



2016 ANNUAL REPORT

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ABOUT THIS REPORT

NCUA's *2016 Annual Report* provides financial and high-level performance results for the agency and demonstrates to the Congress, the President and the public the agency's commitment to its mission and accountability over the resources entrusted to it.

The *2016 Annual Report* focuses on NCUA's strategic goals and performance results and details the agency's major regulatory and policy initiatives, activities and accomplishments. It also contains financial statements and audit information for the four permanent funds that NCUA administers: the National Credit Union Share Insurance Fund, the NCUA Operating Fund, the Central Liquidity Facility and the Community Development Revolving Loan Fund. Each of these funds received an unmodified or "clean" audit opinion and had no material weaknesses.

In accordance with section 102(d) of the Federal Credit Union Act, this report reviews the agency's operations and financial program in 2016. The financial and performance data contained in this report are reliable and complete in accordance with the Office of Management and Budget Circulars A-11, A-123 and A-136.

This report and prior NCUA annual reports are available on NCUA's website at <https://www.ncua.gov/NewsRoom/Pages/publications/annual-reports.aspx>.

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



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MESSAGE FROM THE BOARD



J. Mark McWatters
Acting Chairman



Rick Metsger
Board Member

NCUA's mission is to provide, through regulation and supervision, a safe and sound credit union system, which promotes confidence in the national system of cooperative credit. We also work to facilitate within the credit union system the extension of credit for productive and provident purposes to all Americans. Further, the agency protects consumers, insures the deposits of more than 106.9 million members, and safeguards the National Credit Union Share Insurance Fund from losses.

By nearly every measure, the credit union system continued to perform well in 2016. Rising credit union membership boosted deposits, resulting in the total amount of insured shares in federally insured credit unions to exceed \$1.0 trillion for the first

time. As credit union lending to members increased, the amount of long-term assets fell. At the same time, key ratios like net worth, return on average assets and delinquencies held relatively steady.

While credit unions concentrated on serving the needs of their members, NCUA focused this year on improving the agency's rules, procedures and processes. Notably, we finalized rules to expand consumer access to credit and provide regulatory relief for credit unions, consistent with the principles of safety and soundness. NCUA also made strategic investments in new systems and processes to improve the agency's overall efficiency. Finally, we sought to increase transparency by holding a public budget briefing in October and regular briefings on other important topics at open Board meetings before making final decisions.

IMPLEMENTING A MODERNIZED REGULATORY ENVIRONMENT

In 2016, NCUA engaged in a number of rulemakings that further enhanced credit unions' ability to meet the demands of an evolving financial services marketplace. The two most significant were a final rule modernizing the existing field-of-membership definitions for federal credit unions and a final rule updating the member-business lending regulation for federally insured credit unions. These rules are consistent with the Federal Credit Union Act and removed artificial or unnecessary impediments to credit union growth.

The field-of-membership rule improved consumer access to affordable credit, especially for our nation's underserved and rural communities. Community-charter credit unions gained greater flexibility in how they define the local communities they serve. The rule also streamlined paperwork for multiple common-bond credit unions that seek to serve additional groups. Additionally, the rule permitted honorably discharged members of the armed services to join credit unions serving their active-duty counterparts.

To expand credit opportunities for the small businesses that create the majority of new jobs in our nation, NCUA's final rule on member business lending moved away from prescriptive limits on credit unions to a more principles-based approach. The changes included eliminating the business waiver process and empowering credit unions to write their own business loan policies commensurate with their experiences and risk profiles.

Consistent with our safety and soundness mandate, we finalized several other rules to streamline the agency's regulations and provide credit unions with needed regulatory relief. The credit union occupancy rule was revised to make it easier for federal credit unions to purchase and manage property over the long term. We also made it easier for federal credit unions to diversify their portfolios by expanding the pool of permissible bank note investments. Finally, we made the process for applying for funding from the Community Development Revolving Loan Fund more transparent, flexible and easier to navigate.

Taken together, these rulemakings strengthened credit unions by providing them with new opportunities for growth and innovation, along with measures of regulatory relief. More importantly, these rules provided consumers and member small businesses with greater access to affordable credit, which is essential for vibrant communities and a strong national economy.

IMPROVING NCUA'S OPERATIONS

Smarter regulation and supervision is the right approach. Accordingly, in 2016, NCUA focused internally and examined how the agency could better perform its mission by further streamlining our processes and procedures and by being more responsive to the needs of federally insured credit unions.

As the financial services sector evolves and credit unions, by necessity, adjust, so too must NCUA. In doing so, we are adopting new technology and analytical tools to improve the agency's offsite monitoring capabilities. Additionally, we are recalibrating our examination approach to reflect a more stable economic environment. We also are revising the agency's operations, priorities and structure to ensure our objectives match those prescribed in the Federal Credit Union Act, while at the same time efficiently using the agency's resources.

Among NCUA's supervisory improvements in 2016 was the NCUA Board's adoption of the ten recommendations of the Exam Flexibility Initiative working group. As a result, NCUA is now implementing an extended examination cycle for well-run, low-risk credit unions with less than \$1 billion in assets. We also have increased coordination with state supervisors, and provided greater flexibility on federal insurance exams for federally insured, state-chartered credit unions with between \$250 million and \$1 billion in assets.

NCUA's efforts to improve the agency's efficiency and effectiveness included several other initiatives in 2016, such as:

- Starting to modernize our Call Report system by removing duplicative and no longer needed credit union service organization-related information from the Call Report;
- Piloting a secure online portal for credit unions and examiners to exchange exam-related information;

- Beginning a multi-year effort to transform our aging technology infrastructure by initiating efforts to upgrade the Automated Integrated Regulatory Examination System, better known as AIRES, to improve federal and state examination programs and further strengthen the entire credit union system; and
- Adopting a streamlined application process to increase the number of credit unions certified by the U.S. Department of the Treasury as Community Development Financial Institutions.

Finally, our Office of Consumer Protection was renamed the Office of Consumer Financial Protection and Access to better reflect its functions. As part of this change, the office is implementing new technology to permit federal credit unions to track the progress of their field-of-membership expansion applications.

REACHING A CRITICAL MILESTONE

At the end of October, NCUA and the credit union system reached an important milestone with the full repayment of the Temporary Corporate Credit Union Stabilization Fund's remaining borrowings with the U.S. Treasury. This payout was made possible following the \$1.1 billion settlement in 2016 with the Royal Bank of Scotland and a series of legal recoveries that began in 2011.

To date, the agency has recovered more than \$4.3 billion in settlements from the Wall Street firms that sold faulty securities in the years leading up to the financial crisis to five corporate credit unions that ultimately failed. These legal recoveries have been larger than expected, and as a result, NCUA projects no further Stabilization Fund assessments will be needed, as long as we continue to experience the positive performance of the economy and the corporate credit unions' legacy assets.

