Consolidated Financial Statements

Directions Credit Union, Inc. and Subsidiary

December 31, 2018 and 2017

CONTENTS

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GBQ Partners

Supervisory Committee of
Directions Credit Union, Inc. and Subsidiary
Toledo, Ohio

Independent Auditor's Report

We have audited the accompanying consolidated financial statements of Directions Credit Union, Inc. and its subsidiary, which comprise the consolidated statement of financial condition as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in members' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Directions Credit Union, Inc. and its subsidiary as of December 31, 2018 and 2017, and the results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

GBQ Partners LLC

Columbus, Ohio
July 2, 2019

DIRECTIONS CREDIT UNION, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and Cash Equivalents	**$ 39,505,813**	$ 47,858,757
Investments		
Investments - available-for-sale	**10,507,559**	16,754,533
Investments - held-to-maturity	**35,281,620**	992,000
Investments - other	**8,119,239**	7,566,728
Total investments	**53,908,418**	25,313,261
Loans to Members and Participations, less allowance for loan losses	**719,909,270**	608,645,290
Other Real Estate Owned	**442,053**	45,396
Property and Equipment, net	**17,389,563**	14,514,876
Other Assets		
Accrued interest receivable on investments	**109,555**	63,924
Accrued interest receivable on loans	**2,218,589**	1,765,364
Share insurance capitalization deposit	**7,613,653**	6,401,515
Prepaid expenses and other assets	**13,328,399**	8,655,442
Total other assets	**23,270,196**	16,886,245
TOTAL ASSETS	**$ 854,425,313**	$ 713,263,825
LIABILITIES AND MEMBERS' EQUITY		
Members' Share Accounts	**$ 743,185,932**	$ 645,863,386
Notes Payable	**16,926,000**	3,000,000
Accrued Expenses and Other Liabilities	**10,818,212**	7,644,836
Total liabilities	**770,930,144**	656,508,222
Members' Equity, substantially restricted	**83,495,169**	56,755,603
TOTAL LIABILITIES AND MEMBERS' EQUITY	**$ 854,425,313**	$ 713,263,825

The accompanying notes are an integral part of the consolidated financial statements.

DIRECTIONS CREDIT UNION, INC. AND SUBSIDIARY

Consolidated Statements of Income

For the Years Ended December 31, 2018 and 2017

	2018	2017
Interest Income		
Interest on loans	$ 27,186,882	$ 22,731,487
Interest on investments	1,636,930	739,162
Total interest income	28,823,812	23,470,649
Interest Expense		
Dividend expense on share accounts	3,392,118	2,561,110
Borrowed funds	117,906	133,101
Total interest expense	3,510,024	2,694,211
Net interest income	25,313,788	20,776,438
Provision for Loan Losses	2,565,115	1,358,700
Net interest income after provision for loan losses	22,748,673	19,417,738
Loss on Student Loan Settlement	1,004,345	2,044,400
Net interest income after student loan loss	21,744,328	17,373,338
Non-Interest Income		
Fees and charges	10,019,227	8,558,179
Other income	2,918,103	1,680,730
Income from joint ventures	4,968	19,508
Gain on sale of assets	727,663	1,149,364
Total non-interest income	13,669,961	11,407,781
Non-Interest Expenses		
Compensation and benefits	15,495,776	13,183,164
Office operations	9,890,597	8,695,519
Occupancy	3,171,657	3,093,535
Insurance and assessments	125,007	128,328
Education and promotion	1,237,843	1,065,734
Travel and conference	274,357	315,104
Professional fees	579,610	505,355
Other	599,625	471,947
Total non-interest expenses	31,374,472	27,458,686
Net Income	$ 4,039,817	$ 1,322,433

The accompanying notes are an integral part of the consolidated financial statements.

DIRECTIONS CREDIT UNION, INC. AND SUBSIDIARY

Consolidated Statements Comprehensive Income

For the Years Ended December 31, 2018 and 2017

	2018	2017
Net Income	**$ 4,039,817**	$ 1,322,433
Other comprehensive income (loss):		
Change in unrealized gain (loss) on investments - available-for-sale	**14,761**	(46,367)
Comprehensive Income	**$ 4,054,578**	$ 1,276,066

The accompanying notes are an integral part of the consolidated financial statements.

DIRECTIONS CREDIT UNION, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Members' Equity
For the Years Ended December 31, 2018 and 2017

	Appropriated Statutory Reserve	Unappropriated Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Equity Acquired in Mergers	Total Members' Equity
Balance, December 31, 2016	**$ 11,380,528**	**$ 44,016,876**	**$(140,502)**	**$ 70,942**	**$ 55,327,844**
Net income for the year ended December 31, 2017	-	1,322,433	-	-	1,322,433
Equity acquired in merger	-	-	-	151,693	151,693
Change in unrealized gain (loss) on investments - available-for-sale	-	-	(46,367)	-	(46,367)
Total comprehensive income (loss)	-	1,322,433	(46,367)	151,693	1,427,759
Balance, December 31, 2017	**11,380,528**	**45,339,309**	**(186,869)**	**222,635**	**56,755,603**
Net income for the year ended December 31, 2018	-	4,039,817	-	-	4,039,817
Equity acquired in merger	-	-	-	22,684,988	22,684,988
Change in unrealized gain (loss) on investments - available-for-sale	-	-	14,761		14,761
Total comprehensive income	-	4,039,817	14,761	22,684,988	26,739,566
Balance, December 31, 2018	**$ 11,380,528**	**$ 49,379,126**	**$(172,108)**	**$ 22,907,623**	**$ 83,495,169**

The accompanying notes are an integral part of the consolidated financial statements.

