unions are required to hold the remaining onehalf 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' paidin 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, 2017, the CLF had no member withdrawal requests pending. As of December 31, 2016, the CLF had one 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, 2017 and 2016 (in thousands, except share data):

	2017		2016	
	Shares	**Amounts**	**Shares**	**Amounts**
Regular members	5,152,317	$ 257,616	4,798,149	$ 239,907

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 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. For 2016, the dividend rates were $0.125 per share for the first quarter and $0.25 per share for the second, 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, 2017 and 2016, the CLF's statutory borrowing authority was $6.6 billion and $6.1 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, 2018.

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 \$658.2 and \$540.0 thousand, respectively, for December 31, 2017 and 2016. Accounts payable includes approximately \$175.6 and \$144.6 thousand, respectively, for December 31, 2017 and 2016, due to the NCUA OF for services provided.

10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2018, 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, 2017 and 2016, 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 Community Development Revolving Loan Fund (CDRLF), which comprise the balance sheets as of December 31, 2017 and 2016, 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. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 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 on the Financial Statements

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, 2017 and 2016, 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, 2017, 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 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 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 herein under *Government Auditing Standards* or OMB Bulletin No. 17-03.

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 result 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

February 14, 2018

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

BALANCE SHEETS
As of December 31, 2017 and 2016

		2017		2016
ASSETS				
Cash and Cash Equivalents (Notes 3 and 8)	$	9,680,592	$	7,424,530
Loans Receivable (Notes 5, 7, and 8)		8,114,999		10,214,722
Interest Receivable (Note 8)		10,995		10,212
TOTAL ASSETS	$	17,806,586	$	17,649,464
LIABILITIES AND FUND BALANCE				
Liabilities - Accrued Technical Assistance Grants (Note 8)	$	2,461,556	$	2,288,071
Fund Balance				
Fund Capital (Note 4)		13,572,440		13,625,820
Accumulated Earnings		1,772,590		1,735,573
Total Fund Balance		15,345,030		15,361,393
TOTAL LIABILITIES AND FUND BALANCE	$	17,806,586	$	17,649,464

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, 2017 and 2016

	2017	2016
SUPPORT AND REVENUES		
Interest on Cash Equivalents	$ 34,865	$ 12,738
Interest on Loans	47,152	41,443
Total Interest Income	82,017	54,181
Appropriation Revenue		
Appropriations Expended (Note 4)	2,389,085	2,499,187
Cancelled Technical Assistance Grants (Note 6)	(362,020)	(379,691)
Total Appropriation Revenue	2,027,065	2,119,496
Total Support and Revenues	2,109,082	2,173,677
EXPENSES		
Technical Assistance Grants	2,434,085	2,574,153
Cancelled Technical Assistance Grants (Note 6)	(362,020)	(387,351)
Total Expenses	2,072,065	2,186,802
NET INCOME/(LOSS)	$ 37,017	$ (13,125)

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, 2017 and 2016

	Fund Capital				
	For Loans	For Technical Assistance	Total Fund Capital	Accumulated Earnings	Total Fund Balance
December 31, 2015	$ 13,387,777	$ 566,931	$ 13,954,708	$ 1,748,698	$ 15,703,406
Appropriations Received (Note 4)	-	2,000,000	2,000,000	-	2,000,000
Appropriations Expended	-	(2,499,187)	(2,499,187)	-	(2,499,187)
Cancelled Appropriations - Remitted to Treasury (Note 4)	-	(209,392)	(209,392)	-	(209,392)
Cancelled Technical Assistance Grants (Note 6)	-	379,691	379,691	-	379,691
Net Income/(Loss)	-	-	-	(13,125)	(13,125)
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

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, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income/(Loss)	$ 37,017	$ (13,125)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities		
Appropriations Expended	(2,389,085)	(2,499,187)
Cancelled Technical Assistance	362,020	379,691
Changes in Assets and Liabilities		
Increase in Interest Receivable	(783)	(717)
Increase in Accrued Technical Assistance	173,485	333,623
Net Cash Used in Operating Activities	(1,817,346)	(1,799,715)
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan Principal Repayments	2,599,723	525,182
Loan Disbursements	(500,000)	(1,375,000)
Net Cash Used In Investing Activities	2,099,723	(849,818)
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations Received 2017/2018	2,000,000	-
Appropriations Received 2016/2017	-	2,000,000
Cancelled Appropriations Remitted to Treasury 2011/2012	(26,315)	-
Cancelled Appropriations Remitted to Treasury 2010/2011	-	(209,392)
Net Cash Provided by Financing Activities	1,973,685	1,790,608
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	2,256,062	(858,925)
CASH AND CASH EQUIVALENTS — Beginning of Year	7,424,530	8,283,455
CASH AND CASH EQUIVALENTS — End of Year	$ 9,680,592	$ 7,424,530

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, 2017 and 2016

1. ORGANIZATION AND PURPOSE

The Community Development Revolving Loan Fund (the CDRLF) for credit unions was established by an act of Congress (Public Law 96123, November 20, 1979) to stimulate economic development in lowincome communities. The National Credit Union Administration (the NCUA) and the Community Services Association (CSA) jointly adopted Part 705 of the NCUA Rules and Regulations, governing administration of 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 99609, 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. 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 2017 and 2016 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 2017 and 2016, 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, 2017 and 2016. 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 not all technical assistance grants are funded by appropriations. 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, 2017 and 2016 are as follows:

	2017	2016
Deposits with U.S. Treasury	$ 3,880,592	$ 3,524,530
U.S. Treasury Overnight Securities	5,800,000	3,900,000
	$ 9,680,592	$ 7,424,530

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, 2017, the CDRLF received an appropriation for technical assistance grants in the amount of $2.0 million for the Federal fiscal year (FY) 2017. This is a multiyear appropriation that is 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.

During the year ended December 31, 2016, the CDRLF received an appropriation for technical assistance grants in the amount of $2.0 million for FY 2016. This was a multiyear appropriation that was available for obligation through September 30, 2017. Of this amount, $1.9 million was expended for the year ended December 31, 2016. An additional $626 thousand was expended from the FY 2015 appropriation.

Appropriated funds in the amount of $26 thousand from the FY 2011 appropriation were remitted to the U.S. Treasury in 2017 upon cancellation. Appropriated funds in the amount of $209 thousand from the FY 2010 appropriation were remitted to the U.S. Treasury in 2016 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, 2017 and 2016 consisted of the following:

	2017	2016
Balance as of the Beginning of the Year	$ 10,214,722	$ 9,364,904
Loans Disbursed	500,000	1,375,000
Loan Repayments	(2,599,723)	(525,182)
Loans Receivable as of the End of the Year	8,114,999	10,214,722
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	$ 8,114,999	$ 10,214,722

Loans outstanding as of December 31, 2017, are scheduled to be repaid during the following subsequent years:

	2017
2018	309,999
2019	4,530,000
2020	1,500,000
2021	1,275,000
2022	500,000
Total Loans Receivable	$ 8,114,999

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 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. 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 $362 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, 2016, the CDRLF cancelled $8 thousand of technical assistance grants awarded from the revolving fund and $380 thousand of technical assistance grants awarded from multiyear funds.

Cancelled technical assistance grants awarded from appropriations from FY 2012 through 2016 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 lowincome 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 $2.9 million and $3.4 million as of December 31, 2017 and 2016, respectively. The decrease in FY 2017 is primarily due to payoffs of $550 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, 2017 and 2016.

	2017		2016	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Assets				
Cash and Cash Equivalents	$ 9,680,592	$ 9,680,592	$ 7,424,530	$ 7,424,530
Loans Receivable	8,114,999	8,125,520	10,214,722	10,224,809
Interest Receivable	10,995	10,995	10,212	10,212
Liabilities				
Accrued Technical Assistance Grants	2,461,556	2,461,556	2,288,071	2,288,071

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, 2017 and 2016, the NCUA, through the OF, provided the following unreimbursed administrative support to the CDRLF:

	2017	2016
Employee	$ 474,146	$ 499,287
Other	70,716	83,445
Total	$ 544,862	$ 582,732

10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2018, which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.

Other Information

Financial Statement Audits Summary

Summary of the results of the independent audits of the financial statements of NCUA's four funds by the agency's auditors in connection with the 2017 audit.

NCUA Funds	Audit Opinion	Restatement	Material Weaknesses
National Credit Union Share Insurance Fund	Unmodified	No	None
Operating Fund	Unmodified	No	None
Central Liquidity Facility	Unmodified	No	None
Community Development Revolving Loan Fund	Unmodified	No	None

Note: For all funds for the current and prior year, there have been no material weaknesses noted.

Management Assurances Summary

Summary of management assurances related to the effectiveness of internal control over financial reporting and its conformance with financial management system requirements under Sections 2 and 4, respectively, of the Federal Financial Managers' Financial Integrity Act of 1982.

Area	Statement of Assurance	Result
Effectiveness of Internal Control Over Financial Reporting (FMFIA § 2)	Unqualified	No material weaknesses noted
Effectiveness of Internal Control Over Operations (FMFIA § 2)	Unqualified	No material weaknesses noted
Conform with Financial Management System Requirements (FMFIA § 4)	Systems Conform	No nonconformance noted

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 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*.

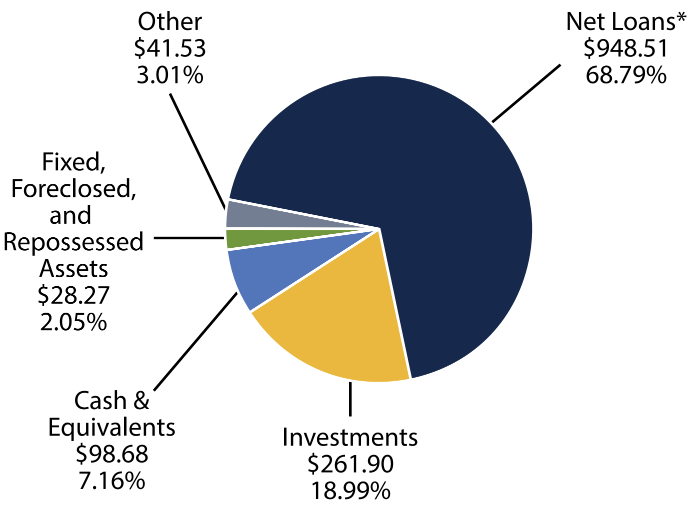
Penalty	Statutory Authority	Year Enacted	Latest Year of Adjustment	Current Penalty Level
Inadvertent failure to submit a report or the inadvertent submission of a false or misleading report	12 U.S.C. 1782(a)(3)	1989	2018	$3,928
Non-inadvertent failure to submit a report or the non-inadvertent submission of a false or misleading report	12 U.S.C. 1782(a)(3)	1989	2018	$39,278
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	2018	Lesser of $1,963,870 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 National Credit Union Share Insurance Fund or inadvertent submission of false or misleading statement	12 U.S.C. 1782(d)(2)(A)	1991	2018	$3,591
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	2018	$35,904
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	2018	Lesser of $1,795,216 or 1 percent of total credit union assets