Going forward, we remain committed to pursuing all available legal remedies against the firms that sold flawed financial instruments to the liquidated corporate credit unions, failed to fulfill their duties as trustees or violated anti-trust laws through their manipulation of interest rates.

PROVIDING GREATER TRANSPARENCY

In 2016, NCUA took several steps to improve the transparency of the agency's budget and budget process by renewing and expanding the practice of holding a public briefing on the staff-proposed budgets for 2017 and 2018. For the first time, the agency released detailed budget information before the briefing so stakeholders could offer informed comments, and we gave stakeholders the ability to comment online, as well as in person. At this briefing, stakeholders commented on the recommendations and gained further understanding of the agency's budgetary priorities and operations.

We also improved the transparency of the agency's operations and policymaking by initiating public briefings during the Board's monthly open meetings on key regulatory and supervisory issues facing NCUA and the credit union system. Some of the topics included:

- Preparing for emerging cybersecurity risks;
- Considering the addition of a separate measure for interest rate sensitivity to the rating system used to evaluate credit unions;
- Improving the public's understanding of the agency's Overhead Transfer Rate; and
- Outlining potential policy issues surrounding supplemental capital.

Through these briefings, NCUA is approaching the regulatory process in a more analytical, more practical and more mindful manner.

LOOKING TO CHALLENGES AHEAD

By nearly every measure, 2016 was successful year for credit unions, as a whole, and NCUA. Yet, a number of challenges lay ahead for the agency and our nation's system of cooperative credit. Some areas of concern include:

- **Cybersecurity Threats**—Cyberattacks will likely increase in frequency and severity as worldwide interconnectedness grows and as criminals, hackers and terrorists become more sophisticated. With credit unions and other small financial institutions increasingly targeted, NCUA must continue to strengthen the resiliency of individual credit unions, the entire system and the agency.
- **Share Insurance Fund Equity Ratio**—Since the Great Recession, the Share Insurance Fund's equity ratio has declined, primarily from strong growth in insured shares and reduced investment income resulting from a low interest-rate environment. The NCUA Board is carefully monitoring these trends and considering whether to charge credit unions a premium in 2017 or in future years.

In making such decisions, NCUA will remain mindful of how a premium would affect the bottom line of credit unions, while assessing the desirability of maintaining the fund at its full normal operating level during times of strong credit union system performance.

- **Credit Union Performance Disparities**—The largest credit unions, those with assets greater than \$500 million, have produced most of the system's growth in recent years. At the same time, credit unions with less than \$10 million in assets have experienced lagging loan growth and declining membership. To address this issue, NCUA will continue to provide assistance and seek additional ways to support the many small, low-income and minority depository institutions that provide access to affordable financial services for the middle class and people of modest means.
- **New Technology Investments**—Many of the information technology systems that support both NCUA and state examination, data collection and reporting efforts are outdated and incompatible. As such, NCUA is now developing and deploying a new technology infrastructure across the agency to improve the efficiency of our operations. Careful coordination, effective oversight and innovative thinking will continue to be needed to ensure the long-term success of the agency's Enterprise Solution Modernization initiative.
- **Legacy Asset Disposition and Stabilization Fund Closure**—To resolve the corporate credit union crisis, the agency issued NCUA Guaranteed Notes that re-securitized the legacy assets from the five failed corporate credit unions. The Stabilization Fund is set to expire in 2021. Prior to that time, NCUA will adopt plans for the fund's smooth closure, as well as reach a decision on the disposition of the securities that back the NCUA Guaranteed Notes.
- **Building Tomorrow's Workforce**—A highly skilled and diverse workforce is critical to NCUA's success. The changing financial services marketplace and regulatory landscape demand employees that are well-trained and able to respond to new challenges. NCUA also recognizes that diversity and inclusion create a stronger, more productive workforce that allows us to better understand the credit unions we regulate and members we insure. As such, recruiting and retaining a highly skilled and diverse workforce continues to be a priority for NCUA. While we have worked to address these issues in recent years, we have more to do.

In the year ahead, NCUA also plans to advance meaningful regulatory relief by fully reevaluating our rules and working to modify them as appropriate, improving training to enhance the uniformity of examinations, exploring an improved examination appeals process, and studying what NCUA should be doing to address fraud at credit unions.

In conclusion, 2016 was a successful year for federally insured credit unions and a productive year for NCUA. Our accomplishments are a testament to the dedication and commitment of NCUA’s workforce. In 2017, we will build on these achievements. We also will continue to work with stakeholders to address the many challenges facing the credit union system and the agency, while providing credit unions with greater regulatory relief and helping to ensure that the not-for-profit cooperative system of credit is able to meet the current and future financial needs of America’s families and small businesses.

In accordance with section 102(d) of the Federal Credit Union Act, the remainder of this annual report reviews the agency’s operations and financial programs in 2016 and includes the audited financial statements for NCUA’s four permanent funds, each of which received an unmodified or “clean” audit opinion and had no material weaknesses. Finally, consistent with the Office of Management and Budget Circulars A-11, A-123 and A-136, the financial and performance data contained in this report are reliable and complete.



J. Mark McWatters
Acting Chairman
March 10, 2017



Rick Metsger
Board Member*
March 10, 2017

*Board Member Rick Metsger served as NCUA Board Chairman from May 1, 2016, until January 22, 2017.



INTRODUCTION TO THE REPORT

NCUA's *2016 Annual Report* provides financial and performance information for the fiscal year beginning January 1, 2016, and ending on December 31, 2016, with comparative prior year data where appropriate. This report demonstrates the agency's commitment to its mission and accountability to Congress and the American people. It candidly presents our operations, accomplishments and challenges. The *2016 Annual Report* begins with a message from NCUA's Board of Directors. This introduction is then followed by six main sections:

MANAGEMENT'S DISCUSSION AND ANALYSIS

[This section](#) provides an overview of NCUA's performance and financial information. It includes a brief summary of the agency's mission and describes the agency's organizational structure and office functions. This section highlights challenges, accomplishments and results in key performance programs in 2016. It offers forward-looking information on trends and issues that will affect the credit union system and NCUA in the coming years. The section also highlights the agency's financial results and provides management's assurances on NCUA's internal controls.

PERFORMANCE RESULTS

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

FINANCIALS SECTION

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

OTHER INFORMATION

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

STATISTICAL DATA

[This section](#) contains an overview of the credit union system's financial performance in 2016, as well as data on trends affecting the National Credit Union Share Insurance Fund and all federally insured credit unions.

APPENDIX

[This section](#) contains biographic information for the agency's senior leadership and information about the functions of each NCUA office and region. In addition, you will find a glossary of key terms and acronyms, as well as a list of selected hyperlinks to additional information.



MANAGEMENT'S DISCUSSION AND ANALYSIS

NCUA IN BRIEF

MISSION STATEMENT

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

VISION STATEMENT

“NCUA will protect consumer rights and member deposits.”