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DIRECTIONS CREDIT UNION, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Interest income received	$ 30,988,450	$ 25,460,817
Dividends paid on share accounts	(3,510,024)	(2,694,211)
Fees and other income received	12,860,294	10,051,448
Cash paid to suppliers and employees	(27,955,966)	(27,713,071)
Net cash and cash equivalents provided by operating activities	12,382,754	5,104,983
Cash Flows from Investing Activities		
Cash acquired in merger	9,389,784	1,469,192
Purchases of available-for-sale investments	(4,000,000)	-
Maturities of available-for-sale investments	10,237,863	15,303,920
Maturities of held-to-maturity investments	1,834,160	992,000
Purchases of other investments	(4,000,000)	(112,547)
Maturities of other investments	3,830,357	2,314,208
Loans made to members	(261,441,901)	(257,924,697)
Loan repayments from members and proceeds from loan sales	212,245,043	207,238,054
Proceeds from sale of other real estate owned	-	300,195
Purchase of property and equipment	(3,432,697)	(1,720,725)
Proceeds from sale of property and equipment	2,106,051	183,824
Increase in insurance deposit	(265,398)	(381,283)
Net cash and cash equivalents used in investing activities	(33,496,738)	(32,337,859)
Cash Flows from Financing Activities		
Net (decrease) increase in members' shares	(1,164,960)	38,634,090
Borrowings from (repayment of) notes payable	13,926,000	(1,000,000)
Net cash and cash equivalents provided by financing activities	12,761,040	37,634,090
Net (decrease) increase in cash and cash equivalents	(8,352,944)	10,401,214
Cash and Cash Equivalents at Beginning of Year	47,858,757	37,457,543
Cash and Cash Equivalents at End of Year	$ 39,505,813	$ 47,858,757

The accompanying notes are an integral part of the consolidated financial statements.

DIRECTIONS CREDIT UNION, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows (continued)

For the Years Ended December 31, 2018 and 2017

	2018	2017
Reconciliation of Net Income to Net Cash and Cash Equivalents Provided by Operating Activities		
Net income	$ 4,039,817	$ 1,322,433
Non-Cash Items		
Provision for loan loss	2,565,115	1,358,700
Loss on student loan settlement	1,004,345	2,044,400
Amortization of premiums on investments - available-for-sale	42,174	73,682
Dealer reserve amortization	2,337,816	2,125,975
Mortgage servicing rights	(77,066)	(187,461)
Equity in income of subsidiary - unconsolidated	(4,968)	(19,508)
Gain on sale of mortgage loans	(760,808)	(1,152,650)
(Gain) Loss on sale of investments	(18,302)	3,286
Loss on sale of assets	51,477	-
Loss on sale of other real estate owned	-	-
Depreciation expense	1,111,804	1,121,750
Goodwill and CDI amortization expense	51,608	-
Total non-cash items	6,303,195	5,368,174
Changes in Certain Statement of Financial Condition Accounts		
Interest receivable	(215,352)	(209,489)
Other assets and prepaid expenses	(340,793)	(837,799)
Accrued expenses and other liabilities	2,595,887	(538,336)
Total changes in certain statement of financial condition accounts	2,039,742	(1,585,624)
Net Cash and Cash Equivalents Provided by Operating Activities	$ 12,382,754	$ 5,104,983

The accompanying notes are an integral part of the consolidated financial statements.

	2018	2017
Supplemental Disclosures of Cash Flow Information		
Assets and liabilities acquired through the merger of Toledo Teamsters Federal Credit Union		
Loans to members	$ -	$ 1,663,981
Cash and cash equivalents	-	1,469,192
Investments - other	-	856,986
Property and equipment	-	49,194
Share insurance capitalization deposit	-	38,758
Prepaids expenses and other assets	-	65,392
Accrued expenses and other liabilities	-	(10,752)
Members' share accounts	-	(3,981,058)
Equity acquired in merger	-	(151,693)
Assets and liabilities acquired through the merger of Eduction Plus Credit Union, Inc.		
Loans to members	$ 66,605,902	$ -
Cash and cash equivalents	9,389,784	-
Investments - HTM	36,123,780	-
Investments - other	377,900	-
Property and equipment	2,711,322	-
Share insurance capitalization deposit	946,740	-
Accrued interest receivable	283,504	-
Prepaids expenses and other assets	204,501	-
Core deposit intangible	2,492,257	-
Goodwill	2,614,293	-
Accrued expenses and other liabilities	(577,489)	-
Members' share accounts	(98,487,506)	-
Equity acquired in merger	(22,684,988)	-

The accompanying notes are an integral part of the consolidated financial statements.

Nature and Scope of Business

Directions Credit Union, Inc. (the Credit Union) provides a variety of financial services to its members, most of whom live, work, worship, attend school or volunteer in Fulton, Knox, Huron, Wood, Lucas, Richland, Ashland, Wayne, Tuscarawas or Crawford Counties in Ohio, and Monroe and Lenawee Counties in Michigan or members of other select groups. The Credit Union's primary source of revenue is from loans to its members and fees earned on member deposits and services. Its primary source of funds is savings deposits from its members.

Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Directions Credit Union, Inc. and its wholly owned subsidiary TFS Marketing, Inc. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Specifically, management has made estimates based on assumptions for fair value of financial instruments and the assessment of other-than-temporary impairment on investments. Actual results could differ from those estimates.

