ELEVATIONS CREDIT UNION
2016 ANNUAL REPORT

ELEVATIONS CREDIT UNION

Malcolm Baldrige National Quality Award
2014 Award Recipient

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LETTER FROM THE BOARD CHAIR

KATIE COWAN
BOARD CHAIR

Dear Members,

It is a privilege to share the successes that you and our fellow members of Elevations Credit Union achieved in 2016. I am grateful for the opportunity to review the past year's accomplishments, which were only possible thanks to your personal contributions. We have much to be proud of!

2016 will be forever marked by the performance excellence measures Elevations surpassed, all of which will benefit our members, employees and the communities we serve. Our year-end milestones include reaching an all-time high in capital at $182 million; our assets also hit a record-breaking $1.79 billion, and the number of Elevations members, at 121,747, was the largest in our history. Additionally, our mortgage business continued its strong upward trajectory, preserving our #1 position in Boulder and Broomfield Counties and among credit unions in Colorado.

These achievements originate from the contributions of our many talented and dedicated colleagues. This year, we want to acknowledge the exceptional support that Elevations received for nearly ten years from Carol Krismann, who retired in April from her position on the Elevations Board of Directors. We also offer our thanks to Kate Brown, who became our Board Secretary.

We continued our Baldrige journey in 2016, sharing Elevations' story at more than 20 events. In June, Elevations produced and hosted "Colorado's Path to Performance Excellence," an engaging panel discussion for local business leaders along the Front Range featuring all four previous Colorado Baldrige recipients. The event was moderated by an editor from the Harvard Business Review and included closing comments from Governor Hickenlooper.

Over the past year, Elevations deepened the engagement and aid we extend to communities across the state. This was demonstrated not only by $354,500 that Elevations and the Elevations Foundation contributed in 2016 to community support and scholarships for higher education, but also by more than 3,450 staff volunteer hours, and time spent on community boards and commissions. In December, Elevations Credit Union donated an additional $200,000 to the Elevations Foundation solely for its permanent endowment, which will benefit our communities in perpetuity.

The above represents just a sampling of Elevations' achievements over 2016. It points to the commitment we share to delivering outstanding financial performance and results while providing solutions that better the lives of our members and communities. The Board is grateful for your ongoing support and will be working to build an even stronger, more successful and member-centric credit union.

I am honored to share this journey with you, and look forward to celebrating new achievements in 2017 and beyond.

Sincerely,

Katie Cowan

Katie Cowan, Board Chair

LETTER FROM THE PRESIDENT & CEO

GERRY AGNES
PRESIDENT & CEO

Dear Members,

As the direct result of your support, I am pleased to report that Elevations Credit Union reached all-time highs across several important measures in 2016. The entire Elevations Credit Union team remains grateful for your continued loyalty.

Based on your feedback and growing market needs, we secured new branch locations and improved two existing branches. Along with our new flagship branch site in Fort Collins on South College Avenue, we secured a branch in downtown Boulder at the corner of 13th and Walnut Streets; relocated the Larimer County mortgage production office to a larger space in Windsor; and are in negotiations to secure a downtown site in Old Town Fort Collins. We also enjoyed the grand re-opening of the remodeled Boulder Diagonal branch, Elevations' largest, and finished remodeling the Lafayette branch.

In 2016, Elevations offered more services to more members. Our mortgage team originated nearly $1.4 billion in residential mortgage loans, retaining our #1 position in Boulder and Broomfield Counties. We also opened a record 14,706 new member accounts and provided more than $169 million in consumer loans; $22 million in consumer construction and lot loans; and nearly $46 million in business and commercial loans. Meanwhile, our wealth management team managed nearly $370 million of assets.

Elevations' accomplishments come from our tremendous team of employees. Our employee engagement score continues to be exceptionally strong, resulting in Elevations being named one of The Best Companies to Work For in Colorado for the second year in a row. New Chief People Officer Debra Johnston joined our team and has positively impacted our work environment in a very short period of time, positioning us for success for years to come.

We reached new members and increased our investment in brand awareness by deploying award-winning ads and fun social media videos that reinforced our brand story. We also secured the most local and trade media placements in our history—over 170 in total. These efforts increased brand awareness and preference for Elevations across our markets.

Looking ahead, we'll expand our small business banking products and digital banking offerings while adding new branches in Fort Collins and downtown Boulder. We'll also introduce Visa Signature cards, and new payments technology that will enhance our digital channel functionality.

We can all be proud of Elevations' 2016 accomplishments. And we know that our real achievements only arise from the vibrant growth and improvements that take place in our members' lives and communities.

The Board of Directors and I appreciate your support, and are committed to earning it anew throughout 2017 and in the years to come.

Very truly yours,

Gerry Agnes, President & CEO


HERE'S TO A RETURN TO WHAT
MATTERS.
TO KNOWING YOUR TRUE SOCIAL NETWORK ISN'T DIGITAL, IT'S PHYSICAL. AND ROOTED IN THE COMMUNITY YOU CALL HOME. TO NEIGHBORHOOD POTLUCKS, BORROWING A CUP OF SUGAR, AND BLOCK PARTIES. HERE'S TO A NEW SPIRIT OF LOCALISM.
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YEAR IN REVIEW

FOCUSED ON WHAT MATTERS – OUR COMMUNITIES

In 2016, Elevations Credit Union delivered exceptional results that reflected our unwavering commitment to three key objectives. First, we made sure our members could access best-in-class products and services, including a record number of mortgages and loans in 2016, to enhance their lives. Second, we were committed to maintaining a work environment that supported highly engaged, effective and welcoming employees, as evidenced by our continued Best Companies to Work For recognition. And third, we sought to extend to as many Coloradans as possible the benefits of our member-owned, community-based credit union, which in 2016 led to our opening accounts for an all-time high number of new members. Elevations' year of record-breaking performance demonstrated our ongoing success in meeting our key objectives and reaffirmed our dedication to these goals going forward.

FOR THE COMMUNITY AND BY THE COMMUNITY

To achieve these exceptional results, we focused on balancing our actions to achieve long-term financial sustainability. And that balance began, in 2016 as in all prior years, with a commitment to our communities.

- **Expanded our membership:** Elevations opened 14,706 new member accounts in 2016 to achieve a historically high total of 121,747 members.
- **Supported our members' dreams:** Elevations provided nearly $1.4 billion in mortgage loans; more than $169 million in consumer loans; $22 million in consumer construction and lot loans; and nearly $46 million in business and commercial loans.
- **Supported our community and education:** Elevations and the Elevations Foundation contributed a total of $354,500 for community support and scholarships for higher education. The credit union also donated an additional $200,000 to the Elevations Foundation solely for its permanent endowment, which will benefit our communities in perpetuity.

YEAR IN REVIEW

CONTINUING OUR BALDRIGE AWARD JOURNEY

In 2016, we shared our Baldrige Award story at more than 20 events, honoring the commitment we made to sharing Elevations' learnings with others. As a result of these events, our story inspired hundreds of organizations to seek excellence through the Baldrige framework. Our events also galvanized established Baldrige-seeking organizations to make significant advances along their journeys.

In addition, we produced and hosted a high-powered panel discussion in June titled "Colorado's Path to Performance Excellence." The one-day event included all four previous Colorado Baldrige recipients, and was moderated by Eben Harrell, a senior editor from the Harvard Business Review. The conference was attended by 137 C-level executives from Front Range companies and featured closing comments from Governor Hickenlooper.

A HIGH-PERFORMANCE CULTURE

Over the past year, Elevations succeeded not only in hitting high financial targets, but also in continuing to build exceptional member loyalty. Both goals were driven by outstanding employee performance. In 2016, our employee engagement score was an impressive 81%, the fourth highest score for large companies in the state, resulting in Elevations Credit Union being named one of the Best Companies to Work For in Colorado for the second year in a row. We were also exceedingly pleased Debra Johnston joined our team as our new Chief People Officer. Debra is an exceptional leader and is already positioning us for even greater employee engagement.

At our Boulder Diagonal Branch, team productivity increased dramatically after the transformative remodel of that branch. Loan volume increased 36 percent year over year; we saw four percent more new accounts opened than the previous year; and Net Promoter Scores™ (NPS™) for transactions increased from 64% to 76% for the year, with a record high score of 95% in the month of November.

VOTED THE BEST

With such strong member support, it wasn't surprising that Elevations received a number of coveted awards in 2016.

- We were voted Best Bank/Financial Institution by readers of the Boulder Daily Camera, Boulder Weekly, Colorado Daily, Longmont Times-Call and for the first time ever, by readers of the Loveland Reporter-Herald.
- We were recognized as Best Mortgage Lender by readers of the Boulder Daily Camera, Longmont Times-Call and Loveland Reporter-Herald (runner up).
- And although we've only been in Fort Collins a short time, we were voted the #2 Credit Union by readers of Style Magazine.

We could not have achieved these successes without the contributions of our audaciously excellent team. But our deepest gratitude, as always, goes to you, our member, for your unwavering support for Elevations Credit Union. Thank you!

IT MATTERS WHERE YOU BANK.


IT MATTERS
WHERE YOUR MONEY GOES
AND WHERE IT STAYS.
IS IT THOUSANDS OF MILES AWAY OR BUILDING A NEW BUSINESS IN YOUR COMMUNITY? IS IT BEING REINVESTED IN YOUR NEIGHBORHOOD OR SOMEONE ELSE'S? IF YOU CARE ABOUT WHERE YOU LIVE, IT MATTERS WHERE YOUR MONEY IS.
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SUPERVISORY COMMITTEE

BRAD JONES
CHAIR

The Supervisory Committee ensures that Elevations Credit Union adheres to established policies and procedures and conducts business in the members' best interests. All internal and independent audits are reported to this Committee. The Committee is chaired by Brad Jones, and additional volunteer representatives are: David Forsberg, Kevin Rickman, Bob Jobin and Christine Morrissey.

The Supervisory Committee's responsibility is to verify that records are accurately maintained and to review Credit Union internal controls. This allows the Committee to determine that management's activities are carried out in accordance with Credit Union policies and procedures, and Federal and State Regulations.

To meet requirements of the National Credit Union Administration and the State of Colorado Department of Regulatory Agencies, the Supervisory Committee retained Doeren Mayhew, Certified Public Accountants, to perform the annual audit of the Credit Union's financial statements as of December 31, 2016. The Supervisory Committee was not made aware of any matter that would be considered a material weakness or significant deficiency in the internal controls over financial reporting. The firm issued an unqualified opinion at the conclusion of its audit.

The Supervisory Committee is satisfied that the records accurately reflect Elevations Credit Union's financial condition and that its operations are handled in accordance with Board policies and Credit Union procedures.