Penalty	Statutory Authority	Year Enacted	Latest Year of Adjustment	Current Penalty Level
Non-compliance with insurance logo requirements	12 U.S.C. 1785(a)(3)	2006	2018	$122
Non-compliance with NCUA security requirements	12 U.S.C. 1785(e)(3)	1970	2018	$285
Tier 1 civil monetary penalty for violations of law, regulation, and other orders or agreements	12 U.S.C. 1786(k)(2)(A)	1989	2018	$9,819
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	2018	$49,096
Tier 3 civil monetary penalty for knowingly committing the violations under Tier 1 or 2	12 U.S.C. 1786(k)(2)(C)	1989	2018	Natural persons: $1,963,870; Credit unions: Lesser of $1,963,870 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	2018	$323,027
Non-compliance with appraisal independence standards (first violation)	15 U.S.C. 1639e(k)	2010	2018	$11,279
Subsequent violations of the same	15 U.S.C. 1639e(k)	2010	2018	$22,556
Non-compliance with flood insurance requirements	42 U.S.C. 4012a(f)(5)	2012	2018	$2,133

Statistical Data

Overall Trends

Asset Distribution (in Billions)

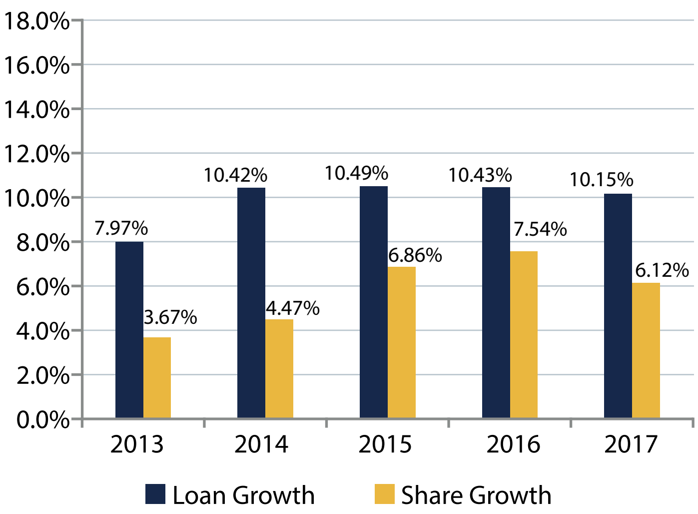


*Net Loans equals Total Loans ($957.3 billion) minus Allowance for Loan and Lease Losses ($8.8 billion). Numbers may not add up due to rounding.

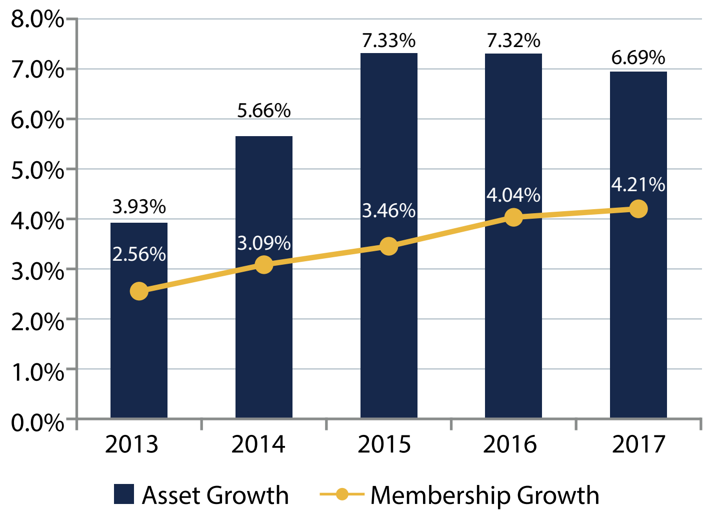
Number of Insured Credit Unions Reporting

	Federal Charter	State Charter	Total
2013	4,105	2,449	6,554
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

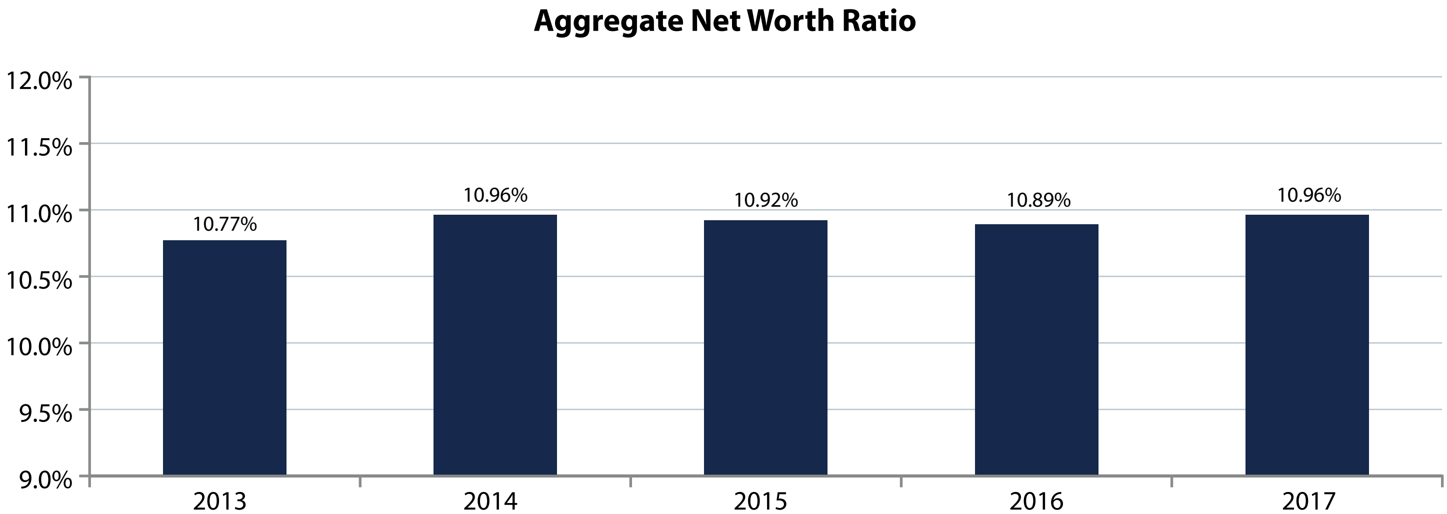
Loan Growth vs. Share Growth



Asset Growth vs. Membership Growth



Net Worth



Net Worth Change

	December 2016 in Billions	December 2017 in Billions	% Change (Annualized)
Total Net Worth	$140.81	$151.15	7.34%
Secondary Capital*	$0.18	$0.22	22.55%

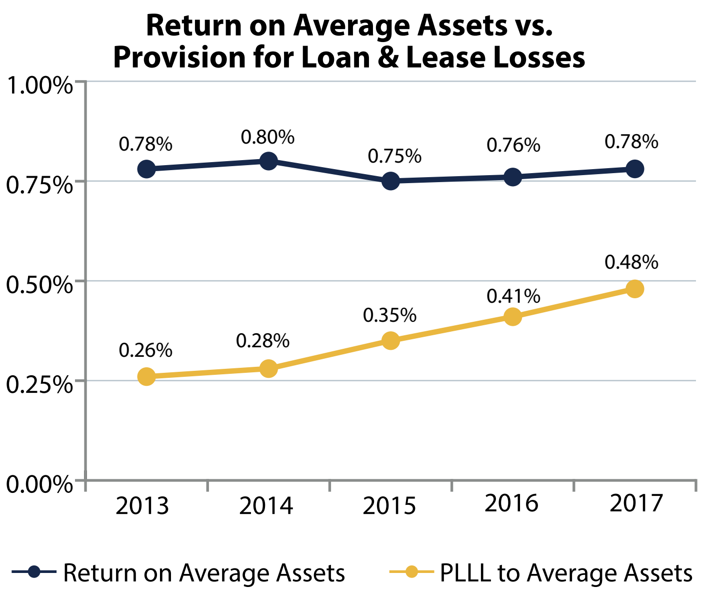
*For low-income-designated credit unions, net worth includes secondary capital.Numbers may not add up due to rounding.

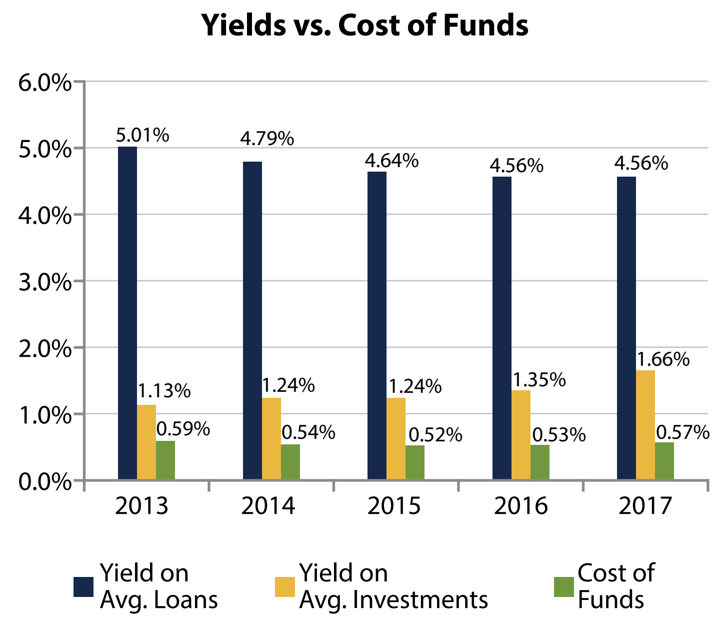
Net Worth Ratios

Number of Credit Unions	December 2016	% of Total	December 2017	% of Total
7% or above	5,661	97.86%	5,456	97.90%
6% to 6.99%	87	1.50%	76	1.36%
4% to 5.99%	23	0.40%	32	0.57%
2% to 3.99%	13	0.22%	4	0.07%
0% to < 2.00%	1	0.02%	2	0.04%
Less than 0%	0	0.00%	3	0.05%

Numbers may not add up due to rounding.