Investments

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

Available-for-Sale (AFS): Government and agency bonds, negotiable certificates, collateralized mortgage obligations and mortgage-backed securities are classified AFS when the Credit Union anticipates that they could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors. These are reported at fair value. Unrealized gains and losses on AFS investments are recognized as direct increases or decreases in other comprehensive income.

Held-to-Maturity (HTM): Negotiable certificates and municipal bonds which the Credit Union has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts which are recognized in interest income using the interest method over the period to maturity.

Summary of Significant Accounting Policies (continued)

Investments (continued)

Other: Non-negotiable certificates, investments in corporate credit union non-maturing capital, investments in the Central Liquidity Facility and Federal Home Loan Bank stock are carried at cost. Investments in credit union service organizations (CUSO) are recorded at cost or the equity method, based on the Credit Union's percentage of ownership or its ability to influence the operational decisions of those entities.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the investments. Declines in the fair value of held-to-maturity investments below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. Management evaluates investments for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of investments are recorded on the trade date and the costs of investments sold are determined using the specific identification method.

Market changes in interest rates and market changes in credit spreads will cause normal fluctuations in the market price of investments and the possibility of temporary unrealized losses.

Loans to Members, Loan Participations and Allowance for Loan Losses

The Credit Union grants mortgage and consumer loans to members and participates in business loans. Loans and loan participations receivable are stated at unpaid principal balances, less an allowance for loan losses and net deferred loan origination fees and discounts. Interest on loans and loan participations is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

The accrual of interest on loans and loan participations is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Credit card loans and other personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if management believes, after considering economic conditions, business conditions and collection efforts, that collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Summary of Significant Accounting Policies (continued)

Loans to Members, Loan Participations and Allowance for Loan Losses (continued)

Indirect loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income.

The allowance for loan and participation losses reflects management's judgment of probable loan losses inherent in the portfolio at the date of the consolidated statement of financial condition. The Credit Union uses a disciplined process and methodology to establish the allowance for loan losses each quarter. To determine the total allowance for loan losses, management estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis. The allowance for loan losses consists of amounts applicable to: (1) the auto loan portfolio; (2) participation portfolio; (3) the real estate portfolio; (4) the credit card portfolio; (5) student loan portfolio and (6) all other loans.

To determine the balance of the allowance account, loans are pooled by portfolio segment and losses are modeled using historical experience and quantitative and other mathematical techniques over the loss emergence period. Management exercises significant judgment in determining the estimation method that fits the credit risk characteristics of each portfolio segment. Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions used to determine the allowance are independently validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices and end-user controls are appropriate and properly documented.

The establishment of the allowance for loan losses relies on a consistent process that requires management review and judgment and responds to changes in economic conditions, member behavior and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts to or release balances from the allowance for loan losses. The Credit Union's allowance for loan losses is sensitive to risk ratings assigned to individually evaluated loans and economic assumptions and delinquency trends driving statistically modeled reserves.

In situations where, for economic or legal reasons related to a members' financial difficulties, the Credit Union grants a concession for other than an insignificant period of time to the member that the Credit Union would not otherwise consider, the related loan is classified as a troubled debt restructure (TDR). The Credit Union strives to identify members in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearances and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the Credit Union grants the member new terms that provide for a reduction of either interest or principal, the Credit Union measures any impairment on the restructuring as previously noted for impaired loans.

Summary of Significant Accounting Policies (continued)

Loans to Members, Loan Participations and Allowance for Loan Losses (continued)

Management monitors differences between estimated and actual incurred loan losses. This monitoring process includes periodic assessments by senior management of loan portfolios and the models used to estimate incurred losses in those portfolios. Additions to the allowance for loan losses are made by charges to the provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged-off amounts are credited to the allowance for loan losses.

The Credit Union considers a loan to be impaired when, based on current information and events, the Credit Union determines that the Credit Union will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all classes of loans. When the Credit Union identifies a loan as impaired, the Credit Union measures the impairment based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases, the Credit Union uses the current fair value of the collateral, less selling costs when foreclosure is probable, instead of discounted cash flows. If the Credit Union determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), the Credit Union recognizes impairment through an allowance estimate or a charge-off to the allowance. The Credit Union determines impairment based on a 60-day default period and all loans classified as TDR’s.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

The overall credit quality of the loan and loan participation portfolio is monitored by management based on current loan performance, historical losses and delinquency status.

Loan Charge-Offs

For consumer loans, the Credit Union generally fully or partially charges down to the fair value of collateral securing the asset when:

- management judges the asset to be uncollectible;
- repayment is deemed to be protracted beyond reasonable time frames;
- the asset has been classified as a loss by either the Credit Union's internal loan review process or external examiners;
- the member has filed bankruptcy and the loss becomes evident owing to a lack of assets; or
- the loan is 90 days past due unless both well secured and in the process of collection.

Summary of Significant Accounting Policies (continued)

Mortgage Servicing Rights

A mortgage servicing right (MSR) is established only when the loans are sold or when servicing is contractually separated from the underlying mortgages by sale or securitization of the loans with servicing rights retained. The initial carrying value of the asset is established based on its relative fair value at the time of the sale using assumptions that are consistent with assumptions used at the time to estimate the fair value of the total MSR portfolio. All servicing rights are subsequently carried at the lower of the initial carrying value, adjusted for amortization or fair value, and are included in other assets.