DAVID FORSBERG
VICE CHAIR

KEVIN RICKMAN
SECRETARY

BOB JOBIN
COMMITTEE MEMBER

CHRISTINE MORRISSEY
COMMITTEE MEMBER

LETTER FROM THE CFO & BOARD TREASURER

MICHAEL CALCOTE
CFO

ERIC JONES
BOARD TREASURER

We are pleased to report that Elevations generated outstanding financial performance again in 2016. The table below compares our performance to our credit union peers, based on key industry metrics:

	Elevations Credit Union	Peer Group Median
Return on Members' Equity	14.5%	9.9%
Loan Growth	16%	12%
Share Growth	10%	10%
Delinquency Ratio	0.2%	0.6%
Efficiency (Costs/Revenues)*	75%	77%

**The efficiency ratio measures the extent to which a dollar of revenue is offset by costs (so the lower the ratio, the better).*

During 2016, we recorded all-time high records for net worth, assets, loans, shares and membership. Here are some noteworthy highlights from 2016:

- Total loans grew by $203 million, while total shares grew by $138 million.
- We originated nearly $1.4 billion in mortgage loans, more than any other credit union in Colorado.
- We opened a record 14,706 new member accounts to achieve a historically high total of 121,747 members.

Elevations generated record earnings of $26 million in 2016. We remain financially strong and well positioned to provide solutions for your financial needs. Our capital position ended 2016 at 10%, well above the minimum threshold of 7% to be deemed well capitalized by the National Credit Union Association. Our credit performance remains healthy, with a delinquency ratio of only .24% at the end of 2016.

We've provided the complete financial report for you to review. We'd like to thank Elevations Credit Union's Supervisory Committee for their diligence in selecting and working with Doeren Mayhew as our auditor beginning in 2010.

Our goal is to build deep, meaningful relationships with you, our members. Our financial successes this year will only help to build on our promise to serve you. We appreciate the trust you have placed in Elevations as your financial institution, and we look forward to continuing to serve you in 2017 and beyond.

Sincerely,

Michael Calcote

Michael Calcote, CFO   Eric Jones, Board Treasurer


WE ARE ALL FOR ONE AND
ONE FOR ALL.
WE'RE BELIEVERS IN A NEW LOCALISM, WHERE WE ARE NOT REDUCED TO A COLUMN OF NUMBERS OR A BALANCE SHEET, BUT ARE SHAREHOLDERS IN OUR COMMUNITY.
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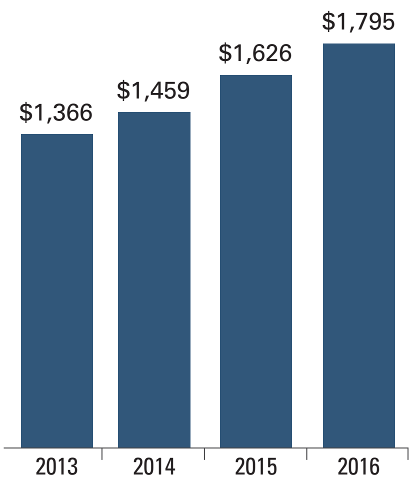
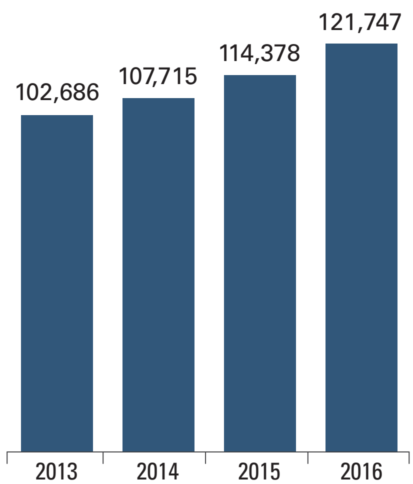
2016 FINANCIAL HIGHLIGHTS

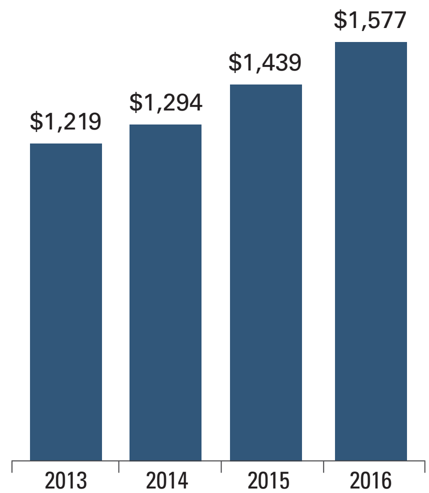
ASSETS ($) (IN MILLIONS)



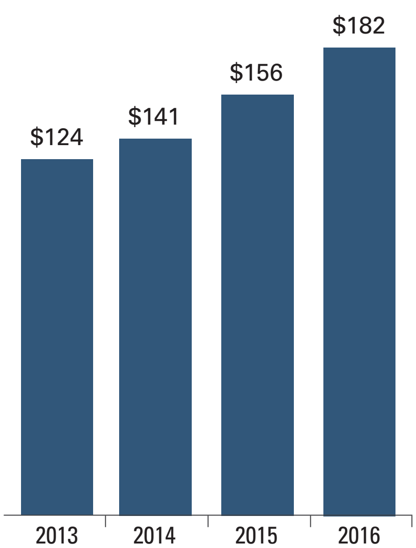
TOTAL MEMBERS



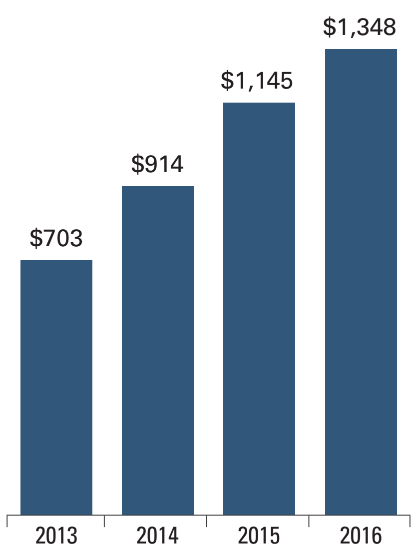
TOTAL SHARES ($) (IN MILLIONS)



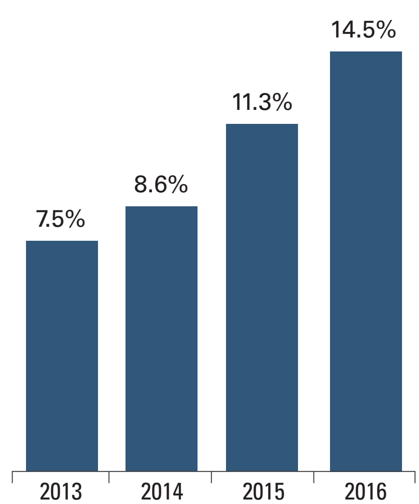
CAPITAL ($) (IN MILLIONS)



TOTAL LOANS ($) (IN MILLIONS)



RETURN ON MEMBERS' EQUITY



FINANCIAL STATEMENTS

ELEVATIONS CREDIT UNION

STATEMENTS OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2016 AND 2015

Assets	**2016**	**2015**
Cash and cash equivalents	$148,370,482	$77,675,058
Investments:		
Available-for-sale	202,165,259	313,633,861
Loans held for sale	63,505,363	41,650,136
Loans to members, net of allowance for loan losses	1,284,179,871	1,103,393,006
Accrued interest receivable	4,681,145	4,462,935
Property and equipment	24,096,313	23,522,659
Prepaid and other assets	54,610,971	48,577,501
NCUSIF deposit	13,680,227	12,661,551
Total assets	$1,795,289,631	$1,625,576,707
Liabilities and Members' Equity		
Liabilities:		
Members' shares and savings accounts	$1,577,055,173	$1,439,009,637
Accrued expenses and other liabilities	36,602,948	30,123,152
Total liabilities	1,613,658,121	1,469,132,789
Commitments and contingent liabilities		
Members' equity:		
Regular reserve	11,879,721	11,879,721
Undivided earnings	157,968,300	131,939,542
Equity acquired through business combination	11,249,648	11,249,648
Accumulated other comprehensive income	533,841	1,375,007
Total member's equity	181,631,510	156,443,918
Total liabilities and members' equity	$1,795,289,631	$1,625,576,707

ELEVATIONS CREDIT UNION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Interest income:		
Loans to members	$52,631,793	$42,932,915
Investment securities	4,782,131	5,989,153
Total interest income	57,413,924	48,922,068
Interest expense:		
Members' shares and savings accounts	2,962,767	2,936,246
Net interest income	54,451,157	45,985,822
Provision for loan losses	2,283,843	514,620
Net interest income after provision for loan losses	52,167,314	45,471,202
Non-interest income:		
Gain on sale of loans, net	28,806,190	18,356,405
Interchange income	11,813,314	10,695,135
Fees and service charges	7,280,121	6,530,162
Miscellaneous operating income	5,245,146	5,193,809
Gain on sale of available-for-sale investments	1,485,259	—
Total non-interest income	54,630,030	40,775,511
Non-interest expenses:		
Compensation and benefits	49,090,716	37,952,243
Office operations	14,540,833	14,738,355
Loan servicing expense	6,608,799	7,572,709
Office occupancy	3,654,869	3,307,746
Education and promotion	4,394,206	3,282,789
Professional and outside services	1,818,010	1,053,873
Miscellaneous operating expenses	661,153	1,037,103
Total non-interest expenses	80,768,586	68,944,818
Net income	$26,028,758	$17,301,895

ELEVATIONS CREDIT UNION

STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Net income	$26,028,758	$17,301,895
Other comprehensive income/(loss):		
Available-for-sale investments:		
Net unrealized gains/(losses) on investments classified as available-for-sale	644,093	(2,320,661)
Reclassification adjustment for investment gains included in net income	(1,485,259)	—
Total other comprehensive loss	(841,166)	(2,320,661)
Comprehensive income	$25,187,592	$14,981,234

ELEVATIONS CREDIT UNION

STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2016 AND 2015

	Regular Reserve	Undivided Earnings	Equity Acquired Through Business Combination	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2014	$11,879,721	$114,637,647	$11,249,648	$3,695,668	$141,462,684
Net income	—	17,301,895	—	—	17,301,895
Other comprehensive loss	—	—	—	(2,320,661)	(2,320,661)
Balance, December 31, 2015	11,879,721	131,939,542	11,249,648	1,375,007	156,443,918
Net income	—	26,028,758	—	—	26,028,758
Other comprehensive loss	—	—	—	(841,166)	(841,166)
Balance, December 31, 2016	$11,879,721	$157,968,300	$11,249,648	$533,841	$181,631,510