Earnings

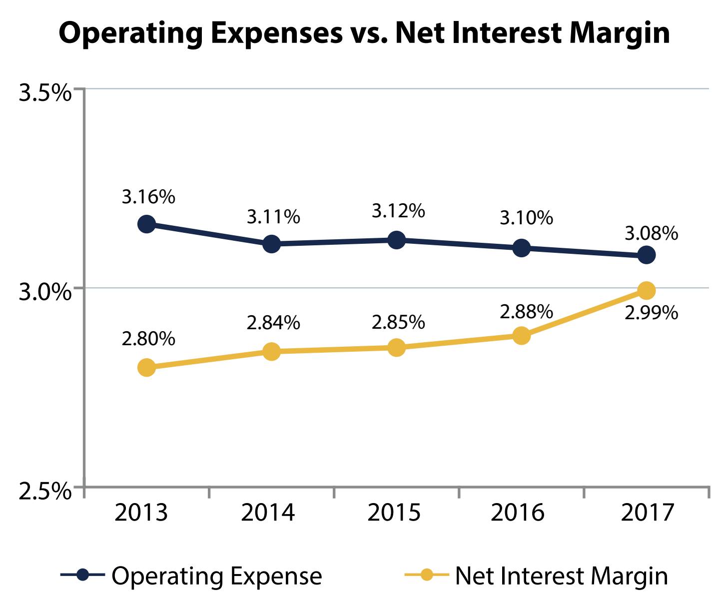




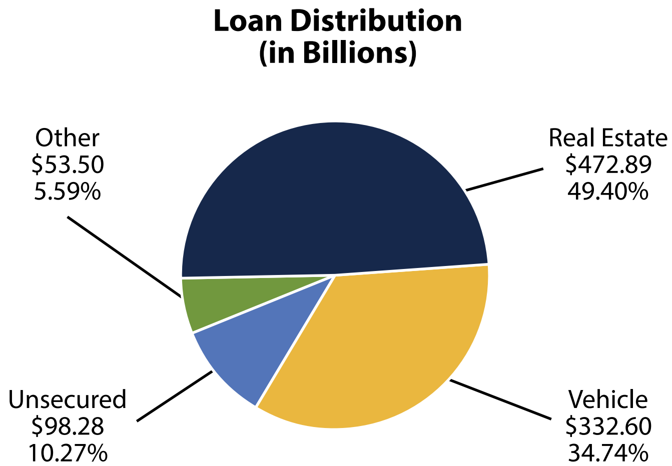
Ratio of Average Assets

Ratio (% of Average Assets)	December 2016	December 2017	Effect on ROA
Net Interest Margin	2.88%	2.99%	0.11 bp
+ Fee & Other Inc.	1.35%	1.33%	-0.02 bp
- Operating Expenses	3.10%	3.08%	0.02 bp
- PLLL	0.41%	0.48%	-0.07 bp
+ Non-Operating Income	0.04%	0.03%	-0.01 bp
= ROA	0.76%	0.78%	0.02 bp

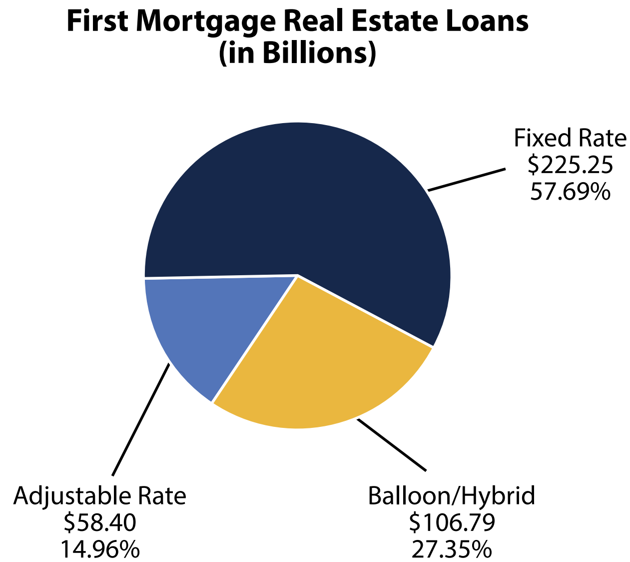
Numbers may not add up due to rounding.



Loan Distribution



Numbers may not add up due to rounding.



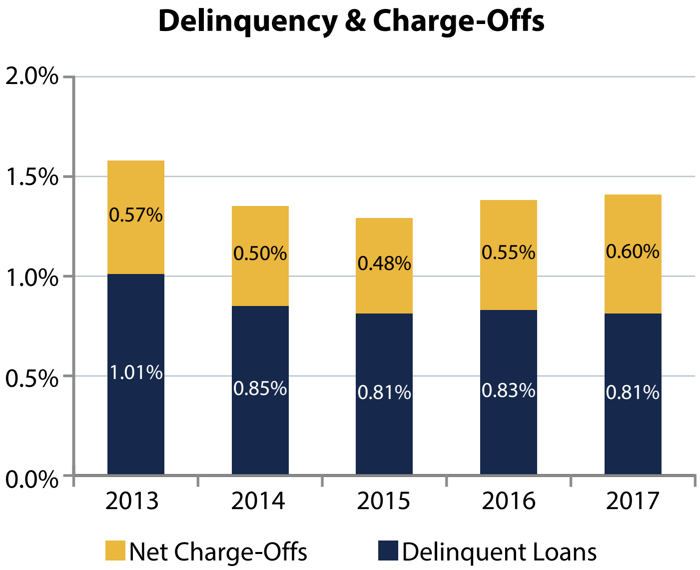
Numbers may not add up due to rounding.

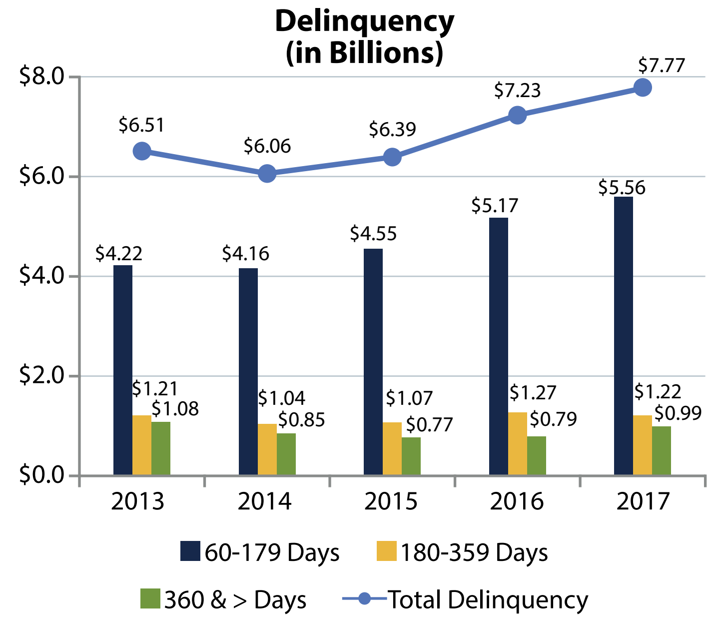
Loan Growth

Loan Category	December 2016 in Billions	% of Total Loans December 2016	December 2017 in Billions	% of Total Loans December 2017	Growth in Billions	Growth Rate (Annualized)
Unsecured Credit Card	$52.65	6.06%	$57.53	6.01%	$4.88	9.26%
All Other Unsecured	$37.56	4.32%	$40.76	4.26%	$3.20	8.51%
New Vehicle	$116.59	13.41%	$132.15	13.81%	$15.56	13.35%
Used Vehicle	$181.85	20.92%	$200.44	20.94%	$18.60	10.23%
First Mortgage Real Estate	$354.07	40.74%	$390.44	40.79%	$36.37	10.27%
Other Real Estate	$77.03	8.86%	$82.46	8.61%	$5.43	7.05%
Leases Receivable & All Other	$49.36	5.68%	$53.50	5.59%	$4.14	8.38%
Total Loans	**$869.11**		**$957.28**		**$88.17**	**10.15%**

Numbers may not add up due to rounding.

Loan and Delinquency Trends

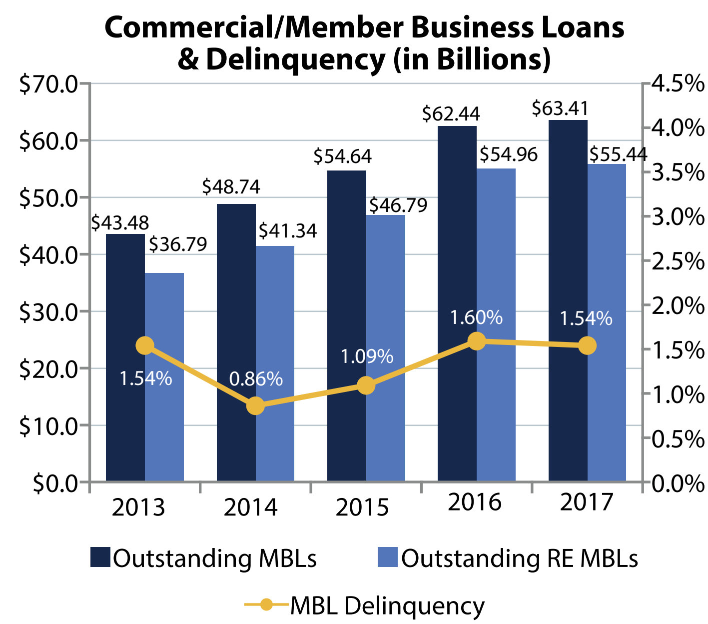




Charge-Offs and Recoveries

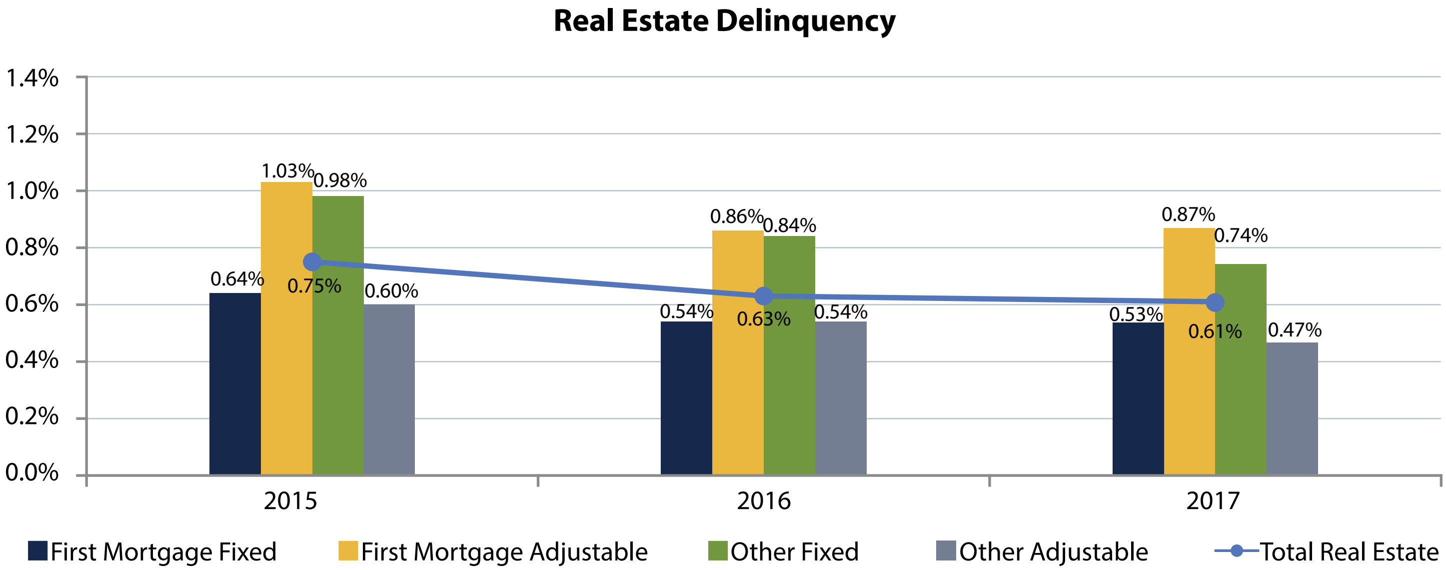
Total Loan Charge-Offs and Recoveries	December 2016 in Billions	Dcember 2017 in Billions*	% Change
Total Loans Charged Off	$5.59	$6.59	17.95%
Total Loan Recoveries	$1.02	$1.15	12.58%
Total Net Charge-Offs	$4.56	$5.44	19.15%