Servicing rights are evaluated periodically for impairment based on the fair value of those rights using a disaggregated approach. The fair value of the servicing rights is determined by estimating the present value of future net cash flows, taking into consideration market loan prepayment, discount rates, servicing costs and other economic factors. Temporary impairment is recognized in a valuation allowance against the mortgage servicing rights. The Credit Union also analyzes its MRS periodically for other-than-temporary impairment. Other-than-temporary impairment is recognized as a direct reduction of the carrying value of the mortgage servicing right and cannot be recovered. No other-than-temporary impairment was recognized in the years ended December 31, 2018 and 2017. Servicing rights are amortized over the period of, and in proportion to, the estimated future net servicing revenue. Amortization is recorded as reduction in interest income on loans in the Credit Unions' consolidated statement of income.

Property and Equipment

Land and land improvements are carried at cost. Building, building improvements, furniture and equipment are carried at cost, less accumulated depreciation and amortization. The building, building improvements and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases. Maintenance and repairs that neither improve nor extend the life of the respective asset are charged to expense as incurred. Assets purchased but not yet placed into service are capitalized and depreciation is not computed until the asset's placed in service date. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the year. The lives of the assets range from three to 40 years.

Goodwill

Goodwill represents the excess of costs over fair value of assets acquired. In accordance with GAAP, a private company may amortize goodwill over a life of 10 years, or shorter if management demonstrates a shorter life is appropriate. Management estimated the useful life to be ten years for the Goodwill acquired in the 2018 merger. The Credit Union tests for impairment at the company level when a triggering event, as defined by GAAP, occurs. In determining impairment, management first reviews certain qualitative factors followed by quantitative factors, if necessary. An impairment loss is recognized to the extent the carrying value of the entity exceeds its fair value. No such impairment loss was recorded during 2018.

Summary of Significant Accounting Policies (continued)

Core Deposit Intangible Asset

A core deposit intangible asset arises when a credit union acquires another institution that has a deposit base associated with stable member relationships. The intangible asset exists due to these member relationships providing a net benefit to the acquiring credit union. Core deposit accounts consist of checking accounts, money market accounts and savings accounts. The major assumptions used to value them include estimating balances to be retained, future cost savings from low cost funding provided, and the application of appropriate discount rates to estimated cash flows. Total core deposits from the mergers in 2018 were approximately $86,000,000 and the core deposit intangible asset was valued at $2,492,257. This asset is being amortized over a period of approximately seven years.

Valuation of Long-Lived Assets

Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management reviews all material assets annually for possible impairment. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. During 2018 and 2017, management determined there was no impairment to the assets.

Share Insurance Deposit

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source or the operations of the fund are transferred from the NCUA board. In 2018, the NCUA announced the closure of the Corporate Stabilization Fund and a refund of special premiums previously paid by federally insured credit unions. In August 2018, the Credit Union received $450,289 from the NCUA as its portion of the refund.

Share Insurance Premiums

A credit union is required to pay an annual insurance premium equal to one-twelfth of one percent of its total insured shares, unless the payment is waived or reduced by the NCUA Board

Summary of Significant Accounting Policies (continued)

Excess Share Insurance

The deposit in the Excess Share Insurance (ESI) program provides additional insurance coverage of $250,000 once a member's balance exceeds the coverage provided by the Credit Union's primary insurer, which requires the maintenance of a one-percent refundable at-risk deposit by each insured credit union based on the maximum policy limits of coverage. Insured credit unions are also required to pay a quarterly premium based on the actual reported coverage and the credit union's financial condition and rating.

Share Accounts

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

Members' Equity

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

Reserve Requirement

In 2001, the NCUA revised the regulatory net worth requirements for credit unions. Credit unions that are classified as "well capitalized" (net worth ratio of 7% or higher) are not required to make statutory transfers to the regular reserve. The regular reserve has been established at the discretion of the Board of Directors to protect the interests of the members. The Board may, at times, change the reserved amount for specific requirements.

Comprehensive Income (Loss)

Comprehensive income consists of net income (loss) and other comprehensive income (loss) that includes costs related to unrealized gains and losses on investments classified as available-for-sale.

Income Taxes

As a credit union, the Credit Union is exempt from federal, state and local taxes under the provisions of 501(c)(14) of the Internal Revenue Code.

Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

The Credit Union accounts for uncertainty in income taxes in its consolidated financial statements as required under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), *Accounting for Uncertainty in Income Taxes*. The standard prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The standard also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition accounting. Management determined there were no material uncertain positions taken by the Credit Union in its tax returns.

Fair Values of Financial Instruments

GAAP established a fair value hierarchy that prioritizes the inputs to measure the fair value of the assets or liabilities being measured. Fair value is defined as the exchange value that would be received on the measurement date to sell an asset or to value the amount paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are unadjusted quoted market prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date. Level 1 inputs provide the most reliable measure of fair value as of the measurement date.

- Level 2 inputs are based on significant observable inputs, including unadjusted quoted market prices for similar assets and liabilities in active markets, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

- Level 3 are significant unobservable inputs for the asset or liability.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Investments – Available-for-Sale: Fair values of securities are usually based on quoted market prices. These assets represent a Level 1 fair value hierarchy.

Investments – Held-to-Maturity: Fair values of the negotiable certificates are usually based on quoted market prices. These assets represent a Level 1 fair value hierarchy. Fair values of the municipal bonds are not readily available in active or inactive markets and are subject to unobservable inputs. These investments represent a level 3 hierarchy.

The Credit Union has no financial instruments that are held or issued for trading purposes.