Created by the U.S. Congress in 1970, NCUA is an independent federal agency that insures deposits at federally insured credit unions, protects the members who own credit unions, and charters and regulates federal credit unions. A three-member Board of Directors oversees NCUA's operations by setting policy, approving budgets and adopting rules.

NCUA protects the safety and soundness of the credit union system by identifying, monitoring and reducing risks to the National Credit Union Share Insurance Fund. Backed by the full faith and credit of the United States, the Share Insurance Fund provides up to \$250,000 of insurance at a federally insured credit union. NCUA provides insurance to 106.9 million account holders in all federal credit unions and the overwhelming majority of state-chartered credit unions. Credit union members have never lost a penny of insured savings at a federally insured credit union.

As detailed in the [2014–2017 Strategic Plan](#) and the [2016–2017 Annual Performance Plan](#), NCUA's four strategic goals in 2016 were to:

- Ensure a safe, sound and sustainable credit union system;
- Promote consumer protection and financial literacy;
- Further develop a regulatory environment that is transparent and effective, with clearly articulated and easily understood regulations; and
- Cultivate an environment that fosters a diverse, well-trained and motivated staff.

Through robust and effective examinations, NCUA ensures that credit unions are safe and viable financial institutions. When a credit union does fail, we work to minimize the impact of the failure on the entire credit union system.

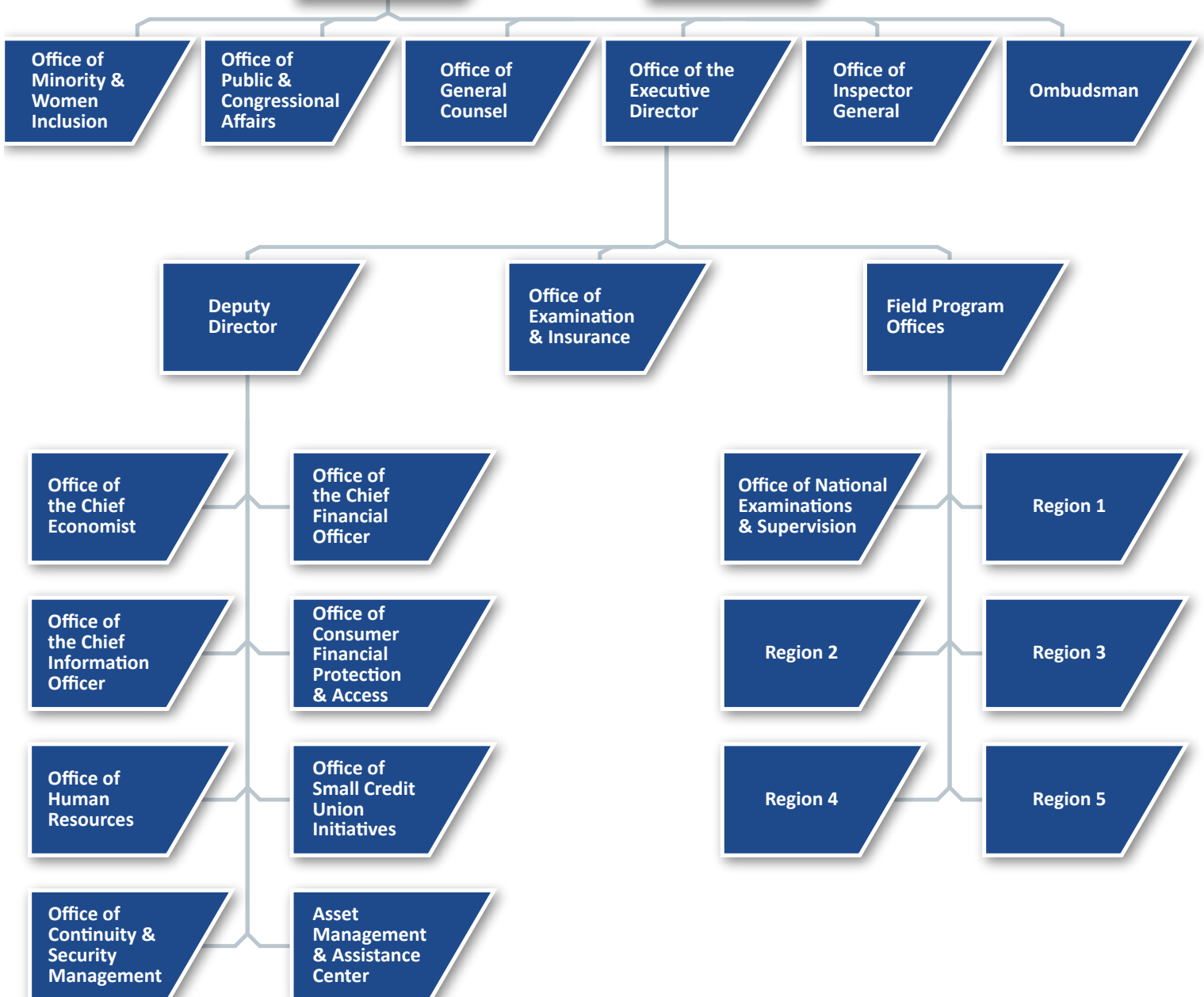
NCUA'S ORGANIZATIONAL CHART



**The Honorable
J. Mark McWatters**
Acting Chairman



**The Honorable
Rick Metsger**
Board Member



YEAR IN REVIEW

Overall, 2016 was a strong year for our nation's credit union system. By year's end, membership in our nation's 5,785 federally insured credit unions grew to 106.9 million members and assets topped \$1.3 trillion. Total loans rose by 10.4 percent for the year, reflecting significant growth in auto and residential lending. The amount of insured shares also surpassed \$1.0 trillion for the first time, and the credit union system's net worth ratio was 10.89 percent, exceeding the statutory well-capitalized standard of 7 percent.

Throughout the year, NCUA continued to carry out our mission of ensuring the safety and soundness of the national system of cooperative credit. We also worked to improve the effectiveness and efficiency of our operations, enhance the transparency of our budgetary and rulemaking processes, and make critical investments in technology and systems.

A discussion follows about our significant accomplishments in carrying out the goals and priorities outlined in the [2014–2017 Strategic Plan](#) and the [2016–2017 Annual Performance Plan](#), as well as some of the challenges facing the credit union system and NCUA going forward. Additional information about our record in meeting these strategic goals and priorities is provided in the [Performance Results](#) section of this report.

IMPROVING OUR EFFICIENCY AND EFFECTIVENESS

Like the credit unions we regulate and insure, NCUA must adapt to a changing marketplace and technological advances. As such, we conducted in-depth reviews of our processes and procedures during 2016 to improve our efficiency and effectiveness and provide credit unions flexibility to meet the evolving needs of their members, while also ensuring we continue to meet our congressionally mandated responsibility of maintaining the safety and soundness of the credit union system.

