

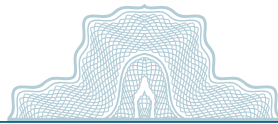


# ELEVATIONS CREDIT UNION 2017 ANNUAL REPORT









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## LETTER FROM THE BOARD CHAIR

— NANCY HERBERT —

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Dear Members,

It is a true honor to serve you as chair of the Board of Directors. On behalf of our entire board, I would like to extend my deepest gratitude for your membership and support of Elevations Credit Union. I'm especially pleased to share this report with you, which highlights some of the exceptional achievements we reached together in 2017. In short, Elevations Credit Union achieved record highs in membership, net worth, assets outstanding and shares.

To realize continued success for Elevations, our high performing Board of Directors continually seeks to adopt best practices in governance and helps set the strategic path for the organization. Elevations is dedicated to our member-centric strategy that's built on three key elements: high performance culture, financial sustainability and member loyalty. A high performance culture keeps our staff engaged, allowing us to create amazing experiences for our members. With a loyal base of members, we can attain financial sustainability, which in turn helps us to invest back in our workforce, members and community.

The Baldrige Excellence Framework is one way we stay on our strategic path. As a 2014 recipient of the Malcolm Baldrige National Quality Award, the only formal presidential recognition for performance excellence of both public and private U.S. organizations, Elevations continues to adhere to the principles of Baldrige and welcomes Baldrige examiners who help provide outside input for advancing our commitment to excellence. Elevations is next eligible for another Malcolm Baldrige Award consideration in 2020. Our dedication to this performance excellence journey is reflected in our Big Hairy Audacious Goal (BHAG): *Audacious Excellence! P.S. We will win the Baldrige again.*

We'd also like to give a big congratulations to the City of Fort Collins on being a 2017 recipient of the Malcolm Baldrige National Quality Award. We are proud to have a neighbor and community partner attain this exceptional achievement!

You, our members, are the reason why we constantly look for ways to improve each and every aspect of our organization. Our success allows us to give back to you through the best financial solutions and services. It also allows us to give back to our community. In this report, you will see how the results of our collective efforts—from generous donations to local organizations and partnerships with nonprofits to scholarships for local students and volunteer time off put in by our staff—have made positive impacts in the communities we serve.

Sincerely,

A handwritten signature in black ink that reads "Nancy Herbert". The signature is fluid and cursive, with a large, stylized "H" and "N".

Nancy Herbert  
Chair of the Board of Directors



## LETTER FROM THE PRESIDENT & CEO

— GERRY AGNES —

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Dear Members,

I speak for everyone at Elevations Credit Union when I say, “Thank you!” Your membership is what drives the success of our member-owned financial institution, and it’s what allows us to reinvest that success back in our membership and our community. You hold in your hands a testament to the great year we’ve had and all we have to look forward to.

In 2017, we further strengthened our commitment to Fort Collins by securing two new branch locations. Our beautiful Fort Collins Midtown branch is now open, and we’re working hard on our Old Town branch. We’ve also added fantastic team members in Northern Colorado, including our Northern Colorado Market President Bryan Watkins. And, with the help of boosted brand awareness through our Commitment to Fort Collins campaign, we’ve added a record number of new members in the area. We’re pleased to be part of this community and proud to give back to a number of initiatives.

The year was also marked by the launch of our new suite of business banking products and services. We’re excited to provide solutions to local businesses looking to keep their money in the community and experience personalized service with simple, sophisticated tools. Our VP of Business Banking Ken Bauer led the charge on this successful launch.

I would be remiss to not include several other key successes from 2017. In May, we opened our Boulder Downtown Branch on Walnut Street—the first branch we’ve ever had in downtown Boulder, despite operating in Boulder since 1953. Also, due to our tremendous growth, we secured a wonderful administrative building in Broomfield called Basecamp. Our headquarters will continue to be in Boulder—moving back to the Diagonal branch—and Basecamp will provide outstanding support for our organization.

We launched a line of Visa Signature Credit Cards that provide great rewards to cardholders and also give two cents back to the community with each swipe. Our mortgage lending team continues to be top ranked in the counties it serves, and our wealth management team reached an all-time high in assets under management.

We greatly enhanced our executive team this year. As Chief Information Officer, Pete DuPré will advance our technological capabilities and better serve our membership with easy-to-use digital platforms. As General Counsel, Brian Holst brings 30 years of experience working in the Colorado credit union industry to Elevations. We’re fortunate these two expert leaders chose to join our team. In short, every part of our business contributes to our overall strength as an organization, and your credit union was significantly strengthened in 2017.

Looking to 2018 and beyond, we’re excited to commence construction on our Old Town Fort Collins branch and our Basecamp renovation. We continue to improve our digital banking offerings, along with our suite of products. As we move forward, our focus remains on our high performing staff—which we call internal members—and you, our membership.

Very truly yours,

A handwritten signature in black ink, appearing to read "Gerry Agnes".

Gerry Agnes  
President and Chief Executive Officer

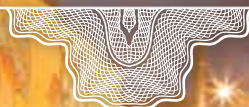


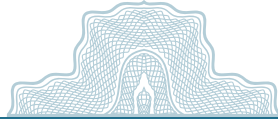


WE BELIEVE YOU EARN THE RIGHT TO CALL  
— FORT COLLINS —

# HOME

BY INVESTING IN THOSE WHO ALREADY  
HAVE THAT STREET CRED.





# YEAR IN REVIEW

## OUR COMMITMENT TO FORT COLLINS

*As our credit union has grown along Colorado's northern Front Range, we have done it carefully, with a long-term plan to support the communities we serve. In 2017, we strengthened our commitment to Fort Collins by strategically growing our Northern Colorado team, network of branches and loan offices, and support of community initiatives to reinvest in the place we call home.*

Our mission, wherever we are on the Front Range of Colorado, is to provide exceptional financial services to our members, whether they want to bank digitally, by phone or in branch. With the expansion of our field of membership to include Larimer County in 2012, we began making careful, strategic decisions on physical locations for our branches. Our first Northern Colorado branch was in Loveland in 2013, followed by our Fort Collins branch on Harmony Road in 2014.

In 2017, we improved on our existing network by securing two important branch locations. Construction was completed on our Midtown Fort Collins branch at 2025 S. College Ave., which opened in January 2018. We also started designing and planning construction for our Old Town Fort Collins Branch at 221 E. Mountain Ave. In 2018, we will transform this property to meet the needs of this vibrant city. Lastly, our Windsor Loan Office houses our award-winning Northern Colorado mortgage team.