Summary of Significant Accounting Policies (continued)

Off-Statement of Financial Condition Credit Related Financial Instruments

In the ordinary course of business, the Credit Union has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

Concentration of Credit Risk

The Credit Union's business activity is primarily with members who all live or work in the same geographic area (Northwest and North Central Ohio). This creates a concentration of credit risk from members with loans from the Credit Union, since they may all be affected by the same economic conditions in this geographic area.

New Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This standard replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to form credit loss estimates. The amendments in this update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The new Current Expected Credit Losses (CECL) model will apply to the allowance for loan losses, available-for-sale and held-to-maturity debt securities, purchased financial assets with credit deterioration, and certain off-statement of financial condition credit exposures. The Credit Union will apply the standard's provisions as a cumulative-effect adjustment to unappropriated undivided earnings as of the beginning of the first reporting period in which the guidance is effective. This ASU will become effective for the Credit Union for annual periods beginning after December 15, 2021. Management is currently evaluating the potential impact of ASU No. 2016-13 on the Credit Union's financial statements.

The FASB issued ASU 2016-02, a new standard for both lessees and lessors. Under its core principle, a lessee will recognize lease assets and liabilities on the balance sheet for nearly all lease arrangements. The option of an operating lease that is recorded off-balance sheet will be significantly limited in its use. In measuring assets and liabilities arising from a lease, a lessee (and a lessor) should include payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. Similarly, optional payments to purchase the underlying asset should be included in the measurement of lease assets and lease liabilities only if the lessee is reasonably certain to exercise that purchase option. For a lessee, the effect of recording all leases as debt might affect financial covenants that exist in loan and other agreements. The lessor accounting remains largely consistent with existing GAAP. The new standard is effective for the Credit Union for annual periods beginning after December 15, 2019, and there are several options as to how the new pronouncement can be implemented. Management is currently evaluating the potential impact of ASU No. 2016-02 on the Credit Union's financial statements.

Cash and Cash Equivalents

In 2018 and 2017, insurance coverage was $250,000 per depositor at each financial institution, and cash and cash equivalent balances, at times, may exceed federally insured limits. The balance of cash and cash equivalents in excess of federally insured limits was approximately $22.8 million and $35.6 million at December 31, 2018 and 2017, respectively.

Cash and cash equivalents include money market accounts, Federal funds and any highly liquid debt-instruments.

	2018	2017
Cash on hand and accounts held in non-interest bearing accounts at other financial institutions	$ 9,378,514	$ 8,385,194
Cash and cash equivalents held in interest bearing accounts at other institutions	30,127,299	39,473,563
Total cash and cash equivalents	$ 39,505,813	$ 47,858,757

Investments

The amortized cost and market value of investments at December 31, 2018 were:

Available-for-Sale	Weighted Average Yield at 12/31/2018	2018 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Collateralized mortgage obligations	1.39%	$ 375,059	$ 3,998	$(5,189)	$ 373,868
Mortgage-backed securities	3.93%	2,334,009	381	(135,542)	2,198,848
U.S. Government and agency obligations	1.95%	7,970,599	22,417	(58,173)	7,934,843
Total		$ 10,679,667	$ 26,796	$(198,904)	$ 10,507,559

Investments (continued)

The amortized cost and market value of investments at December 31, 2017 were:

Available-for-Sale	Weighted Average Yield at 12/31/2017	2017 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Collateralized mortgage obligations	1.61%	$ 493,095	$ 5,193	$(4,148)	$ 494,140
Mortgage-backed securities	1.87%	2,867,115	442	(97,967)	2,769,590
U.S. Government and agency obligations	1.13%	12,032,192	157	(89,793)	11,942,556
Negotiable certificate of deposits	1.58%	1,549,000	291	(1,044)	1,548,247
Total		$ 16,941,402	$ 6,083	$(192,952)	$ 16,754,533

Gross unrealized losses at December 31 were:

	2018	2017
Gross unrealized losses for less than one year	**$ -**	$ -
Gross unrealized losses for more than one year	**198,904**	192,952
Total	**$ 198,904**	$ 192,952

Held-to-Maturity	**Weighted Average Yield at 12/31/2018**	**2018 Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Market Value**
Negotiable certificates of deposit	**2.30%**	**$ 34,696,620**	**$ 520**	**$(354,469)**	**$ 34,342,671**
Municipal bonds	**1.44%**	**585,000**	**-**	**-**	**585,000**
Total		**$ 35,281,620**	**$ 520**	**$(354,469)**	**$ 34,927,671**

Held-to-Maturity	Weighted Average Yield at 12/31/2017	2017 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Negotiable certificates of deposit	1.40%	$ 992,000	$ 25	$(1,191)	$ 990,834
Total		$ 992,000	$ 25	$(1,191)	$ 990,834

Investments (continued)

Other Investments	Weighted Average Yield at 12/31/2018	2018 Amortized Cost	2018 Market Value
Certificates of deposits - non-negotiable	**1.40%**	**$ 1,941,000**	**$ 1,941,000**
Corporate credit union non-maturing capital	**1.75%**	**2,356,912**	**2,356,912**
FHLB capital stock	**5.75%**	**1,797,900**	**1,797,900**
Central Liquidity Facility	**1.50%**	**1,689,370**	**1,689,370**
Other investments	**N/A**	**334,057**	**334,057**
Total		**$ 8,119,239**	**$ 8,119,239**