ELEVATIONS CREDIT UNION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Cash flows from operating activities:		
Net income	$26,028,758	$17,301,895
Adjustments to net cash provided from operating activities:		
Provision for loan losses	2,283,843	514,620
Depreciation and amortization	3,247,103	3,069,482
Amortization of investment premiums/discounts	2,267,933	2,887,238
Amortization of deferred loan origination fees and costs	2,954,122	2,190,881
Gain on sale of available-for-sale securities	(1,485,259)	—
Gain on sale of loans, net	(17,604,081)	(10,406,243)
Capitalization of mortgage servicing rights	(11,202,109)	(7,950,162)
Amortization of mortgage servicing rights	4,861,803	3,724,954
Changes in assets and liabilities:		
Net change in loans held for sale	(4,251,146)	(9,091,565)
Net change in accrued interest receivable	(218,210)	(210,344)
Net change in prepaid and other assets	306,836	(829,159)
Net change in accrued expenses and other liabilities	6,479,796	6,636,985
Total adjustments	(12,359,369)	(9,463,313)
Net cash provided from operating activities	13,669,389	7,838,582

ELEVATIONS CREDIT UNION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Cash Flows (Continued)

	2016	2015
Cash flows from investing activities:		
Net change in loans to members	(186,024,830)	(214,729,836)
Proceeds from maturities, calls and repayments of available-for-sale investments	62,421,349	71,333,627
Proceeds from sales of available-for-sale investments	47,423,413	—
Expenditures for property and equipment	(3,820,757)	(4,644,564)
Net change in NCUSIF deposit	(1,018,676)	(918,728)
Net cash used in investing activities	(81,019,501)	(148,959,501)
Cash flows from financing activities:		
Net change in members' shares and savings accounts	138,045,536	144,668,682
Net cash provided from financing activities	138,045,536	144,668,682
Net change in cash and cash equivalents	70,695,424	3,547,763
Cash and cash equivalents - beginning	77,675,058	74,127,295
Cash and cash equivalents - ending	$148,370,482	$77,675,058

Supplemental Information

Interest paid	$2,962,767	$2,939,246

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 1 - Nature of Business and Significant Accounting Policies

Organization

Elevations Credit Union (the Credit Union) is a state-chartered credit union organized in accordance with the provisions of the Colorado Credit Union Act for the purpose of promoting thrift among, and creating a source of credit for, its members. Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined by the Credit Union's Charter and Bylaws.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenses for the periods then ended. Actual results could differ from those estimates. Estimates that are particularly susceptible to change include the determination of the allowance for loan losses. The significant accounting principles and policies used in the preparation of these financial statements, together with certain related information, are summarized below.

Concentrations of Credit Risk

A significant amount of the Credit Union's business activity is with members who work or reside in the Boulder, Colorado area. Therefore, the Credit Union may be exposed to credit risk by the economic climate of the overall geographical region in which borrowers reside. Additionally, the Credit Union maintains a large concentration of residential and commercial real estate secured loans. As of December 31, 2016, approximately 80% of the loan portfolio was secured by residential and commercial real estate located in the Boulder, Colorado area.

Comprehensive Income

Accounting principles generally require the recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities are reported in a separate component of comprehensive income/(loss). Other comprehensive income/(loss) is limited to the changes in unrealized gains/(losses) on available-for-sale investments. When available-for-sale investments are sold, the gain or loss realized on the sale is reclassified from accumulated other comprehensive income/(loss) to the gain or loss on sale of investments reported on the statements of income.

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 1 - Nature of Business and Significant Accounting Policies

Cash and Cash Equivalents

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

Investments

Investments are classified as available-for-sale. Investment classified as available-for-sale are measured at fair value as of the statement of financial condition date. Unrealized gains and losses on available-for-sale investments are reported as a separate component of members' equity. Realized gains and losses on disposition, if any, are computed using the specific identification method. Investments are adjusted for the amortization of premiums and accretion of discounts as an adjustment to interest income on investments over the term of the investment by a method which approximates the interest method.

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

Federal Home Loan Bank (FHLB) Stock

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

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated fair value in the aggregate. All sales are made without recourse. Typically at the time of loan sale, representations and warranties are given regarding the validity and accuracy of the loan and loan documents that if breached would require the loan to be repurchased.

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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

Loans to Members

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

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in the process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

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.

Loan origination costs are deferred and recognized as an adjustment to interest income using the straight-line method over the contractual life of the loans. The straight-line method, which is not in accordance with generally accepted accounting principles, is not materially different from the interest method, which is required under generally accepted accounting principles.

Allowance for Loan Losses

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

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

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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

Allowance for Loan Losses (Continued)

For purposes of determining the ALL, the Credit Union has segmented certain loans in the portfolio by type. Loans are classified into the following segments: Member Business, Real Estate, and Consumer. The Credit Union further disaggregates these segments into classes based on the associated risks within those segments. Member Business loans are divided into two classes: Real estate and Other. Real Estate loans are divided into two classes: First mortgage and Second mortgage. Consumer loans are divided into two classes: Auto and Other-primarily unsecured.

For purposes of determining the ALL, the Credit Union uses three distinct steps (historical loss rate, known losses, and environmental factors). In the first step, a historical loss rate calculation is completed on the loan portfolio using a 12 month historical loss rate for consumer and second mortgage loans and a 36 month historical loss rate for first mortgage loans where applicable (all major loan types except member business loans). The Credit Union has segmented all loans in the portfolio by product type and credit grade to apply independent loss rates. Each class of loans requires significant judgment to determine the estimation method that fits the credit risk characteristics of its portfolio segment. The second step in the ALL calculation is the known loss review, which is comprised of an impairment review on all loans showing signs of trouble including: delinquency, bankruptcy, modifications, litigation, etc. Differing treatments are applied to certain loans based on these categories, the type of loan involved, and the Credit Union’s past experience in similar situations. This known loss process allows the Credit Union to identify potential losses on loans that have already shown signs of weakness but have not yet been charged off. The third and final section of the Credit Union’s ALL process is the environmental factors adjustment. This adjustment is based on a full analysis of the entire loan portfolio completed in joint effort with an external vendor in order to determine current loan to value (CLTV) ratios, current FICO, FICO migration and the appropriate loan risk weighting. The environmental factors adjustment also considers the unemployment rates of local counties within this calculation.

Consumer and Real Estate Segment Allowance Methodology

For loans not individually evaluated for impairment, the Credit Union determines the allowance on a collective basis utilizing historical losses adjusted for current factors. This actual loss experience is adjusted for known loss and economic factors based on the risks present for each portfolio segment or class of loans. As of December 31, 2016 and 2015, the historical loss time frame for each class was 12 months.

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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

Allowance for Loan Losses (Continued)

Member Business Segment Allowance Methodology

All member business loans are reviewed for delinquency on a regular basis. If determined to be impaired, specific allowances are provided for member business loans based on an analysis of the payment history, financial condition of the borrower, collateral, and guarantees as well as current economic trends.

Member business loans not identified as impaired are pooled by risk grade and a loss percentage is applied to each grade level. A loss rate of 1% is used on all loans not risk rated, based on a regional study of member business loan loss rates by the Office of Thrift Supervision (OTS).

Impaired Loans

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

Troubled Debt Restructurings

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

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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

Allowance for Loan Losses (Continued)

Consumer and Real Estate Credit Quality Indicators

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

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

Member Business Credit Quality Indicators

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

AAA (Excellent)
Definition: Excellent credits are excellent quality loans of excellent strength, which conform to the loan policy and normal underwriting standards (or have clear written justification for exception) and have or are expected to perform as agreed. Dependent on mitigating factors, excellent rated credits will generally possess the following:

- 1.45 or higher debt coverage ratio.
- 1.0 or higher debt to tangible net worth ratio.

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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

Allowance for Loan Losses (Continued)

Member Business Credit Quality Indicators (Continued)

- The collateral is excellent quality, and the loan to value is 60% of policy maximum.
- Average FICO score of 750.

AA (Strong)
Definition: Strong credits are satisfactory loans of better than average strength, which conform to the loan policy and normal underwriting standards (or have clear written justification for exception) and have or are expected to perform as agreed. Dependent on mitigating factors, strong rated credits will generally possess the following:

- 1.40 or higher debt coverage ratio.
- 2.0 or higher debt to tangible net worth ratio.
- The collateral is excellent quality, and the loan to value is 70% of policy maximum.
- Average FICO score of 700.

A (Good)
Definition: Good credits are loans with a sound primary source of repayment, which conform to the loan policy and normal underwriting standards (or have clear written justification for exception) and have or are expected to perform as agreed. Dependent on mitigating factors, good rated credits will generally possess the following:

- 1.35 or higher debt coverage ratio.
- 3.0 or higher debt to tangible net worth ratio.
- The collateral is good quality, and the loan to value is 80% of policy maximum.
- Average FICO score of 685.

BBB (Satisfactory)
Definition: Satisfactory credits are loans that demonstrate the capacity to perform according to terms, which conform to the loan policy and normal underwriting standards (or have clear written justification for exception) and have or are expected to perform as agreed. Dependent on mitigating factors, satisfactory rated credits will generally possess the following:

- 1.30 or higher debt coverage ratio.
- 4.0 or higher debt to tangible net worth ratio.

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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

Allowance for Loan Losses (Continued)

Member Business Credit Quality Indicators (Continued)

- The collateral is acceptable quality, and the loan to value is 90% of policy maximum.
- Average FICO score of 670.

BB (Pass-Watch)
Definition: Pass-watch credits are loans considered a passing credit, however require additional monitoring of identifiable potential weaknesses to facilitate the Credit Union's prompt reaction to adverse trends which may affect collection. This category consists of loans that have modest deficiencies in loan documentation or minor deviations from prudent lending structure. They indicate adverse trends in the borrower's cash flow, debt-servicing capacity and balance sheet or in collateral value or market conditions that may, in the future, affect the repayment of the credit. Credits may have some vulnerability to changing economic or industry conditions, but low probability of serious deterioration. Credits that may be potentially lacking in margin or liquidity, but these deficiencies are minor and not expected to affect repayment.

Discussion: Pass-watch credits are loans with potential weaknesses and/or correctable deficiencies that are considered to add only minimal risk to the credit at this time. If left unchecked or if a negative trend develops or continues, criticism of the loan could result.

A pass-watch grade could result from the deviation from sound lending principles and in particular from the Credit Union loan policy without clear written justification for the exception. Adverse trends in the borrower's condition and/or debt servicing capabilities are cause for a pass-watch grade, if it appears the deficiency is temporary in nature and adds minimal risk to the timely repayment of the credit. Once again, the loan payments should remain current for the pass-watch grade to be appropriate. Seasoned loans, with a loan payment history and continued expectation of timely payments that have a marginal debt servicing ratio may warrant a pass-watch status. Deviation from sound lending practices or the loan policy can take many forms.