Our mortgage team is one of the top three lenders in Larimer County. And we continue to garner notice in Northern Colorado, including recognition as one of the Best Credit Unions in Style Magazine's "Best Of" awards.

Our high-performing team is key to our success. In Fort Collins, Bryan Watkins joined our team as Northern Colorado Market President, bringing a local approach to Northern Colorado market development. We added local staff in all

areas of our organization in Northern Colorado, including retail, business development, business banking, commercial lending and mortgage lending.

While we are out in Northern Colorado living our brand promise every day, to reach more prospective members in the area, we increased our investment in brand awareness. Our Commitment to Fort Collins marketing campaign helped drive awareness—from TV ads to media placements to Instagram posts, and everywhere in between. The result is increased brand awareness and preference for Elevations, allowing us to grow our Fort Collins membership in 2017. This campaign won the highest honor at the Credit Union National Association Marketing and Business Development Council's Diamond Awards competition: the Diamond Best of Show Award, selected from 1,210 entries nationwide.

As part of the Fort Collins community, we believe giving back is key. In 2017, we announced a five-year contribution totaling \$100,000 to the Northern Colorado Prospers initiative of the Fort Collins Chamber of Commerce to help build vitality in the region. We are proud to sponsor and support numerous community organizations in the Northern Colorado area.

We look forward to continuing to serve our growing and thriving membership in Fort Collins.

*continued on page 6...*

## Solutions for Businesses

In 2017, we launched our suite of business banking products and services tailored to the needs of local businesses within our field of membership. This includes a two-tiered business checking offering, a robust online banking platform and new digital capabilities, and new business loan offerings. We also placed specialized business banking relationship managers throughout our branch network to provide consultative services to help our members reach their business goals.

## Giving Back

As a financial cooperative, our credit union is successful when our members are successful. Here are a few ways we helped our members succeed in 2017:

- **Educating consumers:** Elevations delivered 85 free educational seminars, reaching 1,956 attendees.
- **Educating youth:** Elevations conducted 88 financial education presentations to 2,650 K-12 students and is ranked the No. 1 credit union in Colorado for reaching the most students in classrooms with financial literacy presentations.
- **Supporting higher learning:** Together, Elevations Credit Union and Elevations Foundation provided scholarships of \$188,000 in 2017.
- **For the community:** Elevations gave over \$152,000 in 2017 for community events and sponsorships.
- **Giving locally:** Elevations Foundation, Inc. provided over \$175,000 in scholarships, community grants and aid in 2017. Since its inception in 2010, the Foundation has provided over \$1.22 million to our community.
- **Helping our communities:** Elevations employees gave more than 3,000 hours of Volunteer Time Off to serve our communities.

## Continuous Improvement

We marked many more achievements in 2017.

- After 64 years of operating in Boulder, we proudly opened our first downtown branch in July at 1301 Walnut St. The branch team includes consumer, mortgage, wealth management and business banking.
- We also acquired a beautiful, new administrative building at 1 Environmental Way in Broomfield, dubbed Basecamp. In 2017, we relocated 100 staff members to Basecamp, and in 2019, we'll finish the build-out of the interior to create an amazing work environment to support our team for years to come. Our headquarters will continue to be in Boulder, with a relocation from our 55th St. support center to our newly remodeled Diagonal Branch.
- Our new Visa Signature Travel Rewards and Visa Signature Cash Back Rewards credit card products reward our members and the community. Each swipe generates a two-cent donation we give back to the community through local scholarships and community grants.
- Our mortgage team continues to provide top-notch service to members as they strive for their homeownership goals. We are the No. 1 credit union mortgage lender in Colorado and No. 8 nationally; we hold the No. 1 mortgage market position in Boulder County, No. 2 position in Broomfield County and No. 3 position in Larimer County.
- With an all-time high in assets under management, our wealth management team exceeded all expectations in 2017, while providing expert financial advice to our members.
- One of our ongoing focus points centers on technology, and to best support our efforts, we have hired Pete DuPré, Chief Information Officer, who comes to Elevations with a strong background as a seasoned IT executive.

***It matters where you bank.***





WE GET  
**LOCAL**  
BUSINESS.

BECAUSE  
**WE ARE ONE.**





# AUDIT COMMITTEE

ERIC JONES / CHAIR

The Audit Committee's responsibility is to provide oversight of the financial reporting process, the audit process, the system of internal controls and compliance with laws and regulations. During 2017, Elevations Credit Union transitioned from using a Supervisory Committee to fulfill this responsibility to using an Audit Committee. The primary difference between the two committee types is that our Audit Committee is comprised of a subset of the Board of Directors, while the Supervisory Committee was comprised of a separate group of volunteers.

The members of the Audit Committee are:

Eric Jones, Chair  
Don Cheyne, Vice Chair  
Todd Gleeson  
Jim Menghi

The Supervisory Committee was comprised of chair Brad Jones, vice chair David Forsberg, secretary Kevin Rickman and additional members Bob Jobin and Christine Morrissey. We would like to express deep appreciation for the diligence and commitment these individuals demonstrated over the past few years on behalf of our membership.

The Supervisory Committee retained Doeren Mayhew CPAs and Advisors to perform the annual audit of the Credit Union's financial statements as of December 31, 2017. The firm issued an unqualified opinion at the conclusion of their audit. The Audit Committee is unaware of any matter that would be considered a material weakness or significant deficiency in the internal controls over financial reporting.

The Audit 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.



**ERIC JONES**  
CHAIR



**DON CHEYNE**  
VICE CHAIR



**TODD GLEESON**  
COMMITTEE MEMBER



**JIM MENGHI**  
COMMITTEE MEMBER



## LETTER FROM THE CFO & BOARD TREASURER

MICHAEL CALCOTE & ERIC JONES

We are pleased to report Elevations generated extremely strong financial performance again in 2017. The following table compares our performance to our credit union peers on key industry metrics:

	Elevations Credit Union	Peer Group Median
Return on Members' Equity	12%	8%
Loan Growth	9%	13%
Deposit Growth	9%	7%
Delinquency Ratio	0.3%	0.5%
Efficiency (Costs/Revenues)*	78%	76%

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

We generated strong growth in loans, deposits and membership during 2017:

- Our loan balances grew by \$99 million, despite our having sold \$50 million of existing mortgages from our portfolio during the year for the purpose of balance sheet management. Our loan growth rate would have been 13 percent (equal to peer) without this sale. Total deposits grew by \$139 million or 9 percent.
- We originated over \$1 billion in mortgage loans, more than any other credit union in Colorado.
- We gained over 7,900 members and now have more than 129,000 credit union members.
- We generated earnings of \$24 million.