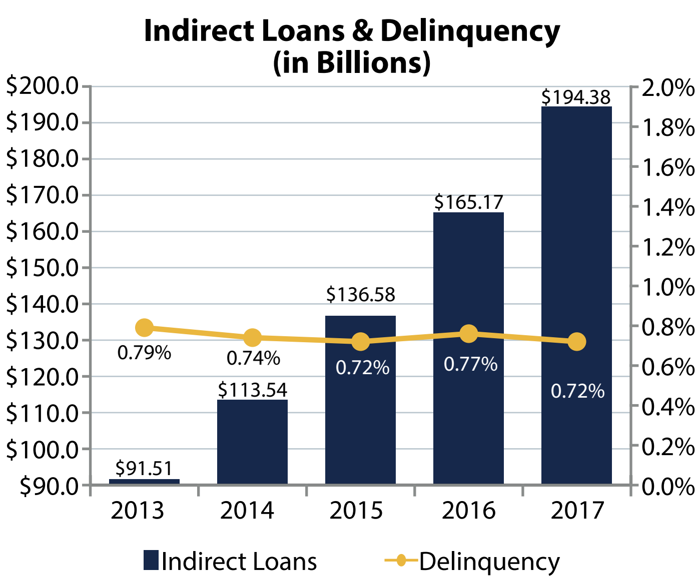
* Annualized
Numbers may not add up due to rounding.

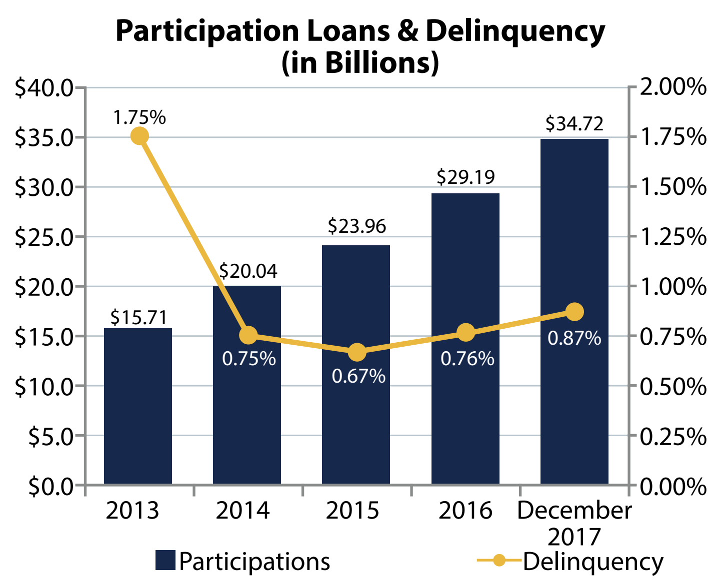


* Reporting requirements for loans were changed with September 2017 cycle to accommodate the regulatory definition of commercial loans.

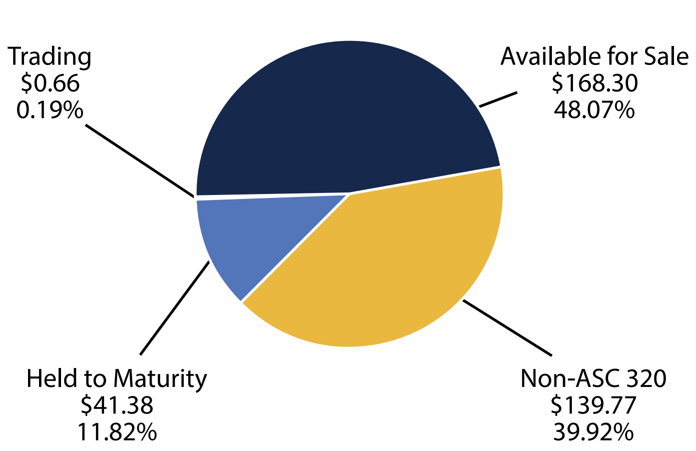
Loan and Delinquency Trends (continued)



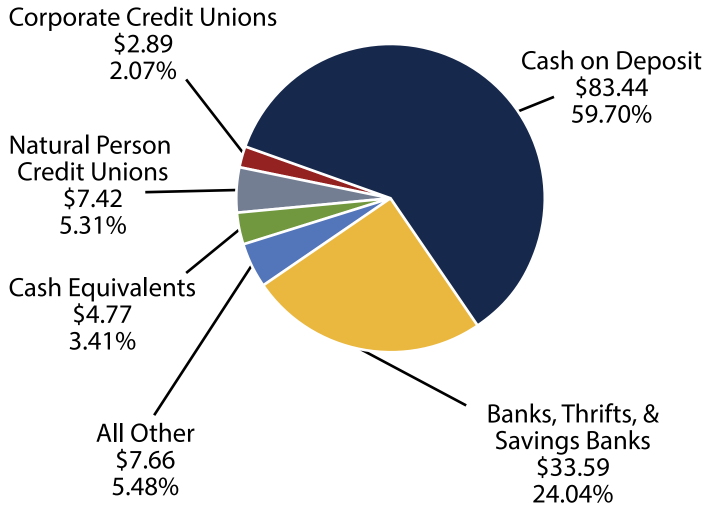




Investment Trends - Accounting Standards Codification



Numbers may not add up due to rounding.



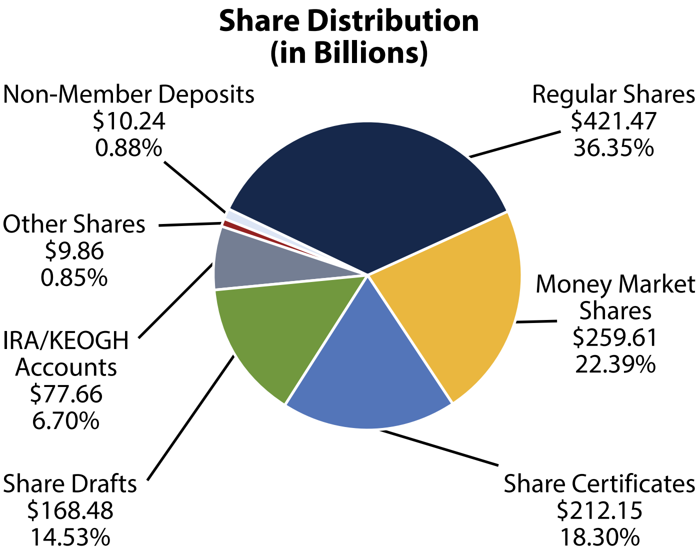
Numbers may not add up due to rounding.

Maturity

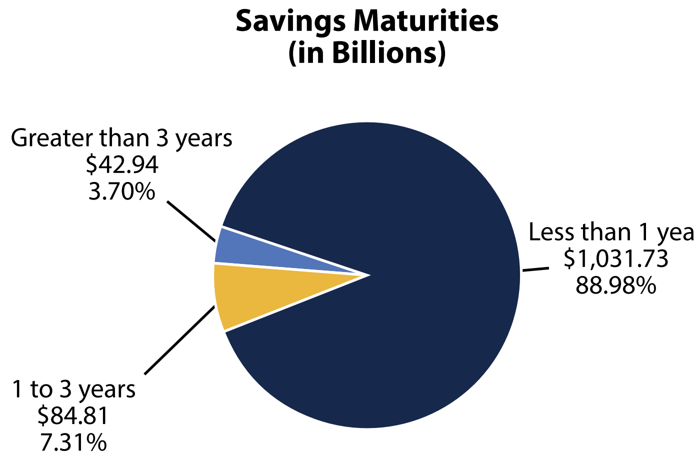
Maturity or Repricing Intervals for Investments and Cash on Deposit & Equivalents	December 2016 in Billions	% of Total Investments December 2016	December 2017 in Billions	% of Total Investments December 2017	Growth in Billions	Growth Rate (Annualized)
Less than 1 year	$163.18	45.74%	$160.96	45.98%	-$2.22	-1.36%
1 to 3 years	$94.87	26.59%	$86.36	24.67%	-$8.51	-8.97%
3 to 5 years	$64.11	17.97%	$67.22	19.20%	$3.10	4.84%
5 to 10 years	$30.66	8.60%	$31.51	9.00%	$0.85	2.76%
Greater than 10 years	$3.91	1.10%	$4.06	1.16%	$0.15	3.76%
Total Investments*	**$356.74**		**$350.11**		**-$6.63**	**-1.86%**

*Includes borrowing repurchase agreements placed in investments for positive arbitage
Numbers may not add up due to rounding.

Share Trends



Numbers may not add up due to rounding.



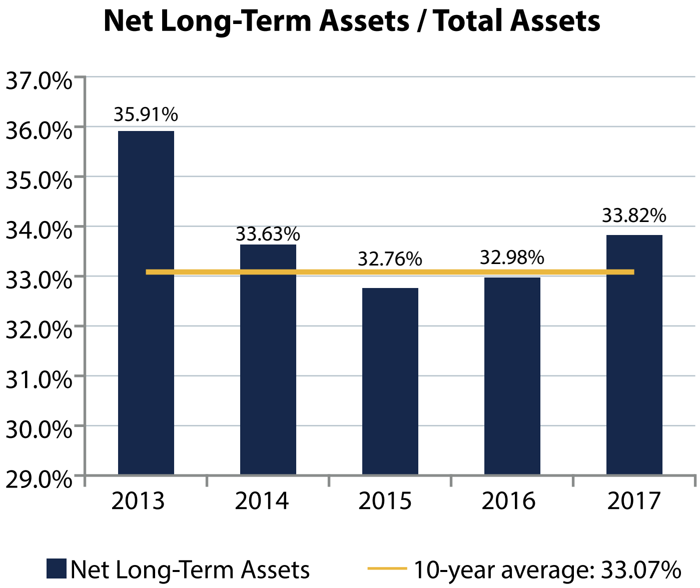
Numbers may not add up due to rounding.