Providing Exam Schedule Flexibility

The NCUA Board in July removed the requirement that all federally insured, state-chartered credit unions with more than \$250 million in assets and every federal credit union be examined each calendar year. This change in policy gave the agency's regional offices greater flexibility to schedule exams when they are needed, rather than on the arbitrary calendar-year requirement.

This action was the first step in providing greater flexibility to credit unions when it came to the timing of examinations. In October, the agency's [Exam Flexibility Initiative](#) working group released its recommendations for improving NCUA's examination program. This internal working group included representatives from major offices and all five of NCUA's regions, and solicited advice from a wide range of credit union stakeholders across the country.

In November 2016, when it approved the agency's 2017–2018 budget, the NCUA Board approved all ten of the working group's recommendations:

- Implementing an extended examination cycle for well-managed, low-risk federal credit unions with assets of less than \$1 billion;
- Adjusting the examination cycle for all other federal credit unions;
- Continuing targeted examinations under the Small Credit Union Examination Program;
- Enhancing coordination of federally insured, state-chartered credit union examinations;
- Creating a joint working group of NCUA and state supervisors;

- Establishing applicable provisions for all federally insured credit unions, such as random sampling examinations and examination cycle measurement;
- Enhancing planning and notice procedures;
- Reinstating an optional credit union survey;
- Reducing NCUA's onsite presence; and
- Improving consistency of examiner training.

Seven of the working group's recommendations related to extended federal credit union examinations, targeted examinations at small credit unions, enhanced coordination of federally insured, state-chartered credit unions examinations, the establishment of a joint working group, random sampling examinations, exam cycle measurement and enhanced planning procedures became effective at the start of 2017. The remaining recommendations will be implemented during 2017 and 2018. In addition, implementing these recommendations reduces 47 credit union examiner positions over two years.

Modernizing the Agency's Information Technology Systems

In 2016, we finalized our Enterprise Technology Roadmap, which identifies and prioritizes the full range of information technology security, systems and infrastructure projects to be initiated or completed through the end of 2021.

The roadmap outlines NCUA's plans for replacing the agency's examination- and administrative-related legacy systems that are reaching the end of their service lives. The roadmap also highlights the sequencing and timing of new or emerging technologies, which will enable NCUA to improve key areas of its operations, including workflow management, resource and time management, data integration and analytics, document and records management, customer relationship management, and information sharing and collaboration, among others.

We also launched our [Enterprise Solution Modernization](#) initiative, a multi-year effort to introduce emerging and secure technology that will support NCUA's examination, data collection and reporting efforts. Over the course of the next few years, the initiative will deploy new systems and technology in the following areas:

- **Examination and Supervision**—We will replace the existing legacy examination system and related supporting systems, like NCUA's Automated Integrated Regulatory Examination System (commonly known as AIREs), with modernized tools that allow examiners and supervisors to be more efficient, consistent and effective.
- **Data Collection and Sharing**—We will develop a common platform to securely collect and share financial and non-financial data, including the Call Report, Credit Union Profile, field-of-membership information, charter, diversity and inclusion levels, and loan and share data.
- **Enterprise Data Reporting**—We will implement business intelligence tools and establish a data warehouse to enhance our analytics and provide more robust data reporting.

While this multi-year program is still relatively new, it has already reached some critical milestones, including:

- Forming the business innovation team to ensure the business need is at the forefront of the program;
- Establishing the program management office to manage the risks, issues, costs, schedules, acquisitions and resources associated with the modernization program;
- Conducting working-group sessions with employees and technical experts across the agency to gather and document functional objectives and capabilities for future systems; and

- Working with industry leading consultants to begin market research on commercially available, off-the-shelf technology that can meet our future vision.

We took additional steps to improve and protect NCUA's information technology systems in 2016. Specifically, we migrated our 20-year-old legacy data center to a modern, secure and fully redundant commercial data center facility. The new data center's hosting capabilities can be scaled up to accommodate the anticipated increases in computing demands imposed by future technology initiatives. As part of this effort, we also increased our network capacity, refreshed aging infrastructure components, optimized remote access capabilities for field and remote staff, and enhanced security controls and safeguards.

Overhauling Data Collection and Analysis

In May, NCUA began efforts to [modernize the Call Report](#). This initiative is exploring how changes to our data collection practices can enhance the value of the data we collect from credit unions for offsite monitoring and pre-examination planning, as well as reducing the reporting burden for credit unions where appropriate. In particular, the effort is looking for ways to streamline the quarterly reporting process, especially for smaller, non-complex credit unions.

We issued in June a request for information in the [Federal Register](#) seeking public input on the data collection process. This information request asked what data and information should be collected and what additional improvements could be made. The agency is currently reviewing the comments received and will provide additional information to stakeholders later in 2017.

ENSURING A SAFE, SOUND AND SUSTAINABLE CREDIT UNION SYSTEM

NCUA's primary mission is to ensure that our nation's cooperative credit union system remains safe and sound. To achieve our mission, NCUA's examination program focuses on risks to the overall system and the National Credit Union Share Insurance Fund. We work to ensure that credit unions identify and mitigate forward-looking risks before they threaten the viability of a credit union and potentially the broader system.

Outlining Supervision Priorities

Each year, NCUA identifies and communicates to credit unions our [supervision priorities](#). Aimed at identifying and mitigating risks, our 2016 priorities included:

- **Cybersecurity**—Our field staff focused on the proactive measures credit unions are taking to protect their data and their members. We evaluated credit unions' capacity to recover and resume operations in the event a security breach occurs.
- **Response Programs for Unauthorized Access to Member Information**—Data breaches are a potential risk to any financial institution. In 2016, our field staff evaluated credit unions' incident-response program and what processes and procedures credit unions have in place to keep their members' financial and personal information private.
- **Interest Rate Risk**—We continued to assess credit unions' exposure to interest rate risk and their compliance with NCUA's rule on interest rate risk, which applies to credit unions with more than \$50 million in assets. We also issued detailed guidance on how credit unions can better manage this potential risk.

- **Bank Secrecy Act Compliance**—Field staff assessed credit unions' compliance with the Bank Secrecy Act, focusing on credit unions' relationships with money services businesses.
- **Integrated Real Estate Disclosure Rule**—We evaluated credit union compliance with the Consumer Financial Protection Bureau's Truth in Lending Act and Real Estate Settlement Procedures Act Integrated Disclosure rule.
- **Credit Union Service Organization Reporting**—Credit union service organizations, or CUSOs, began registering and reporting financial information to us through our CUSO Registry in 2016. Our field staff worked to ensure any CUSO that a credit union has invested in or made a loan to registered with NCUA. The information reported by CUSOs to NCUA provides additional clarity on the operations of these critical organizations.

Tailoring Examinations to Specific Risks

NCUA has employed a risk-focused examination program since 2002. This approach is designed to allocate agency resources efficiently to credit unions and areas of operations that exhibit the greatest potential risk exposure to the Share Insurance Fund. The program relies on examiner judgment to determine the areas needing review. Overtime, we have adjusted this approach by adding minimum scope requirements and establishing the [*National Supervision Policy Manual*](#) to ensure the consistency of our supervisory actions across the country.