We remain financially strong and well positioned to provide solutions for your financial needs. Our capital position ended 2017 at 10.4 percent, well above the minimum threshold of 7 percent to be deemed well capitalized by the National Credit Union Association. Our credit performance remains healthy, with a delinquency ratio of only 0.3 percent at the end of 2017.

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

Our goal is to build deep, meaningful relationships with you, our members. Our financial successes this year only help to build on our promise to you. We appreciate the trust you have placed in Elevations as your financial institution, and we look forward to continuing to serve you in 2018 and beyond.

Sincerely,

Michael Calcote, Chief Financial Officer

Eric Jones, Treasurer, Board of Directors



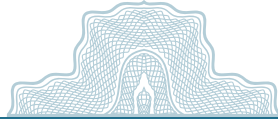


# WHAT DOES IT TAKE TO BE A MEMBER OF ELEVATIONS?



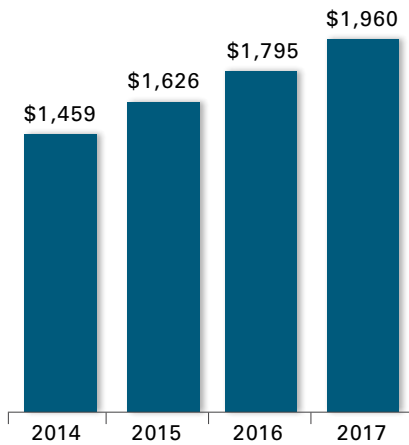
**BEING HUMAN IS A START.  
IF YOU LIVE OR WORK IN LARIMER  
COUNTY, YOU CAN BECOME A MEMBER.**



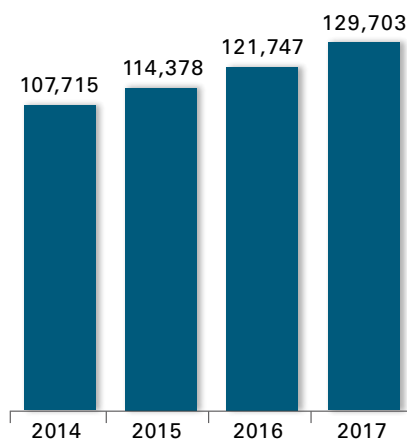


# 2017 FINANCIAL HIGHLIGHTS

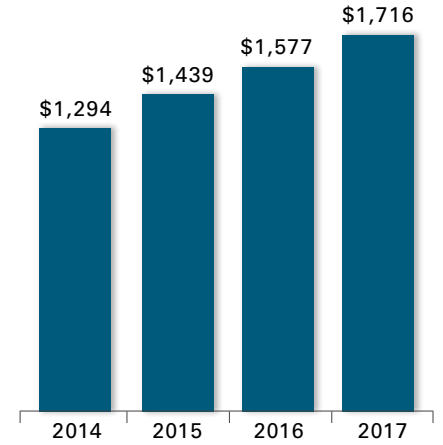
## ASSETS (IN MILLIONS)



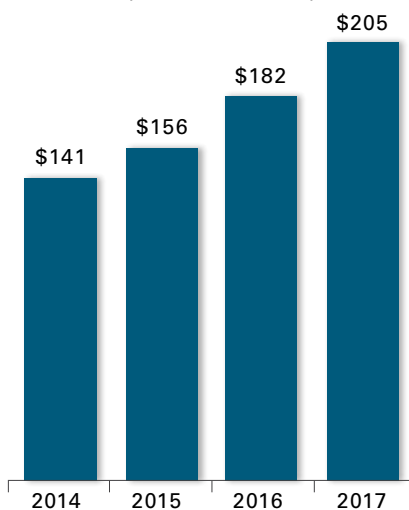
## TOTAL MEMBERS



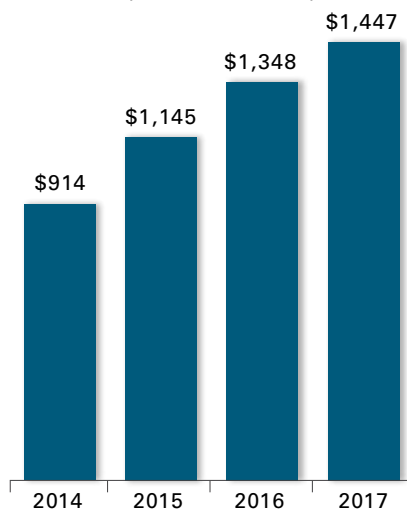
## TOTAL SHARES (IN MILLIONS)



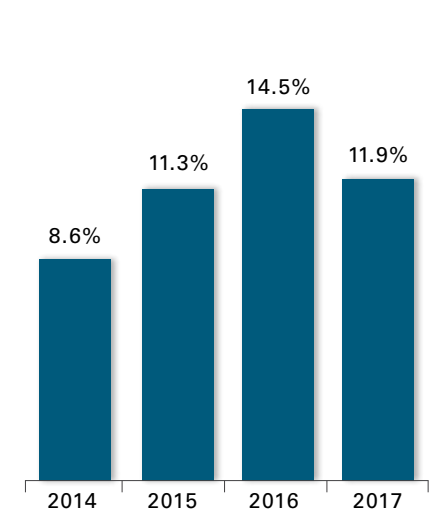
## CAPITAL (IN MILLIONS)



## TOTAL LOANS (IN MILLIONS)



## RETURN ON MEMBERS' EQUITY



# FINANCIAL STATEMENTS

## ELEVATIONS CREDIT UNION

### CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION AS OF DECEMBER 31, 2017 AND 2016

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$214,110,971	\$148,370,482
Investments:		
Available-for-sale	169,775,292	202,165,259
Loans held for sale	48,721,063	63,505,363
Loans to members, net of allowance for loan losses	1,398,020,342	1,284,179,871
Accrued interest receivable	5,344,082	4,681,145
Property and equipment	49,119,104	24,096,313
Prepaid and other assets	59,905,466	54,610,971
NCUSIF deposit	15,305,553	13,680,227
Total assets	<u>\$1,960,301,873</u>	<u>\$1,795,289,631</u>
<u>Liabilities and Members' Equity</u>		
Liabilities:		
Members' shares and savings accounts	\$1,716,207,035	\$1,577,055,173
Accrued expenses and other liabilities	38,875,245	36,602,948
Total liabilities	<u>1,755,082,280</u>	<u>1,613,658,121</u>
Commitments and contingent liabilities		
Members' equity:		
Regular reserve	11,879,721	11,879,721
Undivided earnings	182,286,487	157,968,300
Equity acquired through business combination	11,249,648	11,249,648
Accumulated other comprehensive (loss)/income	(196,263)	533,841
Total members' equity	<u>205,219,593</u>	<u>181,631,510</u>
Total liabilities and members' equity	<u>\$1,960,301,873</u>	<u>\$1,795,289,631</u>