Other Investments	Weighted Average Yield at 12/31/2017	2017 Amortized Cost	2017 Market Value
Certificates of deposits - non-negotiable	1.32%	$ 1,993,000	$ 1,993,000
Corporate One capital reserve	0.80%	1,980,212	1,980,212
FHLB capital stock	5.50%	1,797,900	1,797,900
Central Liquidity Facility	1.00%	1,574,005	1,574,005
Other investments	N/A	221,611	221,611
Total		$ 7,566,728	$ 7,566,728

The amortized cost and estimated market value of investment securities at December 31, 2018 by expected maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity		Other Investments	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
Due in 2019	$ 2,714,788	$ 2,679,741	$ 9,606,152	$ 9,665,473	$ 1,393,000	$ 1,393,000
Due in 2020	4,387,578	4,344,393	2,232,606	2,228,087	248,000	248,000
Due in 2021	3,577,301	3,483,425	6,217,635	6,119,241	-	-
Due in 2022	-	-	8,696,769	8,473,870	150,000	150,000
Due in 2023 and beyond	-	-	8,528,458	8,441,000	150,000	150,000
Non-maturing	-	-	-	-	6,178,239	6,178,239
Total	$ 10,679,667	$ 10,507,559	$ 35,281,620	$ 34,927,671	$ 8,119,239	$ 8,119,239

The investment in corporate perpetual contributed capital and the membership share accounts have withdrawal restrictions and limited marketability.

Loans to Members and Loan Participations

The loans to members at December 31 consisted of the following:

	2018	2017
Auto loans	$ 236,721,388	$ 178,452,444
Real estate loans	249,852,021	219,003,993
Direct financing leases	108,722,179	111,894,244
Credit card loans	40,991,605	30,838,278
Student loans	16,183,317	16,801,327
Business loans	11,526,705	7,518,891
Other secured loans	25,196,419	19,053,551
Unsecured loans	12,118,929	7,887,428
Loan participations	18,712,634	16,130,630
Deferred loan origination fees	3,782,995	3,765,981
Net premiums and discounts on acquired loans	(802,391)	-
Total	723,005,801	611,346,767
Less: allowance for loan losses	(3,096,531)	(2,701,477)
Loans to members and participations, net	$ 719,909,270	$ 608,645,290

The interest rates on the loans range from 0.00% to 22.00% and 0.00% to 19.00% for the years ended December 31, 2018 and 2017, respectively.

The activity in allowance for loan loss account for the year ended at December 31 consisted of the following (in 000's):

	2018	2017
Beginning balance	$ 2,701	$ 3,003
Provision charged to operations	2,565	1,359
Loans charged-off	(2,909)	(2,150)
Recoveries	740	489
Ending balance	$ 3,097	$ 2,701

Loans to Members and Loan Participations (continued)

The allowance for loan losses was allocated between loan pools as follows at December 31 (in 000's):

	2018	2017
Auto	$ 842	$ 730
Real estate	179	393
Credit cards	837	495
Student loans	286	478
Participation	344	283
Other	609	322
Ending balance	$ 3,097	$ 2,701

Impaired Loans

The following table includes the recorded investment and unpaid principal balances for impaired financing receivables with the associated allowance amount, if applicable.

Other credit related information as of December 31, 2018 by class, dollar amounts (in 000s):

	Auto	Direct Lease Financing	Mortgage	Credit Cards	Student Loans	Other	Total
Historical loss %	0.30%	0.12%	0.02%	1.87%	2.10%	0.54%	0.33%
Delinquency over 60 days	$ 674	$ 41	$ 970	$ 410	$ 406	$ 475	$ 2,976
Delinquent 60 -179 days	674	41	557	410	331	230	2,243
Delinquent 180 - 359 days	-	-	413	-	60	245	718
Delinquent over 360 days	-	-	-	-	15	-	15
Impaired restructured loan balances	-	-	1,443	-	-	-	1,443
Specific reserves on restructured loans included in overall allowance	-	-	105	-	-	-	105
Loans in non-accrual status	235	41	575	165	353	80	1,449

Loans to Members and Loan Participations (continued)

Impaired Loans (continued)

Other credit related information as of December 31, 2017 by class, dollar amounts (in 000s):

	Auto	Direct Lease Financing	Mortgage	Credit Cards	Student Loans	Other	Total
Historical loss %	0.30%	0.09%	0.09%	1.64%	1.72%	0.00%	0.22%
Delinquency over 60 days	$ 340	$ 74	$ 689	$ 235	$ 454	$ 75	$ 1,867
Delinquent 60 -179 days	336	74	544	235	433	70	1,692
Delinquent 180 - 359 days	4	-	145	-	2	5	156
Delinquent over 360 days	-	-	-	-	19	-	19
Impaired restructured loan balances	-	-	1,845	-	-	-	1,845
Specific reserves on restructured loans included in overall allowance	-	-	222	-	-	-	222
Loans in non-accrual status	152	-	318	70	214	283	1,037

Information on troubled debt restructurings for the year ended December 31, 2018 was as follows (in 000's):

	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:			
Mortgage	**21**	**$ 1,443**	**$ 1,338**
Total	**21**	**$ 1,443**	**$ 1,338**

Information on troubled debt restructurings for the year ended December 31, 2017 was as follows (in 000's):

	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:			
Mortgage	26	$ 1,845	$ 1,623
Total	26	$ 1,845	$ 1,623

Property and Equipment

Property and equipment at December 31 consisted of the following:

	2018	2017
Land and improvements	$ 3,601,923	$ 3,523,487
Buildings and improvements	17,504,737	16,761,091
Furniture and equipment	10,891,791	10,352,131
Improvements in process	364,807	879,192
Total property	32,363,258	31,515,901
Less: accumulated depreciation	(14,973,695)	(17,001,025)
Total property and equipment, net	$ 17,389,563	$ 14,514,876

Student Loan Guarantee Receivable

In 2009, 2010 and 2011 the Credit Union purchased pools of participations in private student loans originated by CU Student Connect, LLC to students attending ITT Technical Institute (ITT). Credit losses on these participation pools were to be covered by a credit enhancement (the Risk Share Agreement or RSA) with ITT. When losses in these pools exceeded 35%, all additional losses incurred by the Credit Union were to be reimbursed through a guarantee by ITT. The RSA called for payments to be made by the 15th of the subsequent month in which a claim was submitted for losses incurred in excess of 35%. During 2016, ITT declared bankruptcy and ceased paying the Credit Union for losses in excess of 35%.

As of December 31, 2018 and 2017, participation pool balances totaled $1,159,009 and $1,678,241 respectively, and were reported as loans on the Credit Union's consolidated statements of financial condition. The Credit Union has incurred losses in excess of 35% and was supposed to be protected from further losses by the RSA. Management believes the entire outstanding balance guaranteed by ITT, due to its bankruptcy, may not be collectible and has established a reserve to reduce the receivable to the amount they believe will be collected. As of December 31, 2018 and 2017, the Credit Union had a receivable of $8,898,866 and $8,712,201, respectively, and a reserve of $8,898,866 and $7,708,040, respectively, from ITT related to the RSA recorded in prepaid expenses and other assets on the consolidated statements of financial condition.

Goodwill

Goodwill and accumulated amortization at December 31 was:

	Goodwill	Accumulated Amortization	Total
Balance, December 31, 2017	$ -	$ -	$ -
Additions	2,614,293	-	2,614,293
Amortization expense	-	(21,878)	(21,878)
Balance, December 31, 2018	**$ 2,614,293**	**$(21,878)**	**$ 2,592,415**

Goodwill (continued)

Estimated future goodwill amortization at December 31, 2018 is as follows:

2019	$ 262,536
2020	262,536
2021	262,536
2022	262,536
2023	1,542,271
Total	**$ 2,592,415**

Intangible Asset

Core Deposit Intangible Asset

The core deposit intangible asset that was acquired through the merger had an original value of $2,492,257 and is included in prepaid expenses and other assets. Accumulated amortization was $29,730 as of December 31, 2018.

The following is a schedule of future amortization expense for the remaining intangible asset:

2019	$ 356,760
2020	356,760
2021	356,760
2022	356,760
2023	356,760
Thereafter	678,727
Total	$ 2,462,527

Loans Serviced

Mortgage servicing rights are recorded in prepaid expenses and other assets on the consolidated statement of financial condition. Changes in their carrying value and the associated valuation allowance for the year ended December 31 and the fair value at the end of the period were as follows:

	2018	2017
Balance, beginning of the year	$ 2,093,519	$ 1,906,058
New servicing rights	411,831	483,891
Amortization	(334,765)	(296,430)
Balance, end of year	$ 2,170,585	$ 2,093,519
Fair value, end of year	$ 2,171,000	$ 2,094,000

The unpaid principal balance of residential loans serviced for third parties was approximately $228,195,000 and $221,700,000 at December 31, 2018 and 2017, respectively.

Members' Share Accounts

Members' share accounts at December 31 were as follows:

	Weighted Average Yield at 12/31/2018	2018	Weighted Average Yield at 12/31/2017	2017
Regular shares	0.10%	$ 244,649,800	0.10%	$ 199,390,430
Checking accounts	0.07%	149,378,924	0.10%	136,401,023
Money market accounts	0.59%	172,656,686	0.29%	140,089,241
Club accounts	0.19%	38,202,906	0.10%	28,810,958
IRA accounts	0.18%	18,639,295	0.15%	19,654,295
Share and IRA certificates	1.70%	119,658,321	1.60%	121,517,439
Total members' share		$ 743,185,932		$ 645,863,386

Scheduled maturities of shares at December 31, 2018 were as follows:

2019	$ 664,991,786
2020	30,624,474
2021	20,900,804
2022	15,714,480
2023	10,954,388
Total maturities	$ 743,185,932

Members' Share Accounts (continued)

Dividend expense on members' share accounts at December 31 was as follows:

	2018	2017
Regular shares	$ 222,440	$ 190,800
Checking accounts	2,052,342	68,841
Money market accounts	95,361	407,942
Club accounts	35,087	18,939
IRA accounts	921,614	27,877
Share and IRA certificates	65,274	1,846,711
Total dividend expenses	$ 3,392,118	$ 2,561,110

The aggregate amount of members' share accounts that exceed the NCUA's primary insured limit and the Credit Union's excess insurance, at December 31, 2018 and 2017 totaled $7,671,145 and $6,981,578, respectively.

Borrowings

The Credit Union maintains a $15,000,000 note payable - line of credit borrowing arrangement with Corporate One Federal Credit Union. The line of credit is collateralized by substantially all assets of the Credit Union. At December 31, 2018, there were borrowings outstanding under the arrangement of $10,926,000. There were no borrowed funds outstanding under this arrangement at December 31, 2017.