In examining credit unions, we allocate our time and resources based on the unique risks present in these institutions. For small federal credit unions with up to \$30 million in total assets, NCUA uses its Small Credit Union Examination Program. This streamlined examination program focuses on the most pertinent areas of risk in these institutions—lending, recordkeeping and internal control functions.

Our field staff also have the discretion to choose a streamlined, defined-scope examination for federal credit unions with \$30 million to \$50 million in total assets that received a composite CAMEL rating of 1, 2, or 3 at their last examination. For larger, more complex credit unions and for those small credit unions with a lower composite CAMEL rating, we continue to perform risk-focused examinations.

In 2016, our field staff completed 9,465 supervisory contacts and reported 679,759 examination hours, compared to 9,700 supervisory contacts and 689,968 examination hours during 2015.

The agency's Office of National Examinations and Supervision oversees the largest consumer credit unions—those with \$10 billion or more in assets. The failure of any one of these consumer credit unions could have profound repercussions on the integrity of the Share Insurance Fund and the credit union system as a whole. During 2016, this office examined all of the five consumer credit unions with \$10 billion or more in assets.

During these examinations, our staff focus on key areas of potential risk for the largest consumer credit unions, including interest rate risk, lending and credit practices, capital markets, information technology and payment systems. In addition, these institutions undergo annual stress tests to assess their capital reserves under adverse financial and economic scenarios.

Finally, NCUA's Office of National Examinations and Supervision supervised 11 corporate credit unions in 2016, which range between \$144 million and \$3.8 billion in assets. Each of these institutions acts as a "credit union for credit unions" by providing a number of critical financial services for consumer credit unions, including payment processing. The office routinely monitors corporate credit unions for continued compliance with the regulations put in place in the wake of the corporate crisis. Corporate credit unions' potential vulnerabilities to cyber threats are also assessed.

Managing the Share Insurance Fund

The Share Insurance Fund ended 2016 in a sound financial position due to low insurance losses, continued portfolio improvements, sound management practices and a decline in the number of troubled credit unions, among other factors. The Share Insurance Fund had an equity ratio of 1.24 percent on an insured base of \$1.0 trillion at year's end. In comparison, the equity ratio was 1.26 percent on an insured base of \$961.3 billion at the end of 2015. Because of the Share Insurance Fund's performance, the NCUA Board did not charge credit unions a premium in 2016.

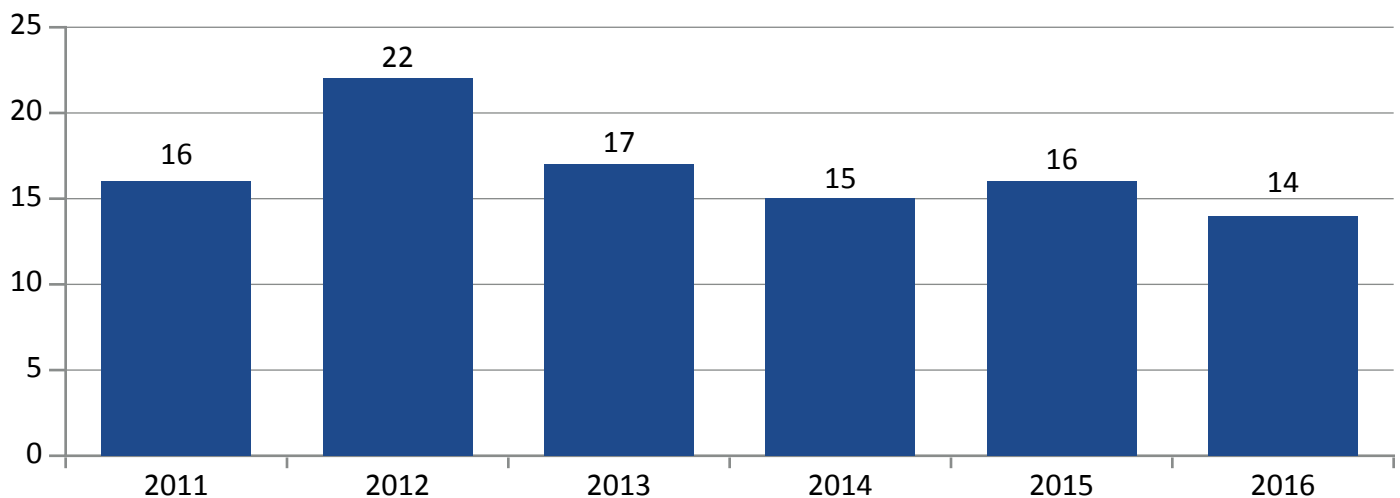
The Federal Credit Union Act requires NCUA to pay a distribution to credit unions after each calendar year if the Share Insurance Fund's equity ratio exceeds the normal operating level, which is currently set at 1.30 percent. However, the act prohibits the Share Insurance Fund from making a distribution to credit unions as long as the Temporary Corporate Credit Union Stabilization Fund has an outstanding advance from the U.S. Treasury, in which case the Share Insurance Fund will make the distribution to the Stabilization Fund. Because the Share Insurance Fund ended the year with an equity ratio of 1.24 percent and because NCUA repaid its Treasury borrowings [in full in October](#) due to legal recoveries, we did not make any transfers to the Stabilization Fund in 2016.

Two market factors outside of NCUA's control—strong growth in insured shares and a low interest-rate environment—have resulted in a declining equity ratio. Despite the modest increases in interest rates expected by most forecasters, it is unlikely the Share Insurance Fund will generate enough earnings to raise the equity ratio without a premium. Without a premium, our projections show the equity ratio could decline to 1.20 percent as early as 2019.

In November, NCUA staff announced a range of 3 to 6 basis points for a potential Share Insurance Fund premium in 2017. The need to assess a premium in 2017 will depend on the performance of the Share Insurance Fund, including any losses to the fund due to the failure of federally insured credit unions and the fund's ability to generate retained earnings in a low interest-rate environment.

In 2017, NCUA will carefully analyze the actual performance of the Share Insurance Fund, the performance of the credit union system and the state of the economy. We will also consider how any premium might affect credit

Number of Federally Insured Credit Union Failures 2011–2016



Source: Audited financial statements of the Share Insurance Fund 2011–2016

union operations and lending. Based on this analysis, the NCUA Board will decide sometime in 2017 whether to declare a premium.

Protecting Member Deposits

During 2016, member deposits at federally insured credit unions remained insured up to \$250,000 by the Share Insurance Fund. As a result, all of the members of the 14 federally insured credit unions that failed in 2016 suffered no losses on their insured deposits. Verified shares were generally paid out within five days of a credit union's closure.