## ELEVATIONS CREDIT UNION

### CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Interest income:		
Loans to members	\$59,241,723	\$52,631,793
Investment securities	5,025,417	4,782,131
Total interest income	64,267,140	57,413,924
Interest expense:		
Members' shares and savings accounts	2,834,781	2,962,767
Net interest income	61,432,359	54,451,157
Provision for loan losses	1,994,235	2,283,843
Net interest income after provision for loan losses	59,438,124	52,167,314
Non-interest income:		
Gain on sale of loans, net	22,471,914	28,806,190
Interchange income	12,062,293	11,813,314
Fees and service charges	7,173,310	7,280,121
Miscellaneous operating income	4,519,742	1,944,675
Wealth management income	2,713,639	2,528,513
Mortgage servicing income	1,865,876	912,392
Gain on sale of available-for-sale investments	—	1,485,259
Total non-interest income	50,806,774	54,770,464
Non-interest expenses:		
Compensation and benefits	50,151,601	49,090,716
Office operations	14,910,630	14,540,833
Loan servicing expense	6,943,869	6,608,799
Education and promotion	4,936,347	4,394,206
Office occupancy	4,745,953	3,654,869
Professional and outside services	3,267,890	1,818,010
Miscellaneous operating expenses	970,421	801,587
Total non-interest expenses	85,926,711	80,909,020
Net income	\$24,318,187	\$26,028,758

# ELEVATIONS CREDIT UNION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Net income	\$24,318,187	\$26,028,758
Other comprehensive income/(loss):		
Available-for-sale investments:		
Net unrealized (losses)/gains on investments classified as available-for-sale	(730,104)	644,093
Reclassification adjustment for investment gains included in net income	—	(1,485,259)
Total other comprehensive loss	(730,104)	(841,166)
Comprehensive income	\$23,588,083	\$25,187,592

# ELEVATIONS CREDIT UNION

## CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY YEARS ENDED DECEMBER 31, 2017 AND 2016

	Regular Reserve	Undivided Earnings	Equity Acquired Through Business Combination	Accumulated Other Comprehensive (Loss)/Income	Total
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
Net income	—	24,318,187	—	—	24,318,187
Other comprehensive loss	—	—	—	(730,104)	(730,104)
Balance, December 31, 2017	\$11,879,721	\$182,286,487	\$11,249,648	(\$196,263)	\$205,219,593



# ELEVATIONS CREDIT UNION

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Net income	\$24,318,187	\$26,028,758
Adjustments to net cash provided from operating activities:		
Provision for loan losses	1,994,235	2,283,843
Depreciation and amortization	3,125,533	3,247,103
Amortization of investment premiums/discounts	2,016,076	2,267,933
Gain on sale of available-for-sale securities	—	(1,485,259)
Gain on sale of loans, net	(13,577,102)	(17,604,081)
Capitalization of mortgage servicing rights	(8,894,812)	(11,202,109)
Amortization of mortgage servicing rights	5,636,272	4,861,803
Changes in operating assets and liabilities:		
Loans held for sale	28,361,402	(4,251,146)
Accrued interest receivable	(662,937)	(218,210)
Prepaid and other assets	(2,035,955)	306,836
Accrued expenses and other liabilities	2,272,297	6,479,796
Total adjustments	18,235,009	(15,313,491)
Net cash provided from operating activities	42,553,196	10,715,267

# ELEVATIONS CREDIT UNION

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2017 AND 2016

### Cash Flows (Continued)

	2017	2016
Cash flows from investing activities:		
Net change in loans to members	(115,834,706)	(183,070,708)
Proceeds from maturities, calls and repayments of available-for-sale investments	52,366,630	62,421,349
Proceeds from sales of available-for-sale investments	—	47,423,413
Purchase of available-for-sale investments	(22,722,843)	—
Expenditures for property and equipment	(28,148,324)	(3,820,757)
Increase in NCUSIF deposit	(1,625,326)	(1,018,676)
Net cash used in investing activities	(115,964,569)	(78,065,379)
Cash flows from financing activities:		
Net change in members' shares and savings accounts	139,151,862	138,045,536
Net cash provided from financing activities	139,151,862	138,045,536
Net change in cash and cash equivalents	65,740,489	70,695,424
Cash and cash equivalents - beginning	148,370,482	77,675,058
Cash and cash equivalents - ending	\$214,110,971	\$148,370,482

### Supplemental Information

Interest paid	\$2,834,781	\$2,962,767
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# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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### **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.

#### Principles of Consolidation

The consolidated financial statements include the accounts of the Credit Union and the significant accounts of its wholly owned subsidiary, One Environmental, LLC. One Environmental, LLC is a holding company for its new administration property. All significant intercompany accounts and transactions have been eliminated.

#### Use of Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses for the periods then ended. Actual results could differ from those estimates. An estimate that is particularly susceptible to change includes the determination of the allowance for loan losses. The significant accounting principles and policies used in the preparation of these consolidated 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, 2017, approximately 80% of the loan portfolio was secured by residential and commercial real estate located in the Boulder, Colorado area.



# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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

#### Comprehensive Income/(Loss)

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 consolidated statements of income.

#### 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 may, at times, exceed federally insured limits.

#### Investments

Available-for-sale: Government and government agency mortgage-backed securities, collateralized mortgage obligations, SBA-backed securities and private-label collateralized mortgage obligations are classified available-for-sale when the Credit Union anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors. These securities are reported at fair value on the consolidated statements of financial condition.

Unrealized gains and losses on securities available-for-sale are recognized as direct increases or decreases in other comprehensive income/(loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment (OTTI) losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and the costs of securities sold are determined using the specific identification method.

# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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

#### 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. 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.

#### 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 fees and certain direct loan origination costs are deferred, and the net cost is recognized as an adjustment to interest income over the average life of the loans.

#### Allowance for Loan Losses

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

# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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

#### Allowance for Loan Losses (Continued)

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

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

For purposes of determining the allowance, 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 allowance 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 allowance 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.



# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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

#### Allowance for Loan Losses (Continued)

##### 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.

##### 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.

# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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

#### Allowance for Loan Losses (Continued)

#### Troubled Debt Restructurings

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

#### Consumer and Real Estate Credit Quality Indicators

The majority of the Credit Union's consumer and 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:

# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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

#### Allowance for Loan Losses (Continued)

#### Member Business Credit Quality Indicators (Continued)

##### **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.
- 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.



# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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

#### Allowance for Loan Losses (Continued)

#### Member Business Credit Quality Indicators (Continued)

##### **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.
- 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.

# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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

#### Allowance for Loan Losses (Continued)

#### Member Business Credit Quality Indicators (Continued)

- 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.
- 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 CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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### 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 CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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### 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 CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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### 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 CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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### 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 VP 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.

#### 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 consolidated statements of financial condition.

# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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

#### 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 on the consolidated statements of financial condition 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.

#### 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.



# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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

#### 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 Financial Accounting Standards Board (FASB) Accounting Standards Codifications (ASC) clarifies accounting for uncertainty in income taxes reported in the consolidated 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.

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 consolidated financial statements. Additionally, no interest and penalties have been recorded in the accompanying consolidated financial statements related to uncertain tax positions. Currently, the 2016, 2015, and 2014 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 2016 consolidated financial statements have been reclassified to conform to the 2017 presentation.

#### Recent Accounting Pronouncements

In January 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 this ASU.

# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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### 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 CECL model represents a significant change from existing GAAP, and may result in material changes to the Credit Union's accounting for loans. The Credit Union has not determined the effect this ASU will have on its consolidated financial statements and its related disclosures. The ASU will be effective for credit unions for fiscal years beginning after December 15, 2020. Early application is permitted for fiscal years beginning after December 15, 2018.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which is intended to increase transparency and comparability of accounting for lease transactions. This 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 for credit unions for fiscal years beginning after December 15, 2019 with an option to early adopt. The Credit Union is evaluating whether to early adopt and the effect this ASU will have on its consolidated financial statements, regulatory capital and related disclosures.

#### Subsequent Events

Management has evaluated subsequent events through **(Date Pending)**, the date the consolidated financial statements were available to be issued. No significant such events or transactions were identified.

# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

### Note 2 - Investments

The following table presents the amortized cost and estimated fair value of investments as of December 31, 2017:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Mortgage-backed securities	\$98,353,425	\$522,824	(\$406,021)	\$98,470,228
Small business administration backed securities	44,558,728	20,292	(323,545)	44,255,475
Collateralized mortgage obligations	25,702,888	50,489	(309,598)	25,443,779
Private-issue collateralized mortgage obligations	1,356,514	249,296	—	1,605,810
Total	<u>\$169,971,555</u>	<u>\$842,901</u>	<u>(\$1,039,164)</u>	<u>\$169,775,292</u>

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
Small business administration backed securities	30,102,919	43,202	(345,331)	29,800,790
Collateralized mortgage obligations	37,757,888	164,267	(197,891)	37,724,264
Private-issue collateralized mortgage obligations	1,643,835	126,602	(15,922)	1,754,515
Total	<u>\$201,631,418</u>	<u>\$1,359,362</u>	<u>(\$825,521)</u>	<u>\$202,165,259</u>

# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

### Note 2 - Investments (Continued)

As of December 31, 2017, the Credit Union's available-for-sale portfolio consisted entirely of mortgage-backed securities, SBA-backed securities and collateralized mortgage obligations. These securities 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. Additionally, borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Information pertaining to investments with gross unrealized losses as of December 31, 2017, aggregated by investment category and length of time that individual investments have been in a continuous loss position follows:

	<u>Less than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
Mortgage-backed securities	\$36,572,560	(\$193,665)	\$19,286,828	(\$212,356)	\$55,859,388	(\$406,021)
SBA-backed securities	17,464,769	(45,336)	15,796,406	(278,209)	33,261,175	(323,545)
Collateralized mortgage obligations	2,471,343	(13,385)	10,384,452	(296,213)	12,855,795	(309,598)
Total	\$56,508,672	(\$252,386)	\$45,467,686	(\$786,778)	\$101,976,358	(\$1,039,164)



# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

### Note 2 - Investments (Continued)

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:

	<u>Less than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	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)

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 CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

### Note 3 - Loans to Members

The composition of loans to members as of December 31, 2017 and 2016 is as follows:

	2017	2016
Real Estate:		
First mortgage	\$690,961,046	\$658,126,527
Second mortgage	340,054,893	301,869,241
	<u>1,031,015,939</u>	<u>959,995,768</u>
Consumer:		
Auto	156,301,387	151,098,977
Other-primarily unsecured	105,334,977	102,936,160
	<u>261,636,364</u>	<u>254,035,137</u>
Member Business:		
Real estate	96,995,217	65,119,856
Other	4,507,074	2,964,401
	<u>101,502,291</u>	<u>68,084,257</u>
Total unpaid principal balance	1,394,154,594	1,282,115,162
Net deferred loan origination fees/costs	8,533,946	6,542,812
	<u>1,402,688,540</u>	<u>1,288,657,974</u>
Less: Allowance for loan losses	<u>(4,668,198)</u>	<u>(4,478,103)</u>
Loans to members, net	<u>\$1,398,020,342</u>	<u>\$1,284,179,871</u>

# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

### 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, 2017:

	Real Estate	Consumer	Commercial	Total
Allowance for loan losses:				
Beginning allowance	\$788,847	\$3,198,733	\$490,523	\$4,478,103
Charge-offs	—	(2,706,043)	(1,448)	(2,707,491)
Recoveries	89,902	813,449	—	903,351
Provision for loan losses	(120,250)	1,883,795	230,690	1,994,235
Ending allowance	<u>\$758,499</u>	<u>\$3,189,934</u>	<u>\$719,765</u>	<u>\$4,668,198</u>
Ending balance individually evaluated for impairment	\$68,288	\$461,901	\$—	\$530,189
Ending balance collectively evaluated for impairment	<u>690,211</u>	<u>2,728,033</u>	<u>719,765</u>	<u>4,138,009</u>
Ending allowance	<u>\$758,499</u>	<u>\$3,189,934</u>	<u>\$719,765</u>	<u>\$4,668,198</u>

The following table presents a summary of the recorded investment in loans by portfolio segment as of December 31, 2017:

	Real Estate	Consumer	Commercial	Total
Loans :				
Ending balance individually evaluated for impairment	\$3,245,689	\$1,039,371	\$—	\$4,285,060
Ending balance collectively evaluated for impairment	<u>1,035,362,422</u>	<u>262,077,118</u>	<u>100,963,940</u>	<u>1,398,403,480</u>
Total loans	<u>\$1,038,608,111</u>	<u>\$263,116,489</u>	<u>\$100,963,940</u>	<u>\$1,402,688,540</u>

# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

### 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, 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	<u>\$788,847</u>	<u>\$3,198,733</u>	<u>\$490,523</u>	<u>\$4,478,103</u>
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	<u>\$788,847</u>	<u>\$3,198,733</u>	<u>\$490,523</u>	<u>\$4,478,103</u>

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	<u>\$965,919,623</u>	<u>\$255,205,593</u>	<u>\$67,532,758</u>	<u>\$1,288,657,974</u>



# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

### 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, 2017:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
<u>With no allowance recorded:</u>				
Real Estate:				
First mortgage	\$1,013,033	\$1,005,636	\$—	\$1,010,700
Second mortgage	\$682,695	\$677,711	\$—	\$677,031
Consumer:				
Auto	\$255,052	\$253,617	\$—	\$267,390
Other-primarily unsecured	\$153,637	\$152,772	\$—	\$164,374
<u>With an allowance recorded:</u>				
Real Estate:				
First mortgage	\$1,549,961	\$1,538,644	\$68,288	\$1,551,765
Consumer:				
Auto	\$523,832	\$520,885	\$355,652	\$543,280
Other-primarily unsecured	\$106,850	\$106,249	\$106,249	\$105,374
Totals by loan segment:				
Real Estate	\$3,245,689	\$3,221,991	\$68,288	\$3,239,496
Consumer	1,039,371	1,033,523	461,901	1,080,418
	<hr/>			
Total	\$4,285,060	\$4,255,514	\$530,189	\$4,319,914
	<hr/>			

# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

### 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, 2016:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
<u>With no allowance recorded:</u>				
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
<u>With an allowance recorded:</u>				
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 CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

### 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, 2017:

	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	\$2,715,058	\$673,001	\$1,871,280	\$5,259,339	\$691,386,394	\$696,645,733
Second mortgage	762,198	554,421	123,290	1,439,909	340,522,469	341,962,378
	3,477,256	1,227,422	1,994,570	6,699,248	1,031,908,863	1,038,608,111
Consumer:						
Auto	1,385,622	343,786	430,716	2,160,124	155,005,203	157,165,327
Other-primarily unsecured	403,501	205,454	53,567	662,522	105,288,640	105,951,162
	1,789,123	549,240	484,283	2,822,646	260,293,843	263,116,489
Member Business:						
Real estate	—	—	—	—	96,456,866	96,456,866
Other	—	—	—	—	4,507,074	4,507,074
	—	—	—	—	100,963,940	100,963,940
Total	\$5,266,379	\$1,776,662	\$2,478,853	\$9,521,894	\$1,393,166,646	\$1,402,688,540

Loans on which the accrual of interest has been discontinued or reduced approximated \$2,479,000 as of December 31, 2017. There were no loans 90 days or more past due and still accruing interest as of December 31, 2017.

# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

### 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, 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
	<u>3,322,975</u>	<u>181,439</u>	<u>2,266,177</u>	<u>5,770,591</u>	<u>956,369,938</u>	<u>962,140,529</u>
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
	<u>1,546,314</u>	<u>387,310</u>	<u>392,611</u>	<u>2,326,235</u>	<u>250,706,843</u>	<u>253,033,078</u>
Member Business:						
Real estate	—	—	—	—	64,214,992	64,214,992
Other	—	—	—	—	2,964,401	2,964,401
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>67,179,393</u>	<u>67,179,393</u>
Total	<u>\$4,869,289</u>	<u>\$568,749</u>	<u>\$2,658,788</u>	<u>\$8,096,826</u>	<u>\$1,274,256,174</u>	<u>\$1,282,353,000</u>

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 CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

### 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 recorded investment based on performance indication as of December 31, 2017 and 2016:

	As of December 31, 2017		As of December 31, 2016	
	Performing Loans	Nonperforming Loans	Performing Loans	Nonperforming Loans
Real Estate:				
First mortgage	\$694,774,453	\$1,871,280	\$658,525,467	\$2,266,177
Second mortgage	341,839,088	123,290	301,348,885	—
	<u>1,036,613,541</u>	<u>1,994,570</u>	<u>959,874,352</u>	<u>2,266,177</u>
Consumer:				
Auto	156,734,611	430,716	151,755,004	295,299
Other-primarily unsecured	<u>105,897,595</u>	<u>53,567</u>	<u>100,885,463</u>	<u>97,312</u>
	<u>262,632,206</u>	<u>484,283</u>	<u>252,640,467</u>	<u>392,611</u>
Total	<u><u>\$1,299,245,747</u></u>	<u><u>\$2,478,853</u></u>	<u><u>\$1,212,514,819</u></u>	<u><u>\$2,658,788</u></u>

# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

### 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 assigned to each loan as described in Note 1.

The following table presents the recorded investment for member business loans based on risk rating as of December 31, 2017:

	Real estate	Other	Total
Credit grade:			
AAA-Excellent	\$2,059,596	\$—	\$2,059,596
AA-Strong	31,166,771	1,131,993	32,298,764
A-Good	55,250,187	2,239,762	57,489,949
BBB-Satisfactory	3,054,256	—	3,054,256
BB-Pass Watch	512,399	—	512,399
Not graded	4,413,657	1,135,319	5,548,976
Total	<u>\$96,456,866</u>	<u>\$4,507,074</u>	<u>\$100,963,940</u>

The following table presents the recorded investment 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
B-Special Mention	—	—	—
Not graded	4,736,072	910,393	5,646,465
Total	<u>\$64,214,992</u>	<u>\$2,964,401</u>	<u>\$67,179,393</u>

# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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### Note 3 - Loans to Members (Continued)

#### Acquired Loans with Deteriorated Credit Quality

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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Acquired loans with deteriorated credit quality	<u>\$—</u>	<u>\$6,304,974</u>

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

	<u>2017</u>	<u>2016</u>
Balance, January 1	\$1,672,700	\$1,824,779
Net charge-offs	(256,160)	(2,351)
Accretion	<u>(1,416,540)</u>	<u>(149,728)</u>
Balance, December 31	<u>\$—</u>	<u>\$1,672,700</u>

# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

### Note 4 - Property and Equipment

Property and equipment is carried at cost, less accumulated depreciation and amortization, and are summarized as of December 31, 2017 and 2016 by major classification as follows:

	2017	2016
Land and improvements	\$12,484,845	\$3,995,126
Building and improvements	31,963,525	18,074,761
Furniture and equipment	31,543,782	27,694,053
Leasehold improvements	5,513,702	4,895,709
Work in process	3,148,064	2,123,686
	84,653,918	56,783,335
Less accumulated depreciation and amortization	(35,534,814)	(32,687,022)
	\$49,119,104	\$24,096,313

Depreciation and amortization charged to office operations and office occupancy was approximately \$3,126,000 and \$3,247,000 for the years ended December 31, 2017 and 2016, respectively.