The Credit Union maintains a note payable – line of credit borrowing arrangement with the Federal Home Loan Bank of Cincinnati that has a borrowing capacity of approximately $41,000,000. The borrowing arrangement is collateralized by substantially all 1-4 family home first mortgage loans. At December 31, 2018 and 2017, there was $6,000,000 and $3,000,000 in outstanding borrowings under this arrangement, respectively. The interest rate on these borrowings varied from 1.52% to 2.53% at December 31, 2018 and from 1.24% to 1.81% at December 31, 2017.

Principal payments by year required on these notes are as follows:

2019	$ 15,926,000
2020	1,000,000
2021	-
2022	-
2023	-
Total notes payable	$ 16,926,000

Related Party Transactions

The official family of the Credit Union includes Board members, supervisory committee members, credit committee members and staff. Loans and shares receivable from members of the official Credit Union family at December 31 was as follows:

	2018	2017
Loans	**$ 9,999,854**	$ 5,730,191
Shares	**5,712,080**	4,551,634

Employee Benefits

The Credit Union has entered into three Collateral Assignment Split-Dollar Life Insurance Arrangements with officers of the organization. The life insurance policy is owned by the officer but premiums are paid by the Credit Union. The premiums paid are recorded as loan receivables from the participants. The imputed interest rate on the loans is treated as compensation for the officers.

The Credit Union has a profit-sharing plan covering substantially all employees. This discretionary contribution is determined by the Board of Directors annually. The Credit Union had a liability of $260,000 and $150,000 accrued as of December 31, 2018 and 2017, respectively.

The Credit Union also has a 401(k) salary reduction plan. Employees are eligible for participation when they have attained eighteen years of age and completed six months of service. The Credit Union may make discretionary matching contributions. The employer contributions for the years ended December 31, 2018 and 2017 were $134,313 and $118,813, respectively.

Commitments and Contingent Liabilities

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

Commitments and Contingent Liabilities (continued)

The Credit Union has extended lines of credit to members who have not been entirely drawn at December 31, 2018 and 2017. The available credit to members that has not been reflected in the consolidated financial statements was as follows:

	2018	2017
Loan Type:		
Business loans	**$ 2,025,010**	$ 2,554,049
Open-end loans	**3,867,410**	2,136,474
Credit cards	**10,442,314**	85,260,371
Construction loans	**8,569,968**	9,783,466
Home equity loans	**15,047,901**	9,029,294
Overdraft protection	**23,323,698**	18,885,988
Total	**$ 63,276,301**	$ 127,649,642

Leases

The Credit Union leases six of its branch office locations under long-term lease arrangements. These leases are accounted for as operating leases and have minimum payment requirements summarized as follows:

Lease Property	Lease Expiration	Remaining Payment Obligations
Lambertville	9/30/2020	$ 115,500
Westgate Village	3/31/2020	93,375
Reynolds Rd	7/31/2027	443,570
Owens Corning	10/31/2023	167,413
Whiteford	12/31/2028	734,833
Maumee Towers	12/31/2030	9,543,977
Total remaining obligations		$ 11,098,668

The future minimum lease payments under these leases at December 31, 2018 are as follows:

2019	$ 1,016,052
2020	958,548
2021	905,410
2022	921,954
2023	7,296,704
Total obligation	$ 11,098,668

Rent expense totaled $272,795 and $245,581 for the years ended December 31, 2018 and 2017, respectively.

Regulatory Capital

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

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth (as defined in the regulations) to total assets (as defined). Credit unions are also required to calculate a Risk-Based Net Worth (RBNW) Requirement, which establishes whether or not the Credit Union will be considered “complex” under the regulatory framework. The Credit Union's RBNW ratio as of December 31, 2018 and 2017 was 5.20% and 5.51%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes, as of December 31, 2018, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2018, the most recent call-reporting period, NCUA categorized the Credit Union as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized,” the Credit Union must maintain a minimum net worth ratio of 7% of assets and meet any applicable RBNW requirements. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

The Credit Union's actual capital amounts and ratios as of December 31 are also presented in the table (dollars in thousands):

	Actual		To Be Adequately Capitalized Under the Prompt Corrective Action Provision		To Be Well Capitalized Under the Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2018	**$ 79,950**	**9.36%**	**$ 51,266**	**>6.00%**	**$ 59,810**	**>7.00%**
December 31, 2017	56,942	7.98%	42,796	>6.00%	49,928	>7.00%

Acquisition

The Credit Union makes acquisitions to expand into new markets, to increase its presence in its existing markets and to add to its suite of products. The Credit Union makes an assessment of the potential for each acquisition target to add value to the Credit Union’s geographic and product-specific footprint. The Credit Union makes acquisitions that, in the judgment of its management and Board of Directors, will enhance future profitability.

Acquisition (continued)

Effective June 1, 2018, the Credit Union acquired all of the assets and assumed all of the liabilities of the Educational Plus Credit Union, Inc. (EPCU) pursuant to a merger and acquisition agreement. Under the terms of the agreement, each member of EPCU received one full share of the Directions Credit Union, Inc. in exchange for each share of EPCU they owned.

Effective December 1, 2017, the Credit Union acquired all of the assets and assumed all of the liabilities of the Toledo Teamsters Federal Credit Union (TTFUC) pursuant to a merger and acquisition agreement. Under the terms of the agreement, each member of TTFCU received one full share of the Directions Credit Union, Inc. in exchange for each share of TTFCU they owned.

Subsequent Events - Date of Management's Review

Management has evaluated subsequent events through the date of the Independent Auditor's Report, the date on which the consolidated financial statements were available to be issued.