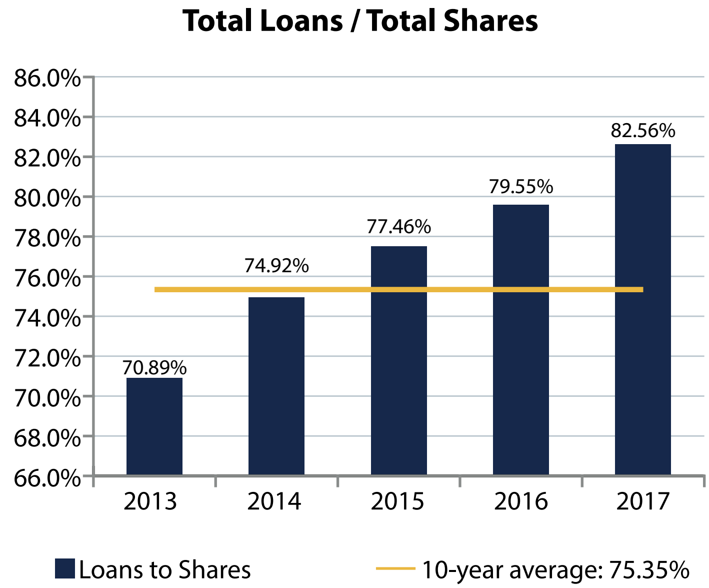
Shares

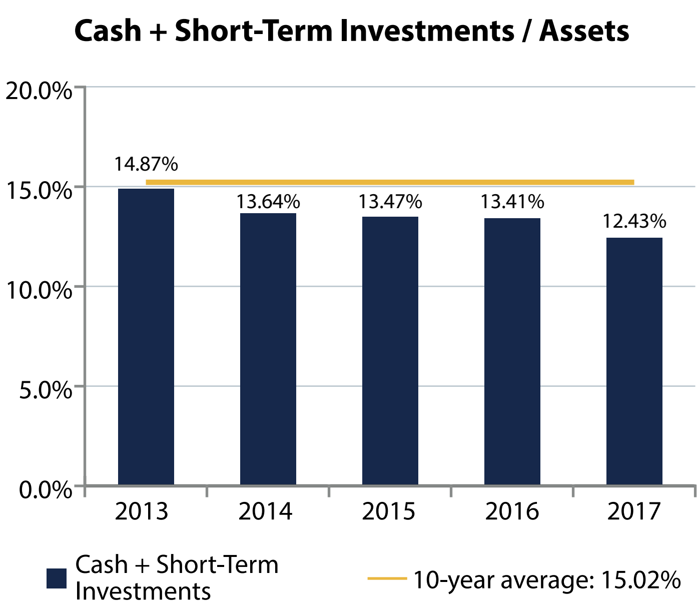
Share Category	December 2016 Balance in Billions	% of Total Shares December 2016	December 2017 Balance in Billions	% of Total Shares December 2017	Growth in Billions	Growth Rate (Annualized)
Share Drafts	$154.35	14.13%	$168.48	14.53%	$14.13	9.15%
Regular Shares	$393.08	35.98%	$421.47	36.35%	$28.39	7.22%
Money Market Shares	$249.17	22.81%	$259.61	22.39%	$10.45	4.19%
Share Certificates	$199.47	18.26%	$212.15	18.30%	$12.69	6.36%
IRA / KEOGH Accounts	$78.10	7.15%	$77.66	6.70%	-$0.43	-0.56%
All Other Shares	$9.69	0.89%	$9.86	0.85%	$0.18	1.83%
Non-Member Deposits	$8.74	0.80%	$10.24	0.88%	$1.50	17.18%
Total Shares and Deposits	**$1,092.58**		**$1,159.48**		**$66.90**	**6.12%**

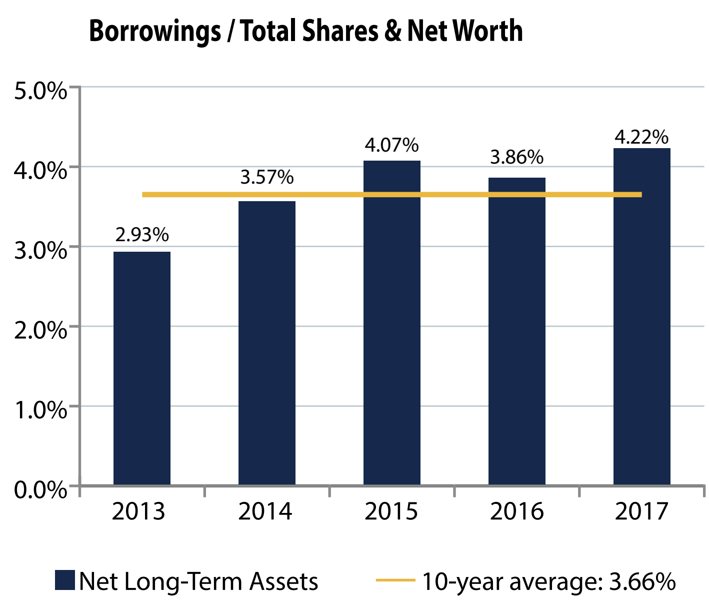
Numbers may not add up due to rounding.

Asset-Liability Management Trends









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	1,533	2,483	1,026	531
Total Assets	$6.39 billion	$94.87 billion	$229.32 billion	$1,048.32 billion
Average Assets/Credit Union	$4.17 million	$38.21 million	$223.51 million	$1,974.23 million
Net Worth / Total Assets	15.43%	11.99%	11.03%	10.82%
Average Net Worth (non-dollar weighted)	16.93%	12.42%	11.09%	10.92%
Net Worth Growth*	0.52%	3.55%	5.01%	9.05%
Return on Average Assets *	0.07%	0.39%	0.49%	0.89%
Net Interest Margin/Average Assets	3.37%	3.11%	3.15%	2.95%
Fee & Other Income/Average Assets	0.66%	1.14%	1.45%	1.32%
Operating Expense/Average Assets	3.71%	3.59%	3.67%	2.91%
Members / Full-Time Employees	312.16	392.80	344.84	399.01
Provision for Loan Loss/ Average Assets	0.34%	0.30%	0.47%	0.50%
Loans / Shares	59.04%	62.45%	76.10%	86.09%
Delinquent Loans / Total Loans	1.80%	1.10%	0.93%	0.76%
Percentage of Real Estate Loans Delinquent > 59 Days	1.58%	1.01%	0.75%	0.57%
Percentage of Member Business Loans Delinquent > 59 Days	0.57%	1.61%	1.71%	1.50%
Net Charge-Offs/Average Loans	0.66%	0.52%	0.62%	0.60%
Share Growth*	0.11%	2.53%	4.37%	7.65%
Loan Growth*	2.03%	5.86%	8.29%	11.47%
Asset Growth*	0.25%	2.73%	4.77%	8.22%
Membership Growth*	-1.25%	0.02%	2.47%	6.53%
Net Long-Term Assets / Total Assets	9.52%	23.24%	31.83%	35.35%
Cash + Short-Term Investments / Assets	29.91%	21.06%	14.01%	11.20%
Borrowings / Shares & Net Worth	0.13%	0.27%	1.51%	5.24%

*Note: These items are based on the same federally insured credit unions reporting at 12/31/2016 and 12/31/2017, based on 12/31/2017 assets.

National Credit Union Share Insurance Fund Ten-Year Trends

Fiscal year	2008	2009	2010 [3]	2011	2012	2013	2014	2015	2016	2017
Income (In Thousands)										
Premium	–	$ 727,466	$ 929,952	–	–	–	–	–	–	–
Investment	$ 390,922	$ 188,774	$ 216,921	$ 226,011	$ 206,995	$ 198,264	$ 208,259	$ 218,526	$ 227,172	$ 209,136
Other income[1]	$ 4,737	$ 33,319	$ 49,223	$ 1,037	$ 8,768	$ 4,550	$ 5,633	$ 5,187	$ 2,463	$ 487,103
Total Income[4]	$ 395,659	$ 949,559	$ 1,196,096	$ 227,048	$ 215,763	$ 202,814	$ 213,892	$ 223,713	$ 229,635	$ 696,239
Expenses (In Thousands)										
Operating	$ 81,516	$ 134,624	$ 165,830	$ 132,358	$ 141,237	$ 148,312	$ 179,818	$ 197,752	$ 209,260	$ 199,015
Insurance losses	$ 290,354	$ 625,140	$ 735,562	$ (532,408)	$ (77,784)	$ (48,638)	$ (41,840)	$ (35,411)	$ 7,870	$ 726,295
Total expenses	$ 371,870	$ 759,764	$ 901,392	$ (400,050)	$ 63,453	$ 99,674	$ 137,978	$ 162,341	$ 217,130	$ 925,310
Net income (in thousands)[4]	$ 23,789	$ 189,795	$ 294,704	$ 627,098	$ 152,309	$ 103,140	$ 75,914	$ 61,372	$ 12,505	$ (229,071)
Data Highlights										
Total Equity (in millions)[2]	$ 7,677	$ 8,957	$ 9,670	$ 10,339	$ 10,912	$ 11,266	$ 11,625	$ 12,095	$ 12,742	$ 15,853
Equity as a percentage of shares in insured credit unions	1.26%	1.23%	1.28%	1.30%	1.30%	1.30%	1.29%	1.26%	1.24%	1.46%
NCUSIF loss per $1,000 of insured shares	$ 0.47	$ 0.86	$ 0.97	$ (0.67)	$ (0.09)	$ (0.06)	$ (0.05)	$ (0.02)	$ 0.01	$ 0.67
Operating Ratios										
Premium Income	–	76.6%	77.8%	–	–	–	–	–	–	–
Investment Income	98.8%	19.9%	18.1%	99.5%	95.9%	97.8%	97.4%	97.5%	98.9%	30.0%
Other Income:	1.2%	3.5%	4.1%	0.5%	4.1%	2.2%	2.6%	2.5%	1.1%	70.0%
Operating Expenses	20.6%	14.2%	13.9%	58.3%	65.5%	73.1%	84.1%	109.1%	91.1%	28.6%
Insurance Losses (Gain)	73.4%	65.8%	61.5%	-234.5%	-36.1%	-24.0%	-19.6%	-92.7%	3.4 %	104.3 %
Total Expenses (neg expense)	94.0%	80.0%	75.4%	-176.2%	29.4%	49.1%	64.5%	16.4%	94.5%	132.9%
Net Income	6.0%	20.0%	24.6%	276.2%	70.6%	50.9%	35.5%	83.6%	5.4%	-32.9%
Involuntary Liquidations Commenced										
Number	15	16	18	15	14	13	10	11	11	5
Share payouts (in thousands)	$ 648,620	$ 713,112	$ 701,145	$ 586,852	667,814	$ 125,621	$ 150,111	$ 138,635	$ 10,163	$ 159,841
Share payouts as a percentage of total insured shares	0.106%	0.098%	0.093%	0.074%	0.080%	0.015%	0.017%	0.014%	0.001%	0.015%
Shares in liquidated credit unions (in thousands)	$ 916,822	$ 990,931	$ 870,435	$ 459,403	$ 728,746	$ 105,378	$ 140,581	$ 145,829	$ 8,240	$ 162,783

[1] 2008 includes $106 million gain on sale of U.S. Treasury Securities.

[2] Equity does not include unrealized gain (loss) from U.S. Treasury securities held as "Available for Sale Securities" beginning in 2008.

[3] 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.

[4] 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.