### Note 5 - Members' Shares and Savings Accounts

Members' shares and savings accounts are summarized as follows as of December 31, 2017 and 2016:

	2017	2016
Share drafts accounts	\$556,900,248	\$495,851,707
Share accounts	516,747,339	450,899,739
Money market accounts	498,231,670	474,111,912
Individual retirement accounts	16,819,824	15,872,279
Share and IRA certificates	127,507,954	140,319,536
	\$1,716,207,035	\$1,577,055,173

# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

### Note 5 - Members' Shares and Savings Accounts (Continued)

As of December 31, 2017, scheduled maturities of share and IRA certificates are as follows:

	<u>2017</u>
Within one year	\$72,890,686
1 to 2 years	18,702,276
2 to 3 years	11,878,417
3 to 4 years	14,747,817
4 to 5 years	9,288,758
	<u>\$127,507,954</u>

The aggregate amount of members' time deposit accounts in denominations of \$250,000 or more as of December 31, 2017 was approximately \$5,835,000.

### 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 \$1,178,000 and \$1,109,000 for the years ended December 31, 2017 and 2016, 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 consolidated 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 \$2,067,000 and \$1,366,000 as of December 31, 2017 and 2016, respectively.



# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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### **Note 6 - Employee Benefits (Continued)**

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 consolidated statements of financial condition and were approximately \$11,283,000 and \$10,998,000 as of December 31, 2017 and 2016, respectively. The liability under this arrangement was approximately \$1,979,000 and \$2,842,000 as of December 31, 2017 and 2016, 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 consolidated statements of financial condition and approximated \$1,831,000 and \$1,768,000 as of December 31, 2017 and 2016, respectively.

### **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 \$775,653,000 and \$738,111,000 as of December 31, 2017 and 2016, 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 \$110,631,000 and \$151,900,000 as of December 31, 2017 and 2016, respectively. The interest rate terms under this line-of-credit agreement are variable. There were no borrowings outstanding as of December 31, 2017 or 2016.

# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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### 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, 2017:

<u>Year ending December 31,</u>	<u>Amount</u>
2018	\$701,000
2019	663,000
2020	547,000
2021	285,000
2022	147,000
	<u>\$2,343,000</u>

Net rent expense under operating leases, included in expenses, was approximately \$1,101,000 and \$921,000 for the years ended December 31, 2017 and 2016, respectively.

#### 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 on the consolidated 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, 2017, the total unfunded commitments under such lines of credit was approximately \$934,001,000. 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 Commitments

The Credit Union has entered into agreements for the design, construction and renovation of certain administrative and branch locations. As of December 31, 2017, the total unfunded commitments related to these projects approximated \$3,642,000.

# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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### 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 consolidated financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under generally accepted accounting practices. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table 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, 2017 and 2016 was 5.50% and 5.52%, respectively. The minimum requirement to be considered complex under the regulatory framework is 6.00%. Management believes, as of December 31, 2017 and 2016, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2017, 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.

# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

### Note 9 - Regulatory Capital (Continued)

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

	As of December 31, 2017		As of December 31, 2016	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Actual net worth	\$203,781,065	10.39%	\$179,462,878	9.99%
Amount needed to be classified as "well capitalized"	\$117,618,112	7.00%	\$125,670,274	7.00%
Amount needed to be classified as "adequately capitalized"	\$137,221,131	6.00%	\$107,717,378	6.00%

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.

# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

### Note 10 - Fair Values Measurements (Continued)

**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.

#### 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, 2017				
	Level 1	Level 2	Level 3	Total
Available-for-sale:				
Mortgage-backed securities	\$—	\$98,470,228	\$—	\$98,470,228
SBA-backed securities	—	44,255,475	—	44,255,475
Collateralized mortgage obligations	—	25,443,779	—	25,443,779
Private-issue collateralized mortgage obligations	—	1,605,810	—	1,605,810
	\$—	\$169,775,292	\$—	\$169,775,292
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



# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

### Note 10 - Fair Values Measurements (Continued)

#### 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 recorded investment less the valuation allowance and/or charge-offs.

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

	Assets at Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Impaired loans	\$—	\$—	\$1,650,454	\$1,650,454

	Assets at Fair Value as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Impaired loans	\$—	\$—	\$1,046,272	\$1,046,272

# ELEVATIONS CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

### Note 11 - Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated 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, 2017 and 2016.

	2017	2016
Mortgage loan portfolio serviced for:		
Federal National Mortgage Association	\$2,119,488,000	\$1,765,108,000
Federal Home Loan Mortgage Corporation	1,060,199,000	936,942,000
Other	90,243,000	19,416,000
Total loans serviced	\$3,269,930,000	\$2,721,466,000
Custodial escrow balances	\$30,438,000	\$25,917,000

Servicing fee income related to these portfolios was approximately \$7,488,000 and \$5,771,000 for the years ended December 31, 2017 and 2016, respectively. The subservicing expense related to these portfolios was approximately \$1,499,000 and \$1,324,000 for the years ended December 31, 2017 and 2016, respectively.

The following table presents mortgage servicing rights activity and fair value as of and for the years ended December 31, 2017 and 2016:

	2017	2016
Mortgage servicing rights:		
Balance, beginning of year	\$21,214,551	\$14,874,245
Capitalization	8,894,812	11,202,109
Amortization	(5,636,272)	(4,861,803)
	24,473,091	21,214,551
Market value adjustment	—	—
Balance, end of year	\$24,473,091	\$21,214,551
	2017	2016
Fair value of mortgage servicing rights	\$30,410,000	\$25,310,000

The fair value of servicing rights was determined by an independent third party using market value discount rates ranging from 13% to 15% as of December 31, 2017 and 2016 and prepayment speeds ranging from 6.5% to 24.0% and 6.9% to 24.0% as of December 31, 2017 and 2016, respectively, based on the specific characteristics of each pool of loans.