- Failure to obtain current financial information as required by policy.
- Failure to obtain a current or satisfactory appraisal.
- Failure to structure the loan properly so that it coincides with the purpose of the loan and the source of repayment.
- Lack of proper documentation.

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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

Allowance for Loan Losses (Continued)

Member Business Credit Quality Indicators (Continued)

- Failure to properly underwrite the loan.
- Failure to monitor the loan properly.

Dependent on mitigating factors, pass-watch rated credits will generally possess the following:

- 1.25 debt coverage ratio.
- 5.0 debt to tangible net worth ratio.
- The collateral meets the minimum loan to value percentage.
- Average FICO score of 660.

B (Special Mention)
Definition: A Special mention asset has potential weaknesses that deserve close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Loans in this category have problems that could be remedied by management.

Discussion: Special mention loans contain a potential weakness that could jeopardize repayment as originally agreed. This category consists of loans that represent undue or unwarranted credit risk and static credits in need of a defined repayment plan. The primary source of repayment has weaknesses and may be jeopardized and it is evident that the risk has increased beyond the level normally found in passing credits. The special mention classification should normally be used on a temporary basis, six months or less, for loans that are in transition (moving from pass-watch to substandard or substandard to pass-watch). Some action or event should occur in the near future to support either upgrading or require down grading of the credit. Loans consistently past due for more than thirty (30) days should be considered for this category.

A special mention grade may be appropriate when deficiencies described above or those listed below exist:

- Adverse trends in the borrower's financial condition and/or a debt-servicing ratio that is affecting the borrower's ability to repay the loan.
- Requests for renewals without planned reductions in principal.

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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

Allowance for Loan Losses (Continued)

Member Business Credit Quality Indicators (Continued)

- Litigation against the borrower or guarantor that may, in the future, have material adverse consequences. Judgments, tax liens and derogatory credit reports are flags that often indicate a borrower's loans should be criticized.
- Loans with a current delinquency and a history of frequent delinquencies in excess of thirty (30) days as to required principal or interest payments.

Dependent on mitigating factors, special mention rated credits will generally possess the following:

- 1.25 debt coverage ratio.
- 5.0 debt to tangible net worth ratio.
- The collateral meets the minimum loan to value percentage.
- Guarantor's FICO score drops below 660.

CCC (Substandard)
Definition: Substandard loans are inadequately protected by current sound worth and paying capacity of the borrower or of the collateral pledged. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Substandard loans are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected.

The focal point in determining whether an asset is substandard is the well-defined weaknesses. The existence of one or more of the following could be indicative of a substandard (or worse) asset, depending upon the severity and duration of the problem(s):

- Inadequate debt servicing ability (generally, debt servicing ratio is less than 1.0), particularly if indicative of a continuing negative trend or a consistent past pattern.
- Current delinquency and a history of significant delinquency. In particular, a loan that is ninety (90) days or more past due should generally be a substandard asset unless there is clear written justification to the contrary.
- Loans secured by collateral declining in value and inadequately protected by appropriate margins, especially if income earned from the collateral or the sale of the collateral is the primary source of repayment.

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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

Allowance for Loan Losses (Continued)

Member Business Credit Quality Indicators (Continued)

- Repeated failures to make required principal reductions or numerous renewals with the payment of interest only.
- May have some vulnerability to changing economic or industry conditions, but low probability of serious deterioration.
- Fully drawn lines of credit with no recent record of significant principal reductions.
- Workout/consolidation loans. These loans indicate a previous and possibly continuing "well-defined" weakness.
- Misrepresentations by the borrower or an uncooperative borrower who is unable or unwilling to respond to the Credit Union's request for information or to act on the Credit Union's request to strengthen the credit.

CC (Doubtful)
Definition: An asset classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current existing facts, conditions, and values, highly questionable and improbable. Possibility of loss is extremely high, but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral and refinancing plans.

Discussion: Fundamentally, doubtful loans are loans where it is highly unlikely that the Credit Union will collect in full all of the principal and interest due under the terms of the loan. Doubtful loans should be on non-accrual for this reason. Doubtful loans are loans where repayment of the debt is highly dependent upon the eventual sale of the collateral, whether this is by the Credit Union through repossession or foreclosure, or by the member. Doubtful should not be a classification that is used for an indefinite period of time. In most cases, loans should not remain doubtful for a period exceeding twelve (12) months without there being either some significant pay-down in the credit as a result of efforts by the borrower or the Credit Union, or a charge-down in the balance by the Credit Union to reflect a more appropriate value for the asset. If a loan is doubtful, the Credit Union should take aggressive action to strengthen its position and minimize its loss.

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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

Allowance for Loan Losses (Continued)

Member Business Credit Quality Indicators (Continued)

Loans to borrowers who are unable or unwilling to correct a “hole” in the collateral within a twelve (12) month period should in most cases be charged down such that the loan balance does not exceed 100% of the fair value of the collateral.

C (Loss)
Definition: Assets classified loss are considered uncollectible and of such little value that the continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. Loans should be charged off in the period in which they are deemed uncollectible.

Not Graded
No grade assigned.

Loan Charge-off Policies

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

Management will present non-performing loans with the following guidelines to the Board of Directors for charge-off approval:

- Unsecured loans under a bankruptcy status will be listed on the proposed charge-offs;
- A loan deemed uncollectible, where additional collection efforts are non-productive regardless of the number of days delinquent;
- Bankruptcy cram downs will be listed on the proposed charge-offs the month following the confirmation of the plan. This will typically be a partial charge-off for the cram down amount;
- A deficiency balance resulting from the repossession and sale of collateral will be proposed for charge-off the month following the collateral sale;
- A loan of a deceased person where the loss is determined;

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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

Allowance for Loan Losses (Continued)

Loan Charge-off Policies (Continued)

- Real estate loans will be proposed for charge-off the month following the determination of insufficient equity to proceed with foreclosure or redemption, receipt of short sale funds, or if the property is foreclosed on;
- All other loans that are not currently in a bankruptcy, repossession, foreclosure status, or have an active payment arrangement will be reviewed after 60 days delinquent by Loss Mitigation and the recommendations will be sent to the AVP of Credit Risk Management for approval;
- Any loan greater than 6 months delinquent will be added to the exception list/report and reviewed monthly.

Property and Equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation. Depreciation is computed principally by the straight-line method based upon the useful lives of the related assets. The cost of leasehold improvements is amortized using the straight-line method over the term of the lease, or the estimated life of the asset, whichever is less. The Credit Union reviews property and equipment (long-lived assets) for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Maintenance, repairs, and minor alterations are charged to current operations as expenditures occur and major improvements are capitalized.

Mortgage Servicing Rights

Mortgage servicing assets are recognized as separate assets when rights are acquired through the sale of financial assets. Fair value is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are reported in prepaid and other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost.

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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

NCUSIF Deposit

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

Members' Shares and Savings Accounts

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

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

Regular Reserve

The Credit Union is required to maintain a statutory reserve (regular reserve) in accordance with the Colorado Credit Union Act. This statutory reserve represents a regulatory restriction and is not available for the payment of interest.

Income Taxes

The Credit Union is exempt from most federal, state, and local income taxes under the provisions of the Internal Revenue Code and state tax laws. The Income Taxes Topic of the FASB ASC clarifies accounting for uncertainty in income taxes reported in the financial statements. The interpretation provides criteria for assessment of individual tax positions and a process for recognition and measurement of uncertain tax positions. Tax positions are evaluated on whether they meet the "more likely than not" standard for sustainability upon examination by tax authorities. The Credit Union is a state-chartered credit union as defined in Internal Revenue Code (IRC) Section 501(c)(14). As such, the Credit Union is exempt from federal taxation of income derived from the performance of activities directly related to its exempt purposes. However, IRC Section 511 imposes a tax on the unrelated business income (UBI) derived by state-chartered credit unions.

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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

Income Taxes (Continued)

Beginning in March 2008, the Internal Revenue Service (IRS) released Technical Advice Memorandums (TAMs) to specific state-chartered credit unions specifying the revenue sources subject to unrelated business income tax (UBIT). UBI may also be subject to tax in certain states. Management has assessed the Credit Union's activities and any potential federal or state income tax liability and determined that the Credit Union has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Additionally, no interest and penalties have been recorded in the accompanying financial statements related to uncertain tax positions. Currently, the 2015, 2014, and 2013 federal income tax returns are open for examination by the IRS. The filing years open for examination by the state, if applicable, may be equal to, greater than or less than the years open for examination by the IRS.

Reclassification

Certain amounts reported in the 2015 financial statements have been reclassified to conform to the 2016 presentation.

Recent Accounting Pronouncements

On January 5, 2016, the FASB issued Accounting Standards Update 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (the ASU). The changes to the current GAAP model primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The classification and measurement guidance will be effective for non-public business entities in fiscal years beginning after December 15, 2018, or they may early adopt for periods after December 15, 2017. The Credit Union is currently evaluating the impact of the ASU.

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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

Recent Accounting Pronouncements (Continued)

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses. The ASU introduces a new accounting model, the Current Expected Credit Losses model (CECL), which requires earlier recognition of credit losses. The FASB's CECL model utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. For available-for-sale securities where fair value is less than cost, credit-related impairment, if any, will be recognized in an allowance for credit losses and adjusted each period for changes in expected credit risk. This model replaces the multiple existing impairment models in current GAAP, which generally require that a loss be incurred before it is recognized. The ASU will be effective for credit unions on January 1, 2021. Early application is permitted for annual periods beginning January 1, 2019.

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

Subsequent Events

Management has evaluated subsequent events through March 30, 2017, the date the financial statements were available to be issued. No significant such events or transactions were identified.

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 2 - Investments

The following table presents the amortized cost and estimated fair value of investments as of December 31, 2016:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Mortgage-backed securities	$132,126,776	$1,025,291	($266,377)	$132,885,690
Collateralized mortgage obligations	37,757,888	164,267	(197,891)	37,724,264
Small business administration backed securities	30,102,919	43,202	(345,331)	29,800,790
Private-issue collateralized mortgage obligations	1,643,835	126,602	(15,922)	1,754,515
Total	$201,631,418	$1,359,362	($825,521)	$202,165,259

The following table presents the amortized cost and estimated fair value of investments as of December 31, 2015:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Mortgage-backed securities	$199,863,708	$1,599,458	($396,749)	$201,066,417
Small business administration backed securities	55,808,502	415,361	(390,235)	55,833,628
Collateralized mortgage obligations	54,507,397	311,333	(311,501)	54,507,229
Private-issue collateralized mortgage obligations	2,079,247	171,405	(24,065)	2,226,587
Total	$312,258,854	$2,497,557	($1,122,550)	$313,633,861

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 2 - Investments (Continued)

As of December 31, 2016, the Credit Union's available-for-sale portfolio consisted entirely of mortgage-backed securities, SBA-backed securities and collateralized mortgage obligations. These securities have no contractual maturity and return principal based on payments received on the underlying mortgages or assets. These securities have expected weighted average lives ranging from zero to twelve years. However, return of principal may differ from expectation based on fluctuations in market interest rates, delinquency, foreclosures and the underlying collateral values.