These failures cost the Share Insurance Fund \$8.6 million, a decrease of 41.9 percent from \$14.8 million the prior year. Of the [credit unions that failed](#), three credit unions were merged and 11 were liquidated. Fraud was a contributing factor at 10 of the failed credit unions in 2016, costing the Share Insurance Fund \$6.5 million.

Of the 2016 failures, NCUA's Asset Management and Assistance Center kept \$8 million in assets to manage, compared to \$35 million in 2015. Gross assets managed, which are comprised primarily of loans, were \$743 million at the end of 2016, down from \$864 million at the end of 2015.

Continuing Efforts at Conserved Credit Unions

NCUA uses its conservatorship authority provided for in the Federal Credit Union Act to protect the Share Insurance Fund and the interests of credit union members. In all, we were the conservator of six credit unions at various times throughout 2016.

Notably, we [returned control of Texans Credit Union](#) of Richardson, Texas, to its members in June. NCUA had placed Texans into conservatorship in April 2011 to resolve issues affecting the credit union's safety and soundness. Working in collaboration with NCUA and the Texas Credit Union Department, Texans' new management team saved the credit union from certain failure. The conservatorship was successful due to the unified efforts of all that were involved to carefully and deliberately mitigate exposure and risk from troubled assets, improve lending controls, revitalize operations, and improve operating efficiencies. Texans' net worth position grew by more than \$100 million during the conservatorship through very strong earnings.

During 2016, we also merged four conserved credit unions, including:

- [Montgomery County Credit Union](#)
- [Montauk Credit Union](#)
- [Clarkston Brandon Community Credit Union](#)
- [Cory Methodist Church Credit Union](#)

Finally, NCUA continued to operate [Valley State Credit Union](#) under conservatorship at the end of 2016. Valley State is a federally insured, state-chartered credit union with 2,715 members and assets of \$19.8 million at the end of 2016.

Using Supervisory Tools to Address Compliance Concerns

In working to protect the credit union system and the Share Insurance Fund from losses, NCUA employs a number of supervisory and enforcement actions depending on the severity of the situation. Some of these tools include preliminary warning letters, letters of understanding and agreement, cease-and-desist orders, orders of prohibition and civil monetary penalties.

The number of enforcement actions has steadily declined over the last several years as the economy improved and federally insured credit unions implemented corrective actions to mitigate the risks identified by our field staff. The number of total outstanding enforcement actions for federally insured credit unions decreased, from 359 at the end of 2015 to 303 at the end of 2016.

The number of enforcement actions declined for both federal credit unions and federally insured, state-chartered credit unions. The total number of enforcement actions at federal credit unions declined, from 219 at the end of 2015 to 192 at the end of 2016. Total enforcement actions against federally insured, state-chartered credit unions fell from 140 at the end of 2015 to 111 at the end of 2016.

OUTSTANDING ENFORCEMENT ACTIONS AT THE END OF 2016						
	2011	2012	2013	2014	2015	2016
Federal Credit Unions						
Preliminary Warning Letters	106	123	128	77	48	56
Unpublished Letters of Understanding	287	284	253	209	171	135
Published Letters of Understanding	2	1	2	0	0	0
Cease-and-Desist Orders	2	1	2	2	0	1
Conservatorship	3	3	3	2	0	0
Federal Credit Union Totals	400	412	388	290	219	192
Federally Insured, State-Chartered Credit Unions						
Preliminary Warning Letters	29	24	19	18	16	11
Unpublished Letters of Understanding	176	149	154	139	115	91
Cease-and-Desist Orders	23	10	4	5	6	8
Conservatorship	3	4	3	2	3	1
Federally Insured, State-Chartered Credit Union Totals	231	187	180	164	140	111
Federally Insured Credit Unions Totals	631	599	568	454	359	303

In addition, NCUA continued to fine credit unions filing late Call Reports. Call Reports contain critical information about the conditions of all federally insured credit unions. The late filing of this information affects the agency's ability to conduct effective offsite supervision and delays the quarterly release of system-wide data to the public.

NCUA assesses civil monetary penalties against credit unions that failed to file a Call Report on time, and these penalties are used solely to deter late filings. In 2016, we assessed 103 credit unions \$60,928 in penalties. In comparison, we assessed 79 credit unions \$35,823 in penalties in 2015. As required by law, NCUA remitted all funds collected from late filers to the U.S. Treasury. For more information on the civil monetary penalties that NCUA can impose, please see the [Other Information](#) section of this report.

Finally, in 2016, NCUA issued administrative actions prohibiting 56 individuals from participating in the affairs of any federally insured financial institution, compared to 35 prohibition notices issued in 2015.

Launching the CUSO Registry

With the launch of NCUA's [CUSO Registry](#) in February, we gained a greater understanding of credit union service organizations, or CUSOs, that provide a number of services to credit unions, including loan underwriting, payment services and back-office functions like human resources and payroll.

The CUSO Registry is part of our enhanced credit union service organization rule approved by the NCUA Board in November 2013. Under the rule, CUSOs are required to report certain information to NCUA on an annual basis through the registry. CUSOs that offer complex or high-risk services must report more detailed information, including financial statements and general customer information. High-risk services include credit, lending, information technology, safekeeping and investment management, among others.

At the end of 2016, 945 CUSOs were [listed in the registry](#). These CUSOs reported more than \$1 billion in loans and \$2.1 billion in investments from federally insured credit unions at year-end 2015, which is the most recent data available. The four most common services provided by CUSOs were lending, member services, other services and payment and electronic transaction processing. The majority (95 percent) of CUSOs served less than 100 credit union customers, while six CUSOs serve more than 1,000 credit union customers.

Supporting Small and Low-Income Credit Unions

Small credit unions and low-income designated credit unions play a critical role in providing affordable financial services to millions of Americans.

Small credit unions, defined as those with \$100 million in assets or less, make up 73 percent of all credit unions in the system. These 4,234 credit unions had 12.9 million members and more than \$104.1 billion in assets at year-end 2016.

Often, small and low-income credit unions are the only federally insured financial institution in an underserved community, yet they often face the challenges of competition, stagnant membership and lagging earnings. Throughout 2016, NCUA took a number of actions to support these institutions.