# **ELEVATIONS CREDIT UNION**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016**


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### **Note 12 - Related Party Transactions**

#### Loans

In the ordinary course of business, the Credit Union grants loans to certain directors and executive officers. Such loans aggregated approximately \$6,881,000 and \$5,611,000 as of December 31, 2017 and 2016, respectively.

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



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# BUSINESS

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## BANKING

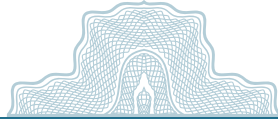
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IS A BIG DEAL HERE.

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# BOARD OF DIRECTORS



## **NANCY HERBERT** — BOARD CHAIR —

Nancy Herbert has been a member of the Elevations Board since 2011. 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 and board development consultant 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 entrepreneurship, 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.



## **KATE BROWN** — BOARD VICE CHAIR —

Kate Brown was appointed to the Elevations Board in November 2015 and elected in 2016.

Kate is the Founder and President of Boulder Organic Foods LLC and has been developing the brand Boulder Organic! since 2006. She serves on the board of Community Food Share and sits on the advisory boards of the Center for Women's Health Research and the Center for Western Civilization, Thought & Policy, both affiliates of the University of Colorado. Kate is 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.



## **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 currently serves as chair of the Audit Committee and as treasurer of the Elevations Foundation Board of Directors.

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 and two dogs in Evergreen, where he enjoys skiing, hiking, golfing and all Colorado activities including cheering on the CU Buffs.



## RAY MARTINEZ — BOARD SECRETARY —

Ray Martinez was appointed to the Elevations Board in August 2014 and elected in April 2015. He also serves as chair of the Governance and Nominating Committee.

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 is a member of the National League of Cities Public Safety and Crime Prevention Committee and 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.



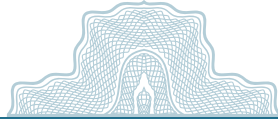
## NATALIE BAUMGARTNER — BOARD MEMBER —

Natalie Baumgartner was appointed to the Elevations Board in November 2015 and elected in April 2016.

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.





# BOARD OF DIRECTORS



## 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, 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 also serves as vice chair of the Audit Committee.

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.



### **KATIE COWAN** — BOARD MEMBER —

Katie Cowan was appointed to the Elevations Board in 2008 and elected in 2009. She served as board chair from 2014 to 2017. Katie 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 daughter, and enjoys running, biking and spending time in the mountains.



### **TODD GLEESON** — BOARD MEMBER —

Todd Gleeson joined the Elevations Board in 2012. He has been an Elevations Credit Union member since 1981. Todd also serves as a member of the Audit Committee.

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.

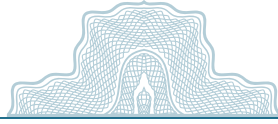


### **JIM MENGHI** — BOARD MEMBER —

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 currently serves as a member of the Audit 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 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 & 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 33 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 and a board member and past chair of the Boulder Chamber. He is also a board member of Elevations Foundation. Governor Hickenlooper appointed Gerry to Colorado's Financial Services Board in August 2015, on which he continues to serve.



## **BRIAN HOLST** — GENERAL COUNSEL —

As general counsel for Elevations Credit Union and its Board of Directors, Brian leads the credit union's strategic and tactical legal initiatives that create value for its members.

Brian is a uniquely experienced legal and credit union industry veteran. Prior to joining Elevations in 2017, Brian was a partner at Holst, Boettcher & Tehrani LLP, and was engaged in the private practice of law in Colorado for more than 30 years. Brian's legal practice has focused on credit union representation, which has allowed him to develop expertise in the credit union industry, advising and representing many credit unions from around the country in matters pertaining to areas such as policy, governance, mergers, regulation,

contractual matters, real estate matters, loan enforcement, litigation and arbitration. Brian holds a law degree from Washburn Law School and a bachelor's degree in accounting from Colorado State University.



### **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.

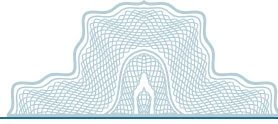
He holds a bachelor's degree in economics from East Texas State University, a master's of business administration from Texas A&M University–Commerce, and is a graduate of the Southwestern Graduate School of Banking at Southern Methodist University.



### **PETE DUPRÉ — CHIEF INFORMATION OFFICER —**

As chief information officer, Pete is responsible for developing and driving the implementation of Elevations' technology strategy and leading our IT operations, business applications, and digital channels teams.

Pete is a seasoned IT executive with in-depth technology, strategic delivery, and operational experience. Prior to joining Elevations in 2017, he served as CIO, Latin America Region, for First Data Corporation, CIO of JetPay Corporation and held IT leadership roles at Amazon Web Services, Vantiv and Micro Focus. Pete holds a bachelor's degree in electrical and computer engineering from State University of New York in Buffalo, NY, and has completed graduate coursework in electrical and computer engineering at University of Rochester.



# SENIOR LEADERSHIP TEAM



## **SUSAN GREEN — CHIEF MARKETING OFFICER —**

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 various marketing leadership positions, primarily 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 has completed executive education at Harvard Business School and the UCLA Anderson School of Management. Susan serves on the board for Growe Foundation and volunteers as an alpine instructor for Ignite Adaptive Sports.



## **RAY LINDLEY — CHIEF LENDING OFFICER —**

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 a master's of business administration 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.



### **STEVEN SCHMIDLE — CHIEF STRATEGY & PERFORMANCE OFFICER —**

Steven directs Elevations' strategic planning activities, as well as the credit union's resulting financial performance. He is responsible for the continued financial stability and success of the organization with a focus on the finance, accounting, secondary markets, forecasting and treasury areas in addition to the enterprise project management and strategic planning functions of the credit union. Steven leads the Pricing and Asset/Liability 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 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 and as an associate board member of the Western CUNA Management School Alumni Association.



### **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 for the Elevations Foundation, the YMCA of Boulder Valley and the Broomfield Chamber of Commerce.

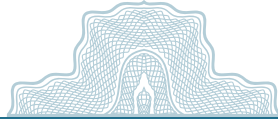


### **GARY KINDLE — SVP OF OPERATIONS —**

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.





# SENIOR LEADERSHIP TEAM



## **PETE REICKS** — SVP OF ANALYTICS & INNOVATION —

Pete is responsible for advancing Elevations' business intelligence capability, championing a culture of innovation, and directing deployment of the Baldrige Performance Excellence Program in pursuit of the credit union's 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 member of the Board of Examiners for the Malcolm Baldrige National Quality Award.



## **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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