December 31	2008[1]	2009	2010	2011	2012	2013	2014	2015	2016	2017
Mergers										
Assisted	3	12	10	1	8	4	5	5	3	5
Unassisted	253	207	193	212	265	236	234	218	207	201
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 (supplied by E&I)	$ 126,340	$ 7,451	$ 108,046	$ 199,945	$ 32,132	$ 5,533	$ 4,720	–	–	$ 1,104,500
Number of active cases (supplied by E&I)	5	9	5	9	5	3	5	1	1	3
Number Of Troubled, Insured Credit Unions (Camel 4 & 5)										
Number	271	351	365	409	370	307	276	220	196	196
Shares (millions)	$ 16,314	$ 41,587	$ 38,510	$ 26,285	$ 16,940	$ 12,133	$ 10,234	$ 7,662	$ 8,586	$ 8,665
Problem case shares as a percentage of insured shares	2.33%	5.35%	4.74%	3.31%	2.0%	1.40%	1.13%	0.80%	0.83%	0.80%

[1] 2008 data updated to account for many Call Report corrections because of Stabilization Fund expense.

Values rounded from underlying data.

Credit Union Performance Five-Year Trends

		Same quarter as current, previous years					Most recent four quarters				Most Recent	
	Units	2012.4	2013.4	2014.4	2015.4	2016.4	2017.1	2017.2	2017.3	2017.4	4 Quarter % change	4 Quarter change
Summary Credit Union Data												
Federally insured credit unions												
Federally insured credit unions	Number	6,819	6,554	6,273	6,021	5,785	5,737	5,696	5,642	5,573	-3.7	-212
Federal credit unions	Number	4,272	4,105	3,927	3,764	3,608	3,584	3,568	3,536	3,499	-3.0	-109
Federally insured, state-chartered credit unions	Number	2,547	2,449	2,346	2,257	2,177	2,153	2,128	2,106	2,074	-4.7	-103
Credit unions with low-income designation	Number	1,895	1,989	2,113	2,297	2,491	2,518	2,524	2,538	2,542	2.0	51
Number of members	Millions	93.9	96.3	99.2	102.7	106.8	108.0	109.3	110.5	111.3	4.2	4.5
Number of deposits	Millions	175.4	180.8	186.4	193.5	201.8	204.4	207.3	210.1	211.4	4.7	9.6
Number of loans outstanding	Millions	47.6	50.4	54.0	57.4	61.0	61.0	62.5	63.7	64.7	5.9	3.6
Total assets	$ Billions	1,021.8	1,062.0	1,122.1	1,204.3	1,292.5	1,337.6	1,350.7	1,363.6	1,378.9	6.7	86
Total assets, four quarter growth	Percent	6.2	3.9	5.7	7.3	7.3	7.8	7.7	6.8	6.7		-0.6
Total loans	$ Billions	597.5	645.1	712.3	787.0	869.1	884.5	913.0	937.0	957.3	10.1	88
Total loans, four quarter growth	Percent	4.6	8.0	10.4	10.5	10.4	10.6	10.9	10.6	10.1		-0.3
Average outstanding loan balance	$	12,565	12,795	13,203	13,709	14,242	14,497	14,616	14,711	14,807	4.0	565
Total deposits	$ Billions	877.9	910.1	950.8	1,016.0	1,092.6	1,138.0	1,145.6	1,150.7	1,159.5	6.1	67
Total deposits, four quarter growth	Percent	6.1	3.7	4.5	6.9	7.5	8.3	8.2	6.8	6.1		-1.4
Average deposit balance	$	9,353	9,454	9,581	9,896	10,228	10,537	10,481	10,413	10,415	1.8	187
Insured shares and deposits	$ Billions	838.2	865.2	901.6	960.0	1,027.5	1,069.5	1,076.3	1,079.9	1,086.3	5.7	59
Insured shares and deposits, four quarter growth	Percent	5.6	3.2	4.2	6.5	7.0	7.8	7.8	6.4	5.7		-1.3
Key Ratios												
Net worth ratio	Percent	10.43	10.77	10.96	10.92	10.89	10.69	10.80	10.89	10.96		0.07
Return on average assets	Percent	0.85	0.78	0.80	0.75	0.76	0.71	0.77	0.79	0.78		0.02
Loan to share ratio	Percent	68.1	70.9	74.9	77.5	79.5	77.7	79.7	81.4	82.6		3.02
Long-term assets, percent of assets([1])	Percent	26.5	30.0	28.0	27.4	27.1	27.3	27.6	27.6	27.7		0.66
Median credit union average cost of funds	Percent	0.44	0.34	0.29	0.27	0.27	0.25	0.26	0.27	0.28		0.01
Median credit union average yield on loans	Percent	6.22	5.84	5.56	5.40	5.30	5.19	5.17	5.18	5.18		-0.11
Median credit union net interest margin	Percent	3.17	3.01	2.99	2.97	3.00	2.96	3.00	3.04	3.07		0.08
Median credit union return on average assets	Percent	0.31	0.25	0.32	0.33	0.34	0.32	0.36	0.39	0.38		0.04

[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	2012.4	2013.4	2014.4	2015.4	2016.4	2017.1	2017.2	2017.3	2017.4	4 Quarter % change	4 Quarter change
Lending (Year-to-Date, Annual Rate)												
Loans granted	$ Billions	326.3	345.7	350.9	406.7	456.2	451.4	475.1	482.2	481.0	5.4	25
Real estate loans	$ Billions	140.8	139.7	116.0	150.5	170.4	151.0	165.7	171.3	172.8	1.4	2
Real estate, fixed rate, first mortgage	$ Billions	107.2	99.4	68.5	98.3	115.0	97.9	105.7	109.2	109.9	-4.5	-5
Member business loans	$ Billions	15.9	18.6	18.0	20.2	23.2	26.8	28.5	.	.	.	.
Commercial loans	$ Billions	.	.	.	.	.	.	.	23.4	24.0	.	.
Payday alternative loans	$ Millions	72.6	90.2	114.6	122.8	134.5	115.2	126.1	129.2	132.7	-1.3	-2
Delinquency												
Delinquent loans	$ Billions	6.9	6.5	6.1	6.4	7.2	6.1	6.9	7.4	7.8	7.5	0.54
Total delinquency rate	Percent	1.16	1.01	0.85	0.81	0.83	0.69	0.75	0.79	0.81		-0.02
Fixed real estate delinquency rate	Percent	1.21	1.00	0.77	0.64	0.54	0.38	0.47	0.48	0.53		-0.01
Auto delinquency rate	Percent	.	0.69	0.67	0.68	0.72	0.57	0.59	0.64	0.70		-0.02
Credit card delinquency rate	Percent	0.97	0.93	0.94	1.01	1.14	1.09	1.08	1.21	1.29		0.15
Member business loan delinquency rate	Percent	2.17	1.54	0.86	1.09	1.60	1.62	1.72	.	.		.
Commercial loan delinquency rate	Percent	.	.	.	.	.	.	.	1.9	1.54		.
Net charge-offs	$ Billions	4.3	3.5	3.4	3.6	4.6	5.1	5.1	5.1	5.4	19.1	0.87
Net charge offs, percent of average loans	Percent	0.73	0.57	0.50	0.48	0.55	0.58	0.57	0.56	0.60		0.04
Asset Distribution												
25% of credit unions are smaller than	$ Millions	6.0	6.4	7.0	7.5	8.1	8.6	8.6	8.6	8.8	8.9	0.72
50% of credit unions are smaller than	$ Millions	21.1	22.7	24.4	26.8	28.9	30.0	30.3	30.4	31.0	7.4	2.13
75% of credit unions are smaller than	$ Millions	77.7	83.7	92.0	101.4	111.0	114.9	116.9	117.8	120.4	8.5	9.40
90% of credit unions are smaller than	$ Millions	281.1	310.4	340.6	381.8	431.0	451.3	458.2	465.0	472.4	9.6	41.34

		Same quarter as current, previous years					Most recent four quarters				Most Recent	
	Units	2012.4	2013.4	2014.4	2015.4	2016.4	2017.1	2017.2	2017.3	2017.4	4 Quarter % change	4 Quarter change
Income and Expenses (Year-to-date, Annual Rate)												
Federally insured credit unions												
Gross income	$ Billions	50.8	50.0	51.7	55.0	60.0	61.7	63.3	64.6	65.6	9.4	5.63
Total interest income	$ Billions	36.2	35.3	36.9	39.2	42.6	44.8	45.8	46.7	47.5	11.5	4.89
Gross interest income	$ Billions	31.7	31.2	32.6	34.9	37.8	39.5	40.2	41.0	41.7	10.2	3.85
Less interest refunds	$ Billions	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.1	5.1	0.00
Investment income	$ Billions	4.5	4.2	4.4	4.4	4.8	5.3	5.6	5.7	5.8	21.7	1.04
Trading income	$ Billions	0.0	-0.0	0.0	-0.0	0.0	0.0	0.0	0.0	0.0	54.7	0.01
Total non-interest income	$ Billions	14.6	14.7	14.7	15.8	17.4	16.9	17.6	17.8	18.1	4.2	0.73
Fee income	$ Billions	7.4	7.4	7.2	7.5	8.0	7.8	8.0	8.2	8.3	4.3	0.35
Other operating income	$ Billions	6.8	7.0	7.1	8.0	8.9	8.7	9.1	9.3	9.4	6.0	0.53
Other (including gains/losses)	$ Billions	0.4	0.3	0.5	0.4	0.5	0.4	0.4	0.4	0.4	-26.7	-0.14
Total expenses (with provision for loan and lease losses)	$ Billions	42.4	41.9	43.0	46.4	50.4	52.4	53.2	54.1	55.2	9.4	4.75
Non-interest expenses	$ Billions	31.6	32.9	34.0	36.3	38.8	39.9	40.4	40.7	41.2	6.3	2.45
Labor expense	$ Billions	15.5	16.3	17.1	18.4	19.7	20.8	20.8	20.9	21.1	6.9	1.37
Office expenses	$ Billions	8.0	8.3	8.8	9.3	9.8	10.1	10.1	10.2	10.3	5.1	0.51
Loan servicing expenses	$ Billions	2.2	2.4	2.5	2.6	2.7	2.7	2.8	2.8	2.8	5.1	0.14
Other non-interest expenses	$ Billions	5.9	5.9	5.7	6.0	6.5	6.4	6.7	6.8	7.0	6.7	0.44
Total interest expense	$ Billions	7.2	6.2	5.9	6.0	6.6	6.8	7.0	7.2	7.6	15.0	0.98
Interest on borrowed money	$ Billions	0.8	0.7	0.8	0.8	0.9	1.0	1.0	1.1	1.2	30.7	0.27
Share dividends	$ Billions	5.6	4.8	4.6	4.7	5.1	5.2	5.3	5.5	5.7	12.5	0.63
Interest on deposits	$ Billions	0.8	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7	12.6	0.08
Provision for loan and lease losses	$ Billions	3.6	2.7	3.1	4.1	5.1	5.7	5.7	6.2	6.4	25.9	1.32
Net income	$ Billions	8.5	8.1	8.7	8.7	9.5	9.3	10.2	10.4	10.4	9.2	0.87
Net income, percent of average assets	Percent	0.85	0.78	0.80	0.75	0.76	0.71	0.77	0.79	0.78		0.02
Net interest margin	$ Billions	29.0	29.1	31.0	33.2	36.0	38.0	38.7	39.5	39.9	10.9	3.91
Net interest margin, percent of average assets	Percent	2.92	2.80	2.84	2.85	2.88	2.89	2.93	2.97	2.99		0.10
Average assets	$ Billions	991.7	1,041.9	1,092.0	1,163.2	1,248.4	1,315.0	1,321.6	1,328.0	1,335.7	7.0	87.30