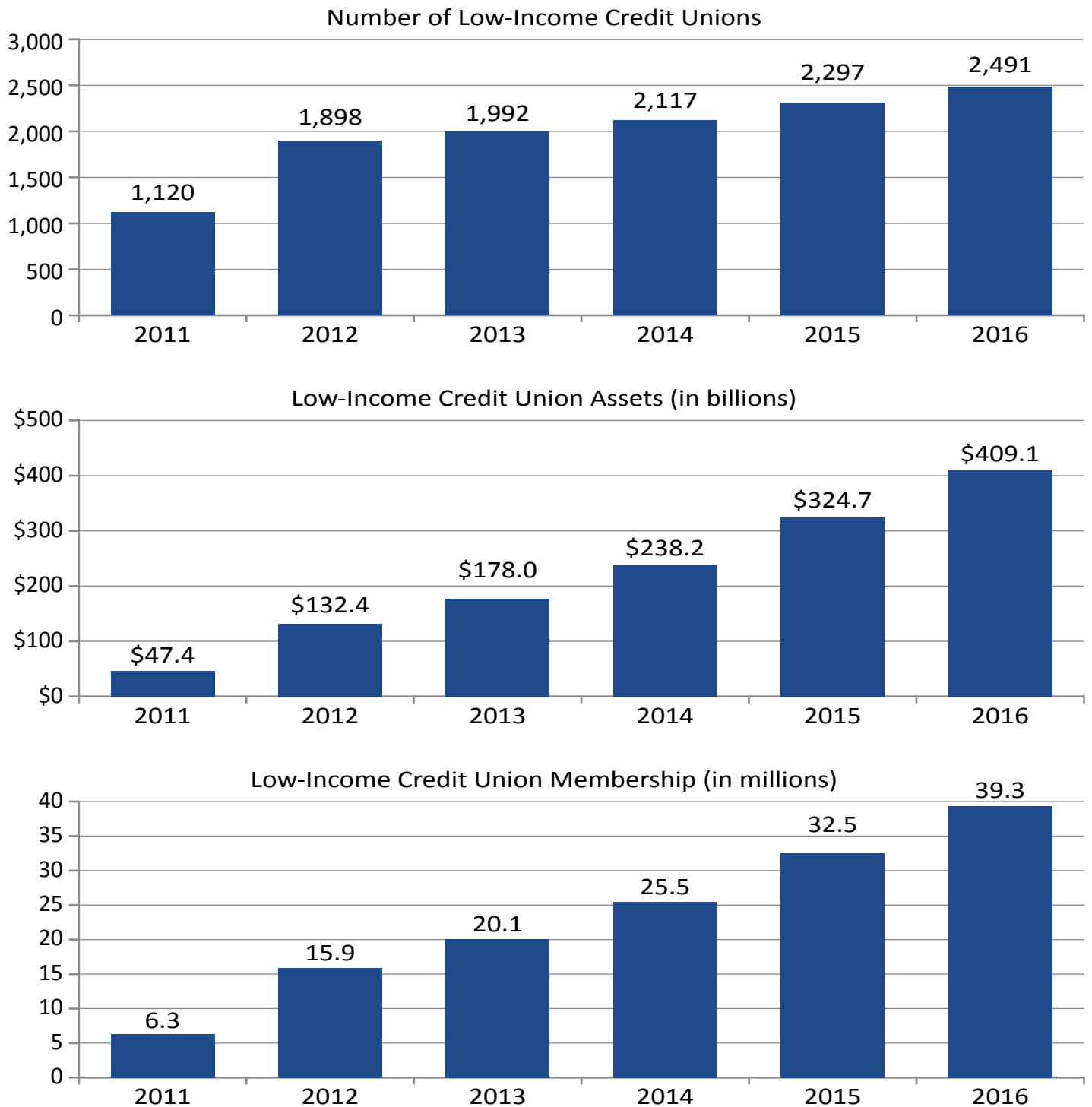
A critical component of NCUA's efforts to support these institutions is designating eligible credit unions as low-income. To qualify as a low-income designated credit union, a majority of a credit union's membership must meet certain low-income thresholds based on data available from the American Community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

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

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

By the end of 2016, there were 2,491 low-income credit unions, up from 2,297 at the end of 2015. This means 43 percent of all credit unions have a low-income designation. These institutions range in size from very small credit unions with less than \$1 million in assets to credit unions with more than \$8 billion in assets. Together, low-income credit unions had 39.3 million members and more than \$409.1 billion in assets at year's end, compared to 32.5 million members and more than \$324.7 billion in assets at the end of 2015.

Low-Income Credit Unions 2011–2016



Source: NCUA Call Report data

Over the year, 358 credit unions participated in the agency's customized [consulting program](#). At no charge, these credit unions received 11,807 hours of assistance on business needs like net worth restoration plans, marketing, new product development, budgeting and strategic planning.

Additionally, our Offices of Small Credit Union Initiatives, Consumer Financial Protection and Access, and Examination and Insurance worked with a number of government and system stakeholders to develop timely and relevant webinars and videos for credit union system staff, boards and management. In all, 17,878 participants took part in training webinars in 2016 on topics like vendor management and due diligence, loan underwriting, community partnerships, fair lending, internal controls and cybersecurity, among others. Finally, credit union directors, managers and staff viewed [NCUA's training videos](#) 27,018 times over the year.

Partnering with the Community Development Financial Institutions Fund

In early 2016, NCUA and the U.S. Treasury Department's Community Development Financial Institutions Fund signed a [memorandum of understanding](#) that resulted in a streamlined application process for eligible low-income credit unions to become certified as Community Development Financial Institutions or CDFIs.

CDFI-certified credit unions are eligible to apply for multiple funding programs offered by the U.S. Treasury, including grants and bond guarantees. This funding can lay the foundation for greater access to affordable financial services and more investment in local communities, especially in areas with limited options. In 2016, the CDFI Fund provided more than \$200 million in awards, with \$33.6 million going to 23 CDFI-certified credit unions.

Under the terms of the agreement, NCUA performs much of the data gathering and analysis required for a certification using information already gathered from credit unions through the supervision process. We then provide that data to each credit union so they can include it with their streamlined application to the CDFI Fund. This greatly reduces the burden on credit unions when applying for the certification.

In the third quarter of 2016, NCUA's Office of Small Credit Union Initiatives notified more than 500 low-income designated credit unions of their preliminary qualification for the streamlined application. NCUA is now working with the CDFI Fund to get as many of these credit unions certified as possible.