Information pertaining to investments with gross unrealized losses as of December 31, 2016, aggregated by investment category and length of time that individual investments have been in a continuous loss position, follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
Mortgage-backed securities	$12,823,532	($18,200)	$31,610,550	($248,177)	$44,434,082	($266,377)
SBA-backed securities	809,830	(3,646)	24,570,069	(341,685)	25,379,899	(345,331)
Collateralized mortgage obligations	15,810,300	(152,338)	2,984,538	(45,553)	18,794,838	(197,891)
Private-issue collateralized mortgage obligations	—	—	522,315	(15,922)	522,315	(15,922)
Total	$29,443,662	($174,184)	$59,687,472	($651,337)	$89,131,134	($825,521)

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 2 - Investments (Continued)

Information pertaining to investments with gross unrealized losses as of December 31, 2015, aggregated by investment category and length of time that individual investments have been in a continuous loss position, follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
Mortgage-backed securities	$49,667,114	($217,965)	$20,118,571	($178,784)	$69,785,685	($396,749)
SBA-backed securities	14,071,189	(56,940)	24,735,219	(333,295)	38,806,408	(390,235)
Collateralized mortgage obligations	17,960,121	(133,887)	7,437,142	(177,614)	25,397,263	(311,501)
Private-issue collateralized mortgage obligations	—	—	619,417	(24,065)	619,417	(24,065)
Total	$81,698,424	($408,792)	$52,910,349	($713,758)	$134,608,773	($1,122,550)

Unrealized losses on securities issued by the U.S. Government and its Agencies have not been recognized into income because the implicit guarantee of the principal balances of these securities by the U.S. Government and its Agencies. The decline in fair value is primarily due to differences between security yields and market interest rates. Additionally, the decline in fair value is expected to be recovered as securities approach their maturity date and/or market rates decline. Management has the ability and intent to hold these securities through to recovery of fair value, which may be maturity. Unrealized losses on private-issue collateralized mortgage obligations are evaluated annually for other than temporary impairment (OTTI).

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 3 - Loans to Members

The composition of loans to members as of December 31, 2016 and 2015 is as follows:

	2016	2015
Real Estate:		
First mortgage	$658,126,527	$584,425,491
Second mortgage	301,869,241	240,112,132
	959,995,768	824,537,623
Consumer:		
Auto	151,098,977	131,334,874
Other-primarily unsecured	102,936,160	101,778,894
	254,035,137	233,113,768
Member Business:		
Real estate	65,119,856	43,293,216
Other	2,964,401	1,231,612
	68,084,257	44,524,828
Total unpaid principal balance	1,282,115,162	1,102,176,219
Net deferred loan origination fees/costs	6,542,812	4,898,639
Total recorded investment	1,288,657,974	1,107,074,858
Less: Allowance for loan losses	(4,478,103)	(3,681,852)
Loans to members, net	$1,284,179,871	$1,103,393,006

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended December 31, 2016:

	Real Estate	Consumer	Commercial	Total
Allowance for loan losses:				
Beginning allowance	$785,844	$2,542,403	$353,605	$3,681,852
Charge-offs	(16,791)	(2,237,203)	(9,990)	(2,263,984)
Recoveries	135,210	641,182	—	776,392
Provision for loan losses	(115,416)	2,252,351	146,908	2,283,843
Ending allowance	$788,847	$3,198,733	$490,523	$4,478,103
Ending balance individually evaluated for impairment	$22,755	$463,956	$—	$486,711
Ending balance collectively evaluated for impairment	766,092	2,734,777	490,523	3,991,392
Ending allowance	$788,847	$3,198,733	$490,523	$4,478,103

The following table presents a summary of the recorded investment in loans by portfolio segment as of December 31, 2016:

	Real Estate	Consumer	Commercial	Total
Loans :				
Ending balance individually evaluated for impairment	$2,462,720	$805,286	$—	$3,268,006
Ending balance collectively evaluated for impairment	959,677,809	252,227,792	67,179,393	1,279,084,994
Ending balance acquired loans with deteriorated credit quality	3,779,094	2,172,515	353,365	6,304,974
Total loans	$965,919,623	$255,205,593	$67,532,758	$1,288,657,974

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses (Continued)

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended December 31, 2015:

	Real Estate	Consumer	Commercial	Total
Allowance for loan losses:				
Beginning allowance	$1,526,414	$2,494,571	$335,425	$4,356,410
Charge-offs	(34,980)	(1,713,088)	—	(1,748,068)
Recoveries	70,118	488,772	—	558,890
Provision for loan losses	(775,708)	1,272,148	18,180	514,620
Ending allowance	$785,844	$2,542,403	$353,605	$3,681,852
Ending balance individually evaluated for impairment	$118,092	$317,128	$—	$435,220
Ending balance collectively evaluated for impairment	667,752	2,225,275	353,605	3,246,632
Ending allowance	$785,844	$2,542,403	$353,605	$3,681,852

The following table presents a summary of the recorded investment in loans by portfolio segment as of December 31, 2015:

	Real Estate	Consumer	Commercial	Total
Loans:				
Ending balance individually evaluated for impairment	$2,098,600	$614,233	$—	$2,712,833
Ending balance collectively evaluated for impairment	819,033,003	230,679,007	43,794,728	1,093,506,738
Ending balance acquired loans with deteriorated credit quality	7,282,063	3,161,636	411,588	10,855,287
Total loans	$828,413,666	$234,454,876	$44,206,316	$1,107,074,858

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 3 - Loans to Members (Continued)

Impaired Loans

The table below summarizes key information for impaired loans as of and for the year ended December 31, 2016:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no allowance recorded:				
Real Estate:				
First mortgage	$1,546,930	$1,537,443	$—	$768,722
Consumer:				
Auto	$113,897	$113,376	$—	$130,997
Other-primarily unsecured	$74,196	$73,855	$—	$36,928
With an allowance recorded:				
Real Estate:				
First mortgage	$915,790	$910,173	$22,755	$455,087
Consumer:				
Auto	$366,841	$365,158	$214,753	$394,906
Other-primarily unsecured	$250,352	$249,204	$249,203	$194,623
Totals by loan segment:				
Real Estate	$2,462,720	$2,447,616	$22,755	$1,223,809
Consumer	805,286	801,593	463,956	757,454
Total	$3,268,006	$3,249,209	$486,711	$1,981,263

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 3 - Loans to Members (Continued)

Impaired Loans (Continued)

The table below summarizes key information for impaired loans as of and for the year ended December 31, 2015:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no allowance recorded:				
Real Estate:				
First mortgage	$671,028	$667,888	$—	$672,637
Second mortgage	$86,436	$86,032	$—	$86,208
Consumer:				
Auto	$68,932	$68,538	$—	$75,407
Other-primarily unsecured	$111,654	$111,016	$—	$118,253
With an allowance recorded:				
Real Estate:				
First mortgage	$1,098,253	$1,093,114	$45,008	$1,102,787
Second mortgage	$242,883	$241,746	$73,084	$241,746
Consumer:				
Auto	$250,601	$249,167	$135,129	$268,650
Other-primarily unsecured	$183,046	$181,999	$181,999	$180,307
Totals by loan segment:				
Real Estate	$2,098,600	$2,088,780	$118,092	$2,103,378
Consumer	614,233	610,720	317,128	642,617
Total	$2,712,833	$2,699,500	$435,220	$2,745,995

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of December 31, 2016:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total loans
Real Estate:						
First mortgage	$3,280,871	$181,439	$2,266,177	$5,728,487	$655,063,157	$660,791,644
Second mortgage	42,104	—	—	42,104	301,306,781	301,348,885
	3,322,975	181,439	2,266,177	5,770,591	956,369,938	962,140,529
Consumer:						
Auto	1,203,752	161,564	295,299	1,660,615	150,389,688	152,050,303
Other-primarily unsecured	342,562	225,746	97,312	665,620	100,317,155	100,982,775
	1,546,314	387,310	392,611	2,326,235	250,706,843	253,033,078
Member Business:						
Real estate	—	—	—	—	64,214,992	64,214,992
Other	—	—	—	—	2,964,401	2,964,401
	—	—	—	—	67,179,393	67,179,393
Total	$4,869,289	$568,749	$2,658,788	$8,096,826	$1,274,256,174	$1,282,353,000

Loans on which the accrual of interest has been discontinued or reduced approximated $2,659,000 as of December 31, 2016. There were no loans 90 days or more past due and still accruing interest as of December 31, 2016.

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans (Continued)

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of December 31, 2015:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans
Real Estate:						
First mortgage	$2,075,423	$667,888	$1,093,114	$3,836,425	$579,383,259	$583,219,684
Second mortgage	158,426	—	327,778	486,204	237,425,715	237,911,919
	2,233,849	667,888	1,420,892	4,322,629	816,808,974	821,131,603
Consumer:						
Auto	757,111	113,874	188,234	1,059,219	130,814,326	131,873,545
Other-primarily unsecured	481,961	220,151	66,767	768,879	98,650,816	99,419,695
	1,239,072	334,025	255,001	1,828,098	229,465,142	231,293,240
Member Business:						
Real estate	—	—	—	—	42,563,116	42,563,116
Other	—	—	—	—	1,231,612	1,231,612
	—	—	—	—	43,794,728	43,794,728
Total	$3,472,921	$1,001,913	$1,675,893	$6,150,727	$1,090,068,844	$1,096,219,571

Loans on which the accrual of interest has been discontinued or reduced approximated $1,676,000 as of December 31, 2015. There were no loans 90 days or more past due and still accruing interest as of December 31, 2015.