	Same quarter as current, previous years						Most recent four quarters				Most Recent	
	Units	2012.4	2013.4	2014.4	2015.4	2016.4	2017.1	2017.2	2017.3	2017.4	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	5.13	4.80	4.73	4.73	4.80	4.69	4.79	4.86	4.91		0.11
Total interest income	Percent	3.65	3.39	3.38	3.37	3.41	3.41	3.46	3.52	3.55		0.14
Gross interest income	Percent	3.20	2.99	2.98	3.00	3.03	3.00	3.04	3.09	3.12		0.09
Less interest refunds	Percent	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00		-0.00
Investment income	Percent	0.46	0.40	0.41	0.38	0.38	0.41	0.42	0.43	0.44		0.05
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	1.48	1.41	1.35	1.36	1.39	1.28	1.33	1.34	1.36		-0.04
Fee income	Percent	0.74	0.71	0.66	0.65	0.64	0.59	0.61	0.62	0.62		-0.02
Other operating income	Percent	0.69	0.67	0.65	0.68	0.71	0.66	0.69	0.70	0.70		-0.01
Other (including gains/losses)	Percent	0.04	0.03	0.04	0.03	0.04	0.03	0.03	0.03	0.03		-0.01
Total expenses (with provision for loan and lease losses)	Percent	4.27	4.02	3.93	3.98	4.04	3.99	4.02	4.08	4.13		0.09
Non-interest expenses	Percent	3.18	3.16	3.11	3.12	3.10	3.04	3.06	3.06	3.08		-0.02
Labor expense	Percent	1.56	1.56	1.56	1.58	1.58	1.58	1.58	1.57	1.58		-0.00
Office expenses	Percent	0.81	0.80	0.81	0.80	0.79	0.77	0.77	0.77	0.77		-0.01
Loan servicing expenses	Percent	0.22	0.23	0.23	0.22	0.22	0.20	0.21	0.21	0.21		-0.00
Other non-interest expenses	Percent	0.59	0.57	0.52	0.52	0.52	0.49	0.50	0.51	0.52		-0.00
Total interest expense	Percent	0.73	0.59	0.54	0.52	0.53	0.52	0.53	0.55	0.57		0.04
Interest on borrowed money	Percent	0.08	0.07	0.07	0.07	0.07	0.07	0.08	0.08	0.09		0.02
Share dividends	Percent	0.57	0.46	0.42	0.40	0.40	0.39	0.40	0.41	0.43		0.02
Interest on deposits	Percent	0.08	0.06	0.05	0.05	0.05	0.05	0.05	0.05	0.05		0.00
Provision for loan and lease losses	Percent	0.36	0.26	0.28	0.35	0.41	0.43	0.43	0.47	0.48		0.07
Net income	Percent	0.85	0.78	0.80	0.75	0.76	0.71	0.77	0.79	0.78		0.02
Net interest margin	Percent	2.92	2.80	2.84	2.85	2.88	2.89	2.93	2.97	2.99		0.10

		Same quarter as current, previous years					Most recent four quarters				Most Recent	
	Units	2012.4	2013.4	2014.4	2015.4	2016.4	2017.1	2017.2	2017.3	2017.4	4 Quarter % change	4 Quarter change
Balance Sheet												
Federally insured credit unions												
Total assets	$ Billions	1,021.8	1,062.0	1,122.1	1,204.3	1,292.5	1,337.6	1,350.7	1,363.6	1,378.9	6.7	86.42
Cash and equivalents (less than 3 months)	$ Billions	100.9	87.4	85.8	94.5	97.7	121.1	104.5	100.1	98.7	1.0	0.94
Cash on hand	$ Billions	8.3	9.0	9.7	9.9	10.1	9.7	9.9	9.7	10.5	3.5	0.35
Investments												
Total investments (more than 3 months)	$ Billions	280.4	285.7	275.8	272.8	269.1	275.4	274.8	267.4	261.9	-2.7	-7.22
Investments less than 1 year	$ Billions	77.8	70.5	67.3	67.6	75.6	77.2	77.6	76.2	72.8	-3.7	-2.81
Investments 1-3 years	$ Billions	106.9	89.2	99.5	101.7	94.9	90.6	90.2	88.5	86.4	-9.0	-8.51
Investments 3-10 years	$ Billions	89.3	118.9	103.3	99.0	94.8	103.4	102.5	98.2	98.7	4.2	3.95
Investments 3-5 years	$ Billions	64.6	79.4	75.6	71.2	64.1	69.5	70.6	68.7	67.2	4.8	3.10
Investments 5-10 years	$ Billions	24.7	39.6	27.7	27.7	30.7	33.9	31.9	29.5	31.5	2.8	0.85
Investments more than 10 years	$ Billions	6.4	7.2	5.6	4.5	3.9	4.2	4.5	4.4	4.1	3.8	0.15
Total loans	$ Billions	597.5	645.1	712.3	787.0	869.1	884.5	913.0	937.0	957.3	10.1	88.17
Real estate loans	$ Billions	320.2	338.8	364.2	396.8	431.1	438.9	451.1	462.5	472.9	9.7	41.80
Real estate fixed rate, first mortgage	$ Billions	174.6	192.3	205.0	226.5	251.2	258.1	265.4	273.4	279.7	11.3	28.45
Credit cards	$ Billions	39.5	42.6	46.0	48.8	52.7	51.6	53.1	54.7	57.5	9.3	4.88
Auto loans	$ Billions	178.5	198.7	230.0	261.8	298.4	306.9	318.3	326.2	332.6	11.4	34.16
New autos	$ Billions	63.3	71.3	86.4	99.9	116.6	120.0	124.8	128.2	132.2	13.3	15.56
Used autos	$ Billions	115.2	127.4	143.7	162.0	181.8	186.8	193.5	198.0	200.4	10.2	18.60
Non-federally guaranteed student loans	$ Billions	2.0	2.6	3.1	3.5	3.8	4.0	4.1	4.3	4.4	14.2	0.54
Other loans	$ Billions	57.3	62.4	69.0	76.1	83.1	83.2	86.5	89.2	89.9	8.2	6.79
Member business loans, including unfunded commitments	$ Billions	41.7	46.0	51.8	58.1	66.6	68.9	72.5	.	.	.	.
Commercial loans, including unfunded commitments	$ Billions	.	.	.	.	.	.	.	66.3	68.2	.	.
Other assets	$ Billions	42.9	43.7	48.2	49.9	56.5	56.5	58.5	59.0	61.0	8.0	4.52
Total liabilities and net worth	$ Billions	1,021.8	1,062.0	1,122.1	1,204.3	1,292.5	1,337.6	1,350.7	1,363.6	1,378.9	6.7	86.42
Total deposits	$ Billions	877.9	910.1	950.8	1,016.0	1,092.6	1,138.0	1,145.6	1,150.7	1,159.5	6.1	66.90
Share drafts	$ Billions	111.4	119.0	131.4	150.4	154.3	166.0	165.6	165.0	168.5	9.2	14.13
Regular shares	$ Billions	275.1	297.6	320.9	352.0	393.1	416.5	419.3	419.8	421.5	7.2	28.39
Other deposits	$ Billions	491.4	493.5	498.5	513.6	545.2	555.5	560.7	565.8	569.5	4.5	24.38
Money market accounts	$ Billions	203.4	212.3	219.5	231.8	249.2	256.2	257.7	258.5	259.6	4.2	10.45
Share certificate accounts	$ Billions	197.9	191.5	188.9	190.1	199.5	202.0	205.0	208.7	212.2	6.4	12.69
IRA/Keogh accounts	$ Billions	79.1	78.4	76.9	76.6	78.1	78.1	78.4	78.3	77.7	-0.6	-0.43
Non-member deposits	$ Billions	2.3	3.0	5.1	6.7	8.7	9.1	9.1	9.5	10.2	17.2	1.50
All other shares	$ Billions	8.7	8.2	8.2	8.5	9.7	10.1	10.5	10.7	9.9	1.8	0.18
Other liabilities	$ Billions	37.3	37.4	48.3	56.7	59.1	56.5	59.2	64.3	68.3	15.5	9.18
Net worth	$ Billions	106.6	114.5	123.0	131.6	140.8	143.1	145.9	148.6	151.1	7.3	10.33
Net worth, percent of assets	Percent	10.43	10.77	10.96	10.92	10.89	10.69	10.80	10.89	10.96		0.07

		Same quarter as current, previous years					Most recent four quarters				Most Recent	
	Units	2012.4	2013.4	2014.4	2015.4	2016.4	2017.1	2017.2	2017.3	2017.4	4 Quarter % change	4 Quarter change
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	9.9	8.2	7.6	7.9	7.6	9.1	7.7	7.3	7.2		-0.41
Cash on hand	Percent	0.8	0.8	0.9	0.8	0.8	0.7	0.7	0.7	0.8		-0.02
Investments												
Total investments (more than 3 months)	Percent	27.4	26.9	24.6	22.6	20.8	20.6	20.3	19.6	19.0		-1.83
Investments less than 1 year	Percent	7.6	6.6	6.0	5.6	5.8	5.8	5.7	5.6	5.3		-0.57
Investments 1-3 years	Percent	10.5	8.4	8.9	8.4	7.3	6.8	6.7	6.5	6.3		-1.08
Investments 3-10 years	Percent	8.7	11.2	9.2	8.2	7.3	7.7	7.6	7.2	7.2		-0.17
Investments 3-5 years	Percent	6.3	7.5	6.7	5.9	5.0	5.2	5.2	5.0	4.9		-0.09
Investments 5-10 years	Percent	2.4	3.7	2.5	2.3	2.4	2.5	2.4	2.2	2.3		-0.09
Investments more than 10 years	Percent	0.6	0.7	0.5	0.4	0.3	0.3	0.3	0.3	0.3		-0.01
Total loans	Percent	58.5	60.7	63.5	65.4	67.2	66.1	67.6	68.7	69.4		2.18
Real estate loans	Percent	31.3	31.9	32.5	32.9	33.4	32.8	33.4	33.9	34.3		0.94
Real estate fixed rate, first mortgage	Percent	17.1	18.1	18.3	18.8	19.4	19.3	19.6	20.1	20.3		0.85
Credit cards	Percent	3.9	4.0	4.1	4.1	4.1	3.9	3.9	4.0	4.2		0.10
Auto loans	Percent	17.5	18.7	20.5	21.7	23.1	22.9	23.6	23.9	24.1		1.03
New autos	Percent	6.2	6.7	7.7	8.3	9.0	9.0	9.2	9.4	9.6		0.56
Used autos	Percent	11.3	12.0	12.8	13.4	14.1	14.0	14.3	14.5	14.5		0.47
Non-federally guaranteed student loans	Percent	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3		0.02
Other loans	Percent	5.6	5.9	6.1	6.3	6.4	6.2	6.4	6.5	6.5		0.09
Member business loans, including unfunded commitments	Percent	4.1	4.3	4.6	4.8	5.2	5.2	5.4	.	.		.
Commercial loans, including unfunded commitments	Percent	.	.	.	.	.	.	.	4.9	4.9		.
Other assets	Percent	4.2	4.1	4.3	4.1	4.4	4.2	4.3	4.3	4.4		0.05
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	85.9	85.7	84.7	84.4	84.5	85.1	84.8	84.4	84.1		-0.45
Share drafts	Percent	10.9	11.2	11.7	12.5	11.9	12.4	12.3	12.1	12.2		0.28
Regular shares	Percent	26.9	28.0	28.6	29.2	30.4	31.1	31.0	30.8	30.6		0.15
Other deposits	Percent	48.1	46.5	44.4	42.6	42.2	41.5	41.5	41.5	41.3		-0.88
Money market accounts	Percent	19.9	20.0	19.6	19.2	19.3	19.2	19.1	19.0	18.8		-0.45
Share certificate accounts	Percent	19.4	18.0	16.8	15.8	15.4	15.1	15.2	15.3	15.4		-0.05
IRA/Keogh accounts	Percent	7.7	7.4	6.9	6.4	6.0	5.8	5.8	5.7	5.6		-0.41
Non-member deposits	Percent	0.2	0.3	0.5	0.6	0.7	0.7	0.7	0.7	0.7		0.07
All other shares	Percent	0.9	0.8	0.7	0.7	0.7	0.8	0.8	0.8	0.7		-0.03
Other liabilities	Percent	3.6	3.5	4.3	4.7	4.6	4.2	4.4	4.7	5.0		0.38
Net worth	Percent	10.43	10.77	10.96	10.92	10.89	10.69	10.80	10.89	10.96		0.07