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 3 - Loans to Members (Continued)

Consumer and Real Estate Credit Quality

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

The following tables present the loan balance based on performance indication as of December 31, 2016 and 2015:

	As of December 31, 2016		As of December 31, 2015	
	Performing Loans	Nonperforming Loans	Performing Loans	Nonperforming Loans
Real Estate:				
First mortgage	$659,921,458	$2,266,177	$586,079,685	$1,093,114
Second mortgage	303,731,988	—	240,913,089	327,778
	963,653,446	2,266,177	826,992,774	1,420,892
Consumer:				
Auto	151,499,859	295,299	131,902,212	188,234
Other-primarily unsecured	103,313,123	97,312	102,297,663	66,767
	254,812,982	392,611	234,199,875	255,001
Total	$1,218,466,428	$2,658,788	$1,061,192,649	$1,675,893

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 3 - Loans to Members (Continued)

Member Business Credit Quality

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

The following table presents the loan balances for member business loans based on risk rating as of December 31, 2016:

	Real estate	Other	Total
Credit grade:			
AAA-Excellent	$1,807,183	$—	$1,807,183
AA-Strong	18,953,140	720,032	19,673,172
A-Good	35,284,394	1,333,976	36,618,370
BBB-Satisfactory	2,814,326	—	2,814,326
BB-Pass Watch	619,877	—	619,877
Not graded	5,175,865	823,965	5,999,830
Total	$64,654,785	$2,877,973	$67,532,758

The following table presents the loan balances for member business loans based on risk rating as of December 31, 2015:

	Real Estate	Other	Total
Credit grade:			
AAA-Excellent	$307,477	$—	$307,477
AA-Strong	10,011,976	—	10,011,976
A-Good	24,380,096	512,856	24,892,952
BBB-Satisfactory	2,963,458	21,123	2,984,581
BB-Pass Watch	670,904	—	670,904
B-Special Mention	294,149	—	294,149
Not graded	4,407,926	636,351	5,044,277
Total	$43,035,986	$1,170,330	$44,206,316

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 3 - Loans to Members (Continued)

Acquired Loans with Deteriorated Credit

The Credit Union has loans that were acquired through merger with St. Vrain Valley Credit Union (SVVCU) during the year ended December 31, 2011, for which there was, at acquisition, evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected.

The carrying amount of these loans approximated the following as of December 31, 2016 and 2015:

	2016	2015
Acquired loans with deteriorated credit quality	$6,304,974	$10,855,287

A summary of the activity of the accretable yield related to these loans is as follows:

	2016	2015
Balance, January 1	$1,824,779	$1,986,639
Net charge-offs	(2,351)	(7,632)
Accretion	(149,728)	(154,228)
Balance, December 31	$1,672,700	$1,824,779

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 4 - Property and Equipment

Property and equipment is carried at cost, less accumulated depreciation and amortization, and are summarized as of December 31, 2016 and 2015 by major classification as follows:

	2016	2015
Land and improvements	$3,995,126	$4,246,352
Building and improvements	18,074,761	17,428,759
Furniture and equipment	27,694,053	25,718,628
Leasehold improvements	4,895,709	4,863,031
Work in process	2,123,686	823,368
	56,783,335	53,080,138
Less accumulated depreciation and amortization	(32,687,022)	(29,557,479)
	$24,096,313	$23,522,659

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 5 - Members' Shares and Savings Accounts

Members' shares and savings accounts are summarized as follows as of December 31, 2016 and 2015:

	2016	2015
Share drafts accounts	$495,851,707	$430,143,585
Share accounts	450,899,739	412,343,236
Money market accounts	474,111,912	430,706,843
Individual retirement accounts	15,872,279	14,242,569
Share and IRA certificates	140,319,536	151,573,404
	$1,577,055,173	$1,439,009,637

As of December 31, 2016, scheduled maturities of share and IRA certificates are as follows:

	2016
Within one year	$81,938,848
1 to 2 years	23,220,338
2 to 3 years	10,825,230
3 to 4 years	9,512,898
4 to 5 years	14,822,222
	$140,319,536

The aggregate amount of members' time deposit accounts in denominations of $250,000 or more as of December 31, 2016 was approximately $8,765,000.

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 6 - Employee Benefits

Defined Contribution 401(k) Plan

All employees of the Credit Union are eligible to participate in a 401(k) retirement savings plan upon attaining the age of 18. Each pay period, eligible participants may make salary deferred contributions to the plan and the Credit Union matches a portion of the contributions. All contributions from the employee and the Credit Union are always 100% vested. The Credit Union's contributions to the plan approximated $1,109,000 and $888,000 for the years ended December 31, 2016 and 2015, respectively.

Deferred Compensation

The Credit Union has a 457(b) non-qualified deferred compensation plan for certain members of senior management. The Credit Union does not contribute to this plan. The deferred compensation amounts are shown as both assets and liabilities on the Credit Union's statements of financial condition and are available to creditors in the event of the Credit Union's liquidation. The balance of the deferred compensation under this plan was approximately $1,365,000 and $971,000 as of December 31, 2016 and 2015, respectively.

The Credit Union has also entered into 457(f) deferred compensation agreements with certain senior executives. The Credit Union has invested in certain investments and whole life insurance policies in order to partially defray the cost of these agreements. The Credit Union is the owner of the investments and policies, and a liability is separately established for the intended obligation to the executives. The assets under this arrangement are classified within prepaid and other assets on the statements of financial condition and were approximately $10,998,000 and $10,704,000 as of December 31, 2016 and 2015, respectively. The liability under this arrangement was approximately $2,842,000 and $2,736,000 as of December 31, 2016 and 2015, respectively.

The Credit Union has entered into a split dollar insurance agreement which is a collateral assignment arrangement between the Credit Union and a senior executive. The agreement involves a method of paying for insurance coverage for the executive by splitting the elements of a life insurance policy. Under the agreement, the executive is the owner of the policy and makes a collateral assignment to the Credit Union in return for a loan equal to the amount of premiums paid on behalf of the executive plus accrued interest at a specified rate. At the time of death, the Credit Union will be repaid the loan amount plus accrued interest and the balance of the insurance benefit will be paid to the executive's designated beneficiary. The total loan balance under this agreement was classified within prepaid and other assets on the statements of financial condition and approximated $1,768,000 and $1,495,000 as of December 31, 2016 and 2015, respectively.

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 7 - Borrowed Funds

Lines of Credit
As a member of the FHLB, the Credit Union has access to a pre-approved secured line of credit with the capacity to borrow up to a certain percentage of its eligible collateral, as defined in the FHLB Statement of Credit Policy. The interest rate terms under this line-of-credit agreement are variable. The aggregate unused line of credit under this agreement was approximately $738,111,000 and $584,516,000 as of December 31, 2016 and 2015, respectively.

The Credit Union has access to the Federal Reserve Bank of Kansas City's Discount Window. Under the terms of this secured line-of-credit agreement, the Credit Union has the ability to borrow up to a certain percentage of the balance of its pledged eligible investment securities. Borrowing capacity was approximately $151,900,000 and $226,192,000 as of December 31, 2016 and 2015. The interest rate terms under this line-of-credit agreement are variable. There were no borrowings outstanding as of December 31, 2016 or 2015.

Note 8 - Commitments and Contingent Liabilities

Lease Commitments

The Credit Union leases several branch locations. The minimum noncancellable lease obligations approximate the following as of December 31, 2016:

Year ending December 31,	Amount
2017	$724,000
2018	590,000
2019	528,000
2020	411,000
2021	219,000
Thereafter	86,000
	$2,558,000

Net rent expense under operating leases, included in expenses, was approximately $921,000 and $851,000 for the years ended December 31, 2016 and 2015, respectively.

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 8 - Commitments and Contingent Liabilities (Continued)

Off Balance-Sheet Risk

The Credit Union is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the statements of financial condition.

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments may expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. As of December 31, 2016, the total unfunded commitments under such lines of credit was approximately $880,898,000. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the member.

Unfunded Construction Commitment

During the year ended December 31, 2016, the Credit Union entered into an agreement for the design and construction of a new branch in Fort Collins, Colorado. As of December 31, 2016, the unfunded commitment related to this project approximated $3,084,000.

Note 9 - 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 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 practices. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 9 - Regulatory Capital (Continued)

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 *NCUA Regulations*) to total assets (as defined in *NCUA Regulations*). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR as of December 31, 2016 and 2015 was 5.52% and 5.70%, respectively. The minimum requirement to be considered complex under the regulatory framework is 6.00%. Management believes, as of December 31, 2016 and 2015, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2016, the most recent call reporting period, the NCUA categorized the Credit Union as *"well capitalized"* under the regulatory framework for prompt corrective action. To be categorized as *"well capitalized"* the Credit Union must maintain a minimum net worth ratio of 7.00% of assets. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

As a result of the business combinations with SVVCU and LPCU during the years ended December 31, 2011 and 2010, respectively, the Credit Union's regulatory net worth ratio and GAAP/USA net worth ratio will not equal. For regulatory purposes, the Credit Union is required to add the net worth of SVVCU and LPCU at the time of the mergers to its actual net worth to calculate the regulatory net worth ratio. SVVCU's net worth at the time of merger was $8,284,165. LPCU's net worth at the time of merger was $1,330,692.

The Credit Union's actual and required net worth amounts and ratios are as follows:

	As of December 31, 2016		As of December 31, 2015	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Actual net worth	$179,462,878	9.99%	$153,434,118	9.44%
Amount needed to be classified as "adequately capitalized"	$107,717,378	6.00%	$97,534,602	6.00%
Amount needed to be classified as "well capitalized"	$125,670,274	7.00%	$113,790,369	7.00%

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 9 - Regulatory Capital (Continued)

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

Note 10 - Fair Values Measurements

Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

Basis of Fair Value Measurements

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

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

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

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 10 - Fair Values Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized as follows:

	Assets at Fair Value as of December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale:				
Mortgage-backed securities	$—	$132,885,690	$—	$132,885,690
SBA-backed securities	—	29,800,790	—	29,800,790
Collateralized mortgage obligations	—	37,724,264	—	37,724,264
Private-issue collateralized mortgage obligations	—	1,754,515	—	1,754,515
	$—	$202,165,259	$—	$202,165,259

	Assets at Fair Value as of December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale:				
Mortgage-backed securities	$—	$201,066,417	$—	$132,885,690
SBA-backed securities	—	55,833,628	—	29,800,790
Collateralized mortgage obligations	—	54,507,229	—	37,724,264
Private-issue collateralized mortgage obligations	—	2,226,587	—	2,226,587
	$—	$202,165,259	$—	$202,165,259

Assets Measured at Fair Value on a Non-Recurring Basis

Impaired Loans

Loans for which the Credit Union has measured impairment are generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of the loan balances less the valuation allowance and/or charge-offs.

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 10 - Fair Values Measurements (Continued)

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

Assets measured at fair value on a non-recurring basis:

	Assets at Fair Value as of December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Impaired loans	$—	$—	$2,781,295	$2,781,295

	Assets at Fair Value as of December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Impaired loans	$—	$—	$2,277,613	$2,277,613

Note 11 - Loan Servicing

Mortgage loans serviced for others are not included in the accompanying statements of financial condition. The unpaid principal balances and the related custodial escrow balances in connection with the servicing of these loans approximated the following as of December 31, 2016 and 2015.

	2016	**2015**
Mortgage loan portfolio serviced for:		
Federal National Mortgage Association	$1,765,108,000	$1,382,141,000
Federal Home Loan Mortgage Corporation	936,942,000	675,503,000
Other	19,416,000	—
Total loans serviced	$2,721,466,000	$2,057,644,000
Custodial escrow balances	$25,917,000	$19,225,000

Servicing fee income related to these portfolios was approximately $5,771,000 and $4,481,000 for the years ended December 31, 2016 and 2015, respectively. The subservicing expense related to these portfolios was approximately $1,324,000 and $1,074,000 for the years ended December 31, 2016 and 2015, respectively.

ELEVATIONS CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 11 - Loan Servicing (Continued)

The following table presents mortgage servicing rights activity and fair value as of and for the years ended December 31, 2016 and 2015:

	2016	2015
Mortgage servicing rights:		
Balance, beginning of year	$14,874,245	$10,649,037
Capitalization	11,202,109	7,950,162
Amortization	(4,861,803)	(3,724,954)
	21,214,551	14,874,245
Market value adjustment	—	—
Balance, end of year	$21,214,551	$14,874,245

	2016	2015
Fair value of mortgage servicing rights	$25,310,000	$20,371,000

The fair value of servicing rights was determined by an independent third party using market value discount rates ranging from 10% to 12% as of December 31, 2016 and 2015, respectively, and prepayment speeds ranging from 6.9% to 24.0% and 6.3% to 30.0% as of December 31, 2016 and 2015, respectively, based on the specific characteristics of each pool of loans.

* * * End of Notes * * *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NOT THE FEW.
NOT FOR PROFIT IN A FOR-PROFIT WORLD.
FOR THE PEOPLE, BY THE PEOPLE. A RENEWABLE RESOURCE,
INVESTING IN OUR COMMUNITY, ONE MEMBER AT A TIME.
ELEVATIONS
CREDIT UNION
Malcolm Baldrige
National Quality Award
2014 Award Recipient

BOARD OF DIRECTORS

KATIE COWAN, BOARD CHAIR

Katie Cowan was appointed to the Elevations Board in 2008 and elected in 2009. She has been an Elevations member since 2002 and previously worked as a teller at two Elevations branches. Before joining the board, she served on the Finance and Supervisory Committees at Elevations.

Katie works for Arrow Electronics, a Fortune 500 company headquartered in Centennial, CO. As Treasury Manager with a focus in Global Treasury Operations, Katie manages and supports Treasury functions for Arrow business units worldwide. Before joining Arrow in May 2016, Katie worked in Treasury for 10 years at the headquarters of Chipotle Mexican Grill. She holds a bachelor's degree in economics with an emphasis in finance from St. Olaf College and has served on the boards of directors for the St. Olaf Alumni Association and the Colorado Treasury Management Association (now RMAFP). Katie lives in Denver with her husband and enjoys running, biking, and spending time in the mountains.

NANCY HERBERT, BOARD VICE CHAIR

Nancy Herbert has been a member of the Elevations Board since 2011. She also serves as chair of the Governance and Nominating Committee. She previously served as the chair of the St. Vrain Valley Credit Union Board until its merger with Elevations that same year.

Nancy is an organizational consultant/owner with Communication Strategies LLC. A former school district administrator and municipal elected official, she has served on more than 24 community boards of directors. Nancy is a candidate for a Ph.D. in organizational development and leadership specializing in innovation and entrepreneurism, and also holds a bachelor's degree in organizational management and a master's degree in education. She resides in Longmont with her husband and enjoys travel to learn about different cultures.

ERIC JONES, BOARD TREASURER

Eric Jones was appointed to the Elevations Board in 2007 and elected in 2008. He served as board chair from 2008 to 2011. Eric is also Treasurer of the Elevations Foundation Board.

Eric is President of Jones Mertsching CPAs, PC, a Colorado-based firm specializing in the credit union industry. He holds a bachelor's degree from the University of Colorado Boulder and was inducted into the Credit Union Executive Society's Volunteer Hall of Fame in December 2011. Eric lives with his wife Beth and two dogs in Evergreen, where he enjoys skiing, hiking, golfing and all Colorado activities including cheering on the CU Buffs.

KATE BROWN, BOARD SECRETARY

Kate Brown was elected to the Elevations Board in November 2015.

Kate is the Founder and President of Boulder Organic Foods, LLC and has been developing the brand Boulder Organic! since 2006. She is also a Director on the Board of Community Food Share, a member and sponsor of Naturally Boulder, and a member and mentor for the CU Women's Council. Kate earned a master's degree in counseling psychology from Naropa University as well as a bachelor's degree in technical journalism from Colorado State University. A Colorado native, Kate and her family live in Boulder and enjoy the community of natural product entrepreneurs and a variety of activities like hiking, snow sports and running.

NATALIE BAUMGARTNER, BOARD MEMBER

Natalie Baumgartner was appointed to the Elevations Board in November 2015.

Natalie is the Chief Workforce Scientist at Achievers, an international Employee Recognition and Engagement Platform, where she serves as an engagement thought leader working to translate engagement research into SaaS-based software. Prior to joining Achievers, she co-founded and served as Chief Psychologist at RoundPegg. She has spent over a decade consulting on engagement and corporate culture with C-suite executives, boards of directors and private equity investors. She holds a Ph.D. in clinical psychology from the University of Denver, a master's degree in clinical psychology from UCLA and a bachelor's degree in psychology from the University of Wisconsin-Madison. In addition to her work at Achievers, Natalie serves on the board of the Consulting Psychology Division of the American Psychological Association and is a popular speaker on culture, engagement, mergers and acquisitions, and change management, as well as a TEDx speaker on culture fit. Natalie and her family reside in Boulder.

CARROLL BEACH, BOARD MEMBER

Carroll Beach was elected to the Elevations Board in 2010 and served as chair from 2011 to 2014.

Carroll retired as president and COO of CO-OP Shared Branching in 2011, following a three-year tenure as president of the Credit Union Service Corporation. He was previously president and CEO of the Colorado Credit Union System for 30 years. Carroll holds a bachelor's degree from the University of Kansas and a master's degree from Emporia State University. He served on boards and committees for the Credit Union National Association, the Association of American Credit Union Leagues – from which he received the "Eagle Award" – and the Credit Union House LLC, for which he was chairman of the board. He also received the "Herb Wegner Lifetime Achievement Award," the most recognized award given in the credit union industry. Carroll lives in Westminster with his wife Ruth, and they enjoy spending time with their two children and five grandchildren. Carroll is an avid golfer and also enjoys reading and participating in activities at his church.

DON CHEYNE, BOARD MEMBER

Don Cheyne joined the Elevations Board in 2011 following its merger with St. Vrain Valley Credit Union, where he served as a board member for three years.

Don has spent his career in manufacturing management and was an owner of Mountain Molding, a Longmont-based plastic injection molding business. After selling the company to Tenere, Inc., Don is now a manufacturing business consultant. He holds a bachelor's degree in electrical and computer engineering and a master's degree in business administration, both from the University of Colorado Boulder. He lives in Mead with his wife and daughter, and he enjoys spending his time playing ice hockey and traveling.

TODD GLEESON, BOARD MEMBER

Todd Gleeson joined the Elevations Board in 2012. He has been an Elevations Credit Union member since 1981.

Todd has been a member of the faculty at the University of Colorado Boulder for more than 30 years and is a professor in the Department of Integrative Physiology. He also served as the university's dean of the College of Arts and Sciences and associate vice chancellor for faculty affairs. Todd holds a Ph.D. in developmental and cell biology from the University of California at Irvine. He lives with his wife in Louisville, where they enjoy live theater and all that the Colorado outdoor recreation scene has to offer.

RAY MARTINEZ, BOARD MEMBER

Ray Martinez joined the Elevations board in 2014.

Ray is a retired Fort Collins police sergeant, as well as a former three-term mayor of Fort Collins. In 2015, he was elected to serve as City Councilmember for District 2 in Fort Collins. He is a U.S. Army veteran, having received the Army Commendation Medal. Ray has dedicated significant time working closely with Hispanic community leaders, youth and athletes to improve the relationship between the community and law enforcement. He co-founded an organization that works directly with at-risk youth to provide them with positive educational and recreational experiences while keeping them active within their neighborhoods and communities. He has been a member of several boards and organizations over the years, including the chair of Colorado's Minority Business Advisory Council under Governor Owens and Governor Ritter, a member of the Colorado Mesa University board of trustees, and a White House appointee on the Defense Advisory Board for Employer Support of the Guard and Reserve. Ray lives in Fort Collins and enjoys writing.

JIM MENGHI, BOARD MEMBER

Jim Menghi was elected to the Elevations Board in 2008. He has been a member of Elevations Credit Union since 1985 and has served on the Supervisory Committee 18 years in total, including several times as chair. He also served on Elevations' Finance Committee.

Jim was the finance officer of the Joint Office for Science Support with the University Corporation for Atmospheric Research from 2002 until 2016. He holds a bachelor's degree in accounting from the University of Delaware. Jim and his wife Kim live in Frederick and have three grown daughters who bring them much pride and joy. When possible, he runs, bikes, and hikes, taking advantage of the great Colorado outdoor lifestyle.

SENIOR LEADERSHIP TEAM

GERRY AGNES, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Gerry joined Elevations as its CEO in 2008. He directs the credit union's strategic objectives, which focus on employee engagement, a loyal membership, and superior financial performance. In the midst of the financial crisis of 2008, he led the charge to pursue the Malcolm Baldrige National Quality Award, a highly competitive U.S. Presidential award that recognizes organizations for performance excellence. The Baldrige effort rallied the Elevations team to outperform both in-market competitors and credit unions nationwide, and in 2014, Elevations was named a Baldrige Award recipient by U.S. Secretary of Commerce Penny Pritzker. Gerry was named the 2015 CUES Outstanding Chief Executive, Mountain West Credit Union Association's 2016 Credit Union Professional of the Year, and Boulder Chamber's 2016 Business Person of the Year in large part due to his work around Elevations' Baldrige recognition.

Gerry is a CPA with 32 years of professional experience and held positions as president, COO and CFO at various community financial institutions in California. He holds a bachelor's degree in business administration and accounting from California State Polytechnic University, Pomona. Currently, Gerry is chair of the Boulder County Business Hall of Fame, member and past chair of the Boulder Chamber, and member and past chair of the Boulder Economic Council. He is also a board member of Elevations Foundation and a member of the Filene Research Institute's advisory council. Governor Hickenlooper appointed Gerry to Colorado's Financial Services Board in August 2015, on which he continues to serve.