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 2017Q4	Small Credit Unions (Assets less than $100 million)
Current Quarter: 2017Q4										
Number of credit unions	1,533	1,774	709	1,026	244	287	3,499	2,074	2,542	4,016
Number of members (millions)	1.2	5.5	5.5	21.8	14.5	62.8	59.1	52.3	43.4	12.2
Total assets ($ billions)	6.4	44.2	50.6	229.3	172.7	875.6	718.3	660.6	467.6	101.3
Total loans ($ billions)	3.2	22.8	28.8	151.4	123.9	627.1	490.1	467.2	337.8	54.8
Total deposits ($ billions)	5.4	38.5	44.3	199.0	146.9	725.4	594.7	564.8	398.3	88.1
Key ratios (percent)										
Return on average assets	0.07	0.31	0.44	0.47	0.71	0.93	0.80	0.75	0.78	0.36
Net worth ratio	15.43	12.40	11.63	11.03	10.92	10.80	11.04	10.86	10.92	12.21
Loan to share ratio	59.0	59.4	65.1	76.1	84.3	86.5	82.4	82.7	84.8	62.2
Net interest margin (median)	3.24	3.00	3.05	3.11	3.11	2.90	3.05	3.11	3.24	3.08
Long-term assets, percent of assets	6.9	15.6	19.8	23.8	27.1	30.1	28.8	26.6	24.3	17.1
Cost of funds / average assets (median)	0.22	0.23	0.27	0.34	0.44	0.54	0.26	0.31	0.28	0.23
Delinquency rate	1.80	1.17	1.03	0.93	0.73	0.77	0.84	0.78	0.78	1.14
Net charge-offs to average loans	0.63	0.51	0.50	0.60	0.52	0.62	0.68	0.50	0.56	0.51
Growth from a year earlier (percent)										
Shares (total deposits)	-7.1	-3.6	-1.9	-2.2	6.0	10.0	6.2	6.0	7.0	-3.0
Total loans	-5.5	-0.9	-0.1	1.0	10.1	13.7	10.3	10.0	11.4	-0.8
Total assets	-6.8	-3.4	-1.7	-1.9	6.8	10.4	7.2	6.1	7.5	-2.8
Members	-8.8	-5.8	-4.3	-3.8	6.3	9.0	4.3	4.1	4.5	-5.4
Net worth	-5.0	-2.8	-0.7	-0.9	6.4	11.4	7.8	6.8	8.0	-2.0
Historical Data (same quarter)										
Return on average assets (percent)										
2017	0.07	0.31	0.44	0.47	0.71	0.93	0.80	0.75	0.78	0.36
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
2013	-0.18	0.21	0.41	0.58	0.75	0.98	0.75	0.82	0.79	0.27
Net worth ratio (percent)										
2017	15.43	12.40	11.63	11.03	10.92	10.80	11.04	10.86	10.92	12.21
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	10.90	10.95	12.09
2014	14.81	12.30	11.45	10.92	11.09	10.74	11.02	10.89	10.96	12.08
2013	14.65	12.21	11.20	10.78	10.81	10.52	10.86	10.67	10.73	11.91
Loan to Share Ratio (percent)										
2017	59.04	59.36	65.14	76.10	84.30	86.45	82.42	82.71	84.81	62.24
2016	58.04	57.77	63.95	73.69	81.18	83.58	79.40	79.70	81.47	60.86
2015	57.53	57.35	63.03	72.41	77.82	81.90	77.52	77.40	79.00	60.11
2014	57.28	57.24	62.37	70.74	75.94	79.12	74.72	75.13	76.78	59.67
2013	56.03	56.30	61.13	68.30	72.91	74.06	70.80	70.99	73.12	58.57

Appendix

Board of Directors

J. Mark McWatters
Chairman

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

Rick Metsger
Board Member

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
- Mary Anne Bradfield, Office of Public and Congressional Affairs Director
- 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, and serves as the NCUA's liaison with Capitol Hill and other government agencies, and monitoring 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 NCUA's supervision programs that ensure the safety and soundness of federally insured credit unions. Within the Office of Examination and Insurance, the

Division of Supervision oversees the NCUA's examination and supervision program, including resource management and allocation, and oversees the development and maintenance of exam and supervision policy manuals. The Division of Risk Management oversees the agency's problem resolution program and manages risk to the National Credit Union Share Insurance Fund. The Division of Analytics and Surveillance manages the agency's data gathering, surveillance and national risk assessment programs. It also supports the NCUA's supervision of technology risk in credit unions. The Division of Capital and Credit Markets evaluates and develops policies and procedures related to credit union loans and investments and asset-liability management. The division also oversees the day-to-day operations of the Central Liquidity Facility. Finally, the Division of NGN Support monitors 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** was created as part of the agency's realignment and began operations in January 2018. The office 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.

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 **Region I** is headquartered in Albany, New York. The region covers Connecticut, Maine, Massachusetts, Michigan, New Hampshire, New York, Rhode Island, Vermont and Wisconsin. As part of the agency's realignment announced in the summer of 2017, the Region I office will close in January 2019.

The NCUA's **Region II** is headquartered in Alexandria, Virginia. The region covers Delaware, the District of Columbia, Maryland, New Jersey, Ohio, Pennsylvania, Virginia and West Virginia.

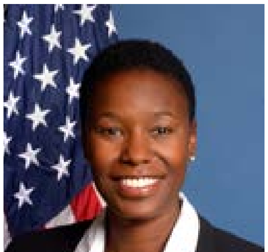
The NCUA's **Region III** is headquartered in Atlanta, Georgia. The region covers Alabama, Arkansas, Florida, Georgia, Indiana, Kentucky, Louisiana, Mississippi, North Carolina, Puerto Rico, South Carolina, Tennessee and the U.S. Virgin Islands. As part of the agency's realignment announced in the summer of 2017, the Region III office will close in January 2019.

The NCUA's **Region IV** is headquartered in Austin, Texas. The region covers Colorado, Illinois, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas and Wyoming.

The **Asset Management and Assistance Center** is also a part of Region IV. 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 **Region V** is headquartered in Tempe, Arizona. The region covers Alaska, Arizona, California, Guam, Hawaii, Idaho, Nevada, Oregon, Utah and Washington.

The NCUA's Leadership

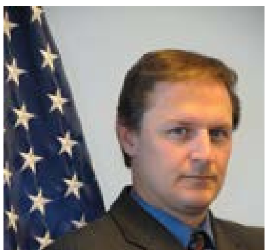

Monica Davy
Office of Minority and Women Inclusion


Michael Mckenna
Office of General Counsel


Mark A. Treichel
Office of the Executive Director


James Hagen
Office of Inspector General


Mary Ann Bradfield
Office of Public and Congressional Affairs


Larry Fazio
Office of Examination and Insurance


Ralph Monaco
Office of the Chief Economist

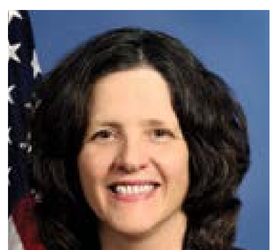

Rendell Jones
Office of the Chief Financial Officer


Ed Dorris
Office of Chief Information Officer


Matt Biliouris
Office of Consumer Financial Protection


Cheryl Eyre
Office of Human Resources


Martha Ninichuk
Office of Small Credit Union Initiatives


Joy Miller
Office of Continuity and Security Management


Scott Hunt
Office of National Examinations and Supervision


Larry Blankenberger
Region I


Jane A. Walters
Region II


Myra Toeppe
Region III


C. Keith Morton
Asset Management and Assistance Center and Region IV


Cherie Freed
Region V

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 workbooks and questionnaires to guide examiners through their reviews of credit unions' financial performance, compliance with regulations and relevant laws, and potential risks.

CAMEL Rating: The 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. The 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.

The 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.

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.

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.

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 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 designated 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.

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 dividend is triggered and payed to federally insured credit unions. The normal operating level set by the NCUA Board in September 2017 is 1.39 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 rule's complexity, that a regulated entity like a credit union must incur to comply with various laws and regulations in the United States.

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.

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.

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 one 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 Found in the Report

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
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

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
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
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
OSCUI	Office of Small Credit Union Initiatives
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

- *2016 Annual Report*
  https://www.ncua.gov/Legal/Documents/Reports/annual-report-2016.pdf

Message from the Board

- *2017–2021 Strategic Plan*
  https://www.ncua.gov/About/Documents/Agenda%20Items/AG20160721Item2b.pdf

Year in Review

- *2017–2021 Strategic Plan*
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- NCUA's financial learning tool *World of Cents* https://www.mycreditunion.gov/Pages/world-of-cents-game.aspx
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Performance Results

- *2017–2021 Strategic Plan*
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- NCUA's Rules and Regulations
  https://www.ecfr.gov/cgi-bin/text-idx?SID=143818c03e4ab1f8cc645ad7afc56764&mc=true&tpl=/ecfrbrowse/Title12/12cfrv7_02.tpl
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NCUA Consumer Assistance Center:	(800) 755-1030	
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 the NCUA's *2017 Annual Report*. This report and prior annual reports are available on the NCUA's website at https://www.ncua.gov/NewsRoom/Pages/publications/annual-reports.aspx.

Please send any comments or suggestions about this report to pacamail@ncua.gov.

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