MICHAEL CALCOTE, CHIEF FINANCIAL OFFICER

As chief financial officer, Michael is responsible for ensuring Elevations' long-term financial sustainability. He oversees accounting and finance, strategy and performance, enterprise risk management, operations and corporate real estate.

Prior to joining Elevations in 2010, Michael served as chief financial officer and treasurer for Guaranty Bank, a large, publicly held financial institution headquartered in Austin, Texas. Michael also served for five years as a regulatory examiner and capital markets specialist for the U.S. Office of Thrift Supervision. He holds a bachelor's degree in finance and accounting from Stephen F. Austin State University in Texas and is a Chartered Financial Analyst.

JAY CHAMPION, CHIEF OPERATING OFFICER

As chief operating officer, Jay directs all aspects of the credit union's commercial, consumer, and mortgage lending programs and oversees its retail delivery channels—including all Elevations branches and the contact center. Jay is also responsible for governmental affairs, ensuring Elevations maintains excellent relationships with regulators and lawmakers, and marketing, which builds awareness of the Elevations brand and manages communication with current and prospective members.

Jay was the executive vice president and chief lending officer with Texans Credit Union before joining Elevations in 2011, and previously served at three other banks in North Texas. He holds a bachelor's degree in economics from East Texas State University, a master's of business administration from Texas A&M University–Commerce, and is a graduate of the Southwestern Graduate School of Banking at Southern Methodist University.

DEBRA JOHNSTON, CHIEF PEOPLE OFFICER

Debra oversees innovative and integrated talent management and human resources solutions at Elevations. With her team, she champions the culture of Elevations and provides strategic direction to drive employee engagement and retention and create a high-performance environment.

In 2016, Debra joined Elevations with over 16 years of human resources experience. She served in HR leadership roles at Nordstrom fsb – Bank & Credit division, Nordstrom Inc., InnovAge, and HSBC. Debra received a bachelor's degree in communications and political science from the University of Montana and a master's degree in human resources from Chapman University. She also holds certifications as a Senior Professional in Human Resources (SPHR) and a Society for Human Resource Management Senior Certified Professional (SHRM-SCP).

STEVEN SCHMIDLE, CHIEF STRATEGY AND PERFORMANCE OFFICER

Steven is responsible for Elevations' strategic planning activities, as well as the credit union's resulting financial performance. He leads the enterprise performance excellence, business intelligence, and project management functions, and is also responsible for continued financial stability and success with a focus on finance, accounting, secondary markets, budgeting, and forecasting. Steven leads the credit union's Pricing and ALCO committees and is a member of the Member Business Loan committee and executive team.

Before joining Elevations in 2004, Steven worked with Montana's Park Side Federal Credit Union, First National Bank of Colorado and First Tennessee Capital Markets. He also holds a master's degree in accounting from the University of Colorado and a bachelor's degree in finance from the University of Memphis. Steven volunteers as board treasurer for Rocky Mountain Performance Excellence.

KIM FELTON, SVP OF RETAIL BANKING

Kim leads Elevations' retail banking team, with a focus on delivering value and excellent service to the credit union's members. She is responsible for directing the branch network, contact center, and business development teams across multiple markets, increasing access to Elevations products, programs and services throughout the community.

Before joining Elevations in 2012, Kim led retail banking teams at First National Bank and KeyBank. She holds a bachelor's degree in business administration from Western Governors University and is a Certified Net Promoter® Associate, as well as a graduate of the Graduate School of Banking at the University of Colorado. Kim serves on the board of directors for the Elevations Foundation and the YWCA of Boulder Valley.

SUSAN GREEN, SVP OF MARKETING

Susan directs the credit union's marketing and communications strategy and execution. This includes market and member research, product management, public relations, and campaigns designed to build brand awareness and demand for Elevations' products. During her tenure, Elevations has won numerous awards for marketing excellence and has been recognized for best practices in digital marketing, including social media.

Before joining Elevations in 2011, Susan held marketing leadership positions in a variety of industries, most notably with IBM, Autodesk and startups in the IT industry. She received a bachelor's degree in journalism from the University of Colorado Boulder, a master's of business administration from Ohio University, and completed executive education at Harvard Business School and the UCLA Anderson School of Management.

GARY KINDLE, SVP OF OPERATIONS

Gary leads Elevations' operations department. With his team, he manages the credit union's functions and services, including payments, imaging, cards, mortgage servicing, vendor management, ATMs and record retention. Gary's aim is to make sure processes run smoothly for both members and employees at all times.

Prior to joining Elevations in 2011, Gary held various leadership roles with First National of Nebraska. He is a graduate of Northern State University and the BAI Graduate School of Bank Financial Management at Vanderbilt University. Gary also served 20 years in the U.S. Army before retiring as a platoon sergeant and ammunition instructor.

RAY LINDLEY, SVP OF LENDING

Ray is responsible for leading and directing Elevations' consumer, retail, mortgage, and business lending operations. He monitors industry trends and lending news to make sure Elevations provides safe, affordable loans to as many future homeowners and business leaders as possible. Ray has been instrumental in making Elevations the No. 1 credit union mortgage lender in Colorado and the No. 1 mortgage lender in Boulder and Broomfield counties.

Ray held leadership roles with Washington Mutual and Chase before joining Elevations in 2013. A graduate of Northwest Nazarene University, he holds a bachelor's degree in accounting and an M.B.A. in economics. In 2016, he graduated from the CUES Institute of Executive Leadership as a Certified Credit Union Executive. Ray serves on the executive committee of the CUNA lending council, a group that supports and develops the lending practices of credit unions across the country.

PETE REICKS, SVP OF ENTERPRISE PERFORMANCE EXCELLENCE

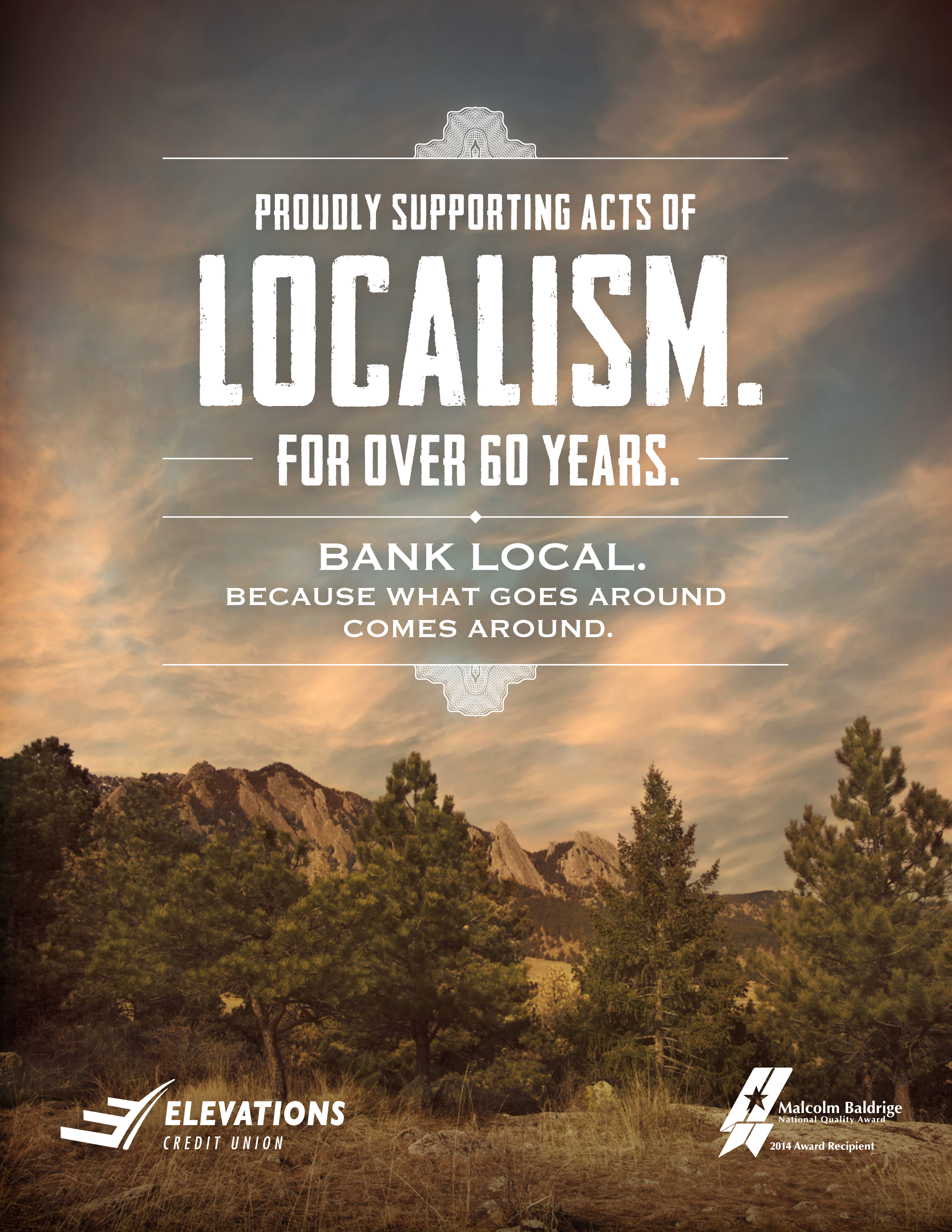
Pete is responsible for directing the enterprise business intelligence function, supporting development and deployment of the strategic plan, aligning strategic intent with operational performance, and helping Elevations sustain role-model performance through application of the Baldrige Performance Excellence Program in pursuit of our BHAG – Audacious Excellence! P.S. We will win the Baldrige again.

Prior to joining Elevations in 2008, Pete held a variety of roles at the Federal Reserve Bank of Kansas City. He holds a bachelor's degree in economics and finance from Colorado State University–Pueblo and a master's of business administration from Benedictine College. Pete is also a certified Project Management Professional.

BRYAN WATKINS, NORTHERN COLORADO MARKET PRESIDENT

Bryan leads Elevations' Northern Colorado market development activities, with an emphasis on creating strategic partnerships that generate both new business opportunities and goodwill in the community. He drives top-line revenue performance by working closely with the Elevations retail banking, mortgage and commercial lending, and small business banking teams to grow market share.

Before joining Elevations in 2017, Bryan held roles at First National Bank, including business banking positions in Fort Collins for the last seven years. He is a graduate of the University of Nebraska-Omaha and the Graduate School of Banking at the University of Colorado. Bryan serves on the board of directors for the North Fort Collins Business Association and the Foothills Rotary Club, and he sits on the advisory board for the Larimer County SDBC.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