Creating Opportunities through Grants and Loans

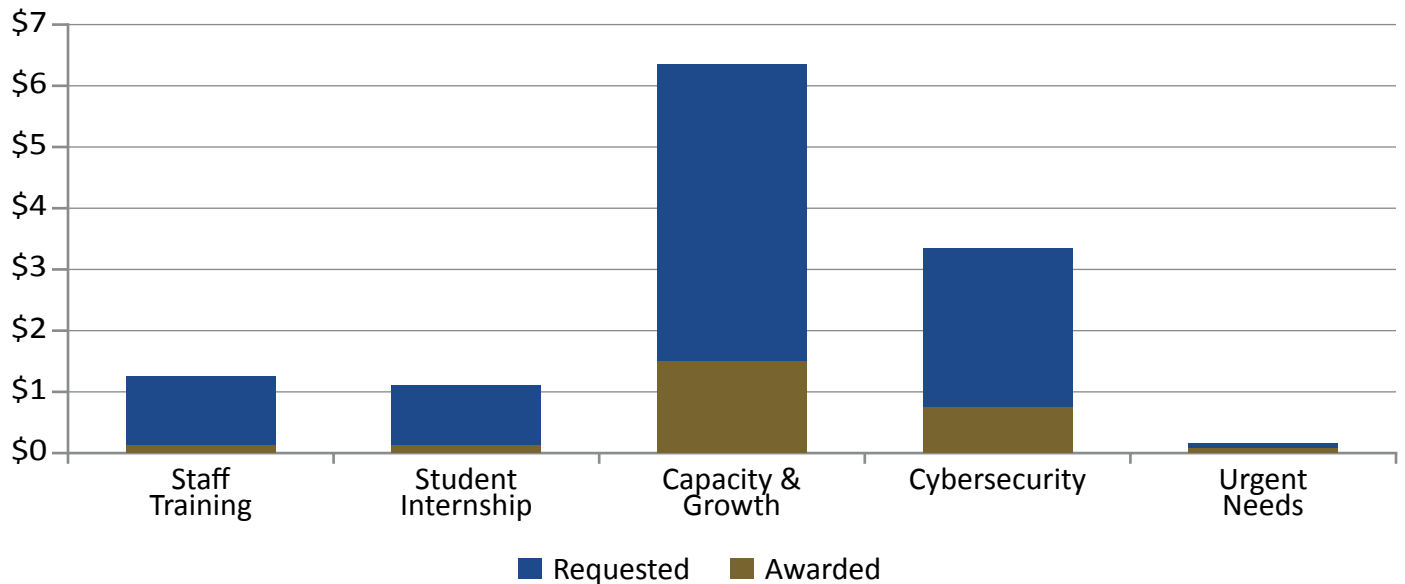
NCUA's Office of Small Credit Union Initiatives also administers the Community Development Revolving Loan Fund. Created by Congress, this fund provides grants and low-interest loans to credit unions serving low-income communities.

In 2016, NCUA [awarded more](#) than \$2.5 million in technical assistance and urgent needs grants to 319 low-income designated credit unions. Recipients of the these funds used them to expand their products and services, improve their cybersecurity preparedness, hire student interns, train staff and respond to emergencies that disrupted their normal operations.

A detailed breakdown of this funding by initiative type is found in the [Performance Results](#) section of this report.

We also approved five loan applications for more than \$1.3 million. Credit unions used these funds to expand member services, fund loan demand, open new locations and provide affordable alternatives to predatory payday loans. At year's end, there were \$10.2 million in outstanding loans with an additional \$3.2 million available to lend.

2016 Community Development Revolving Loan Fund Grants Initiative (in millions)



Source: Quarterly financial highlights of the Community Development Revolving Loan Fund

Preserving Minority Depository Institutions

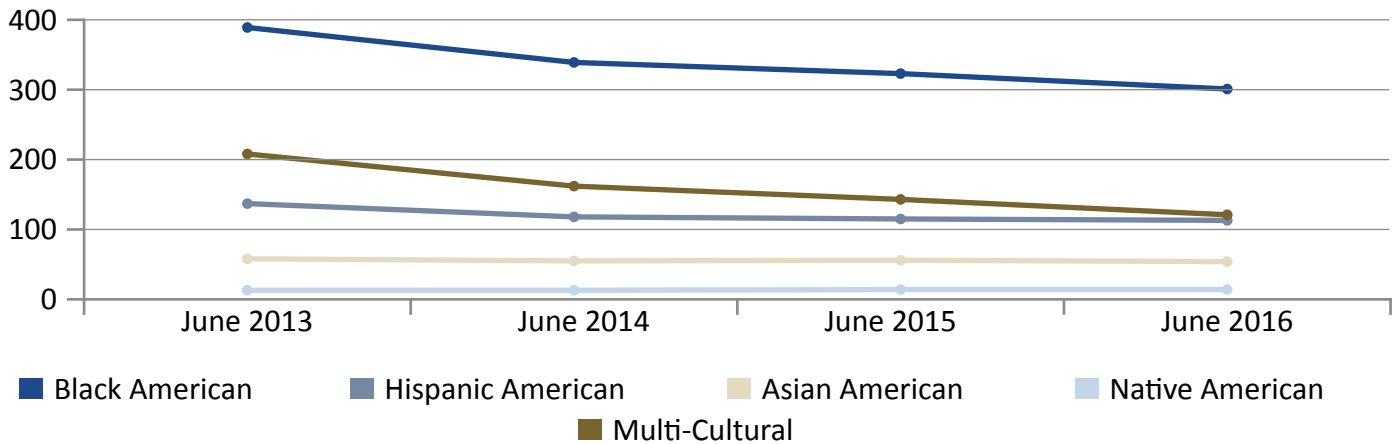
In 2010, Congress charged NCUA with designing and implementing a program to [preserve minority depository institutions](#). These credit unions play an important role in serving the financial needs of historically underserved populations such as African Americans, Hispanic Americans, Native Americans and Asian Americans.

Throughout 2016, the agency supported minority depository institutions by:

- Offering technical assistance grants, training, educational programs, videos, webinars, publications, computers and other resources;
- Providing assistance and guidance on examination and compliance issues;
- Facilitating mentor relationships between credit unions;
- Helping locate new sponsors for field-of-membership expansions;
- Negotiating financial support to sustain minority depository institutions;
- Delivering guidance to groups establishing new minority depository institutions; and
- Approving new credit union charters, community-charter conversions and low-income designations to increase the capabilities of minority depository institutions.

By the end of 2016, 586 federally insured credit unions had self-certified as a minority depository institution, a decrease of 6.8 percent from the 626 minority credit unions at the end 2015. In total, these credit unions served approximately 4.3 million members and held more than \$38.9 billion in assets at the end of 2016. These institutions represent 10 percent of all federally insured credit unions. As noted in NCUA's most recent [Minority Depository Institutions Annual Report](#), Hispanic-owned institutions continued to experience the most growth in both the number of institutions and share deposits. The most significant decline continued to occur in the number of Black-owned institutions.

Number of Minority Depository Institutions by Ethnicity



Source: NCUA Call Report Data

On average, minority depository institutions were smaller than most federally insured credit unions. This creates challenges for their preservation, as smaller institutions have fewer economies of scale. The decline in the number of minority depository institutions can be attributed to mergers, liquidations, including purchase and assumptions, and net changes in self-certifications.

Managing the Corporate Stabilization Fund

Throughout 2016, NCUA continued its longstanding efforts to minimize the costs associated with the failure of five large corporate credit unions during the financial crisis. During the year, we made significant progress in repaying obligations owed to the U.S. Treasury, improving transparency on the costs associated with our legal recovery efforts and beginning conversations on how we will wind down the Temporary Corporate Credit Union Stabilization Fund, which is currently set to end no later than 2021.

In 2016, the net position of the Stabilization Fund continued to improve from \$540.4 million in 2015 to \$1.5 billion, primarily from the recoveries from litigation and the favorable change in the anticipated future cash flows of the legacy assets in the NCUA Guaranteed Notes program. The outstanding principal balance of the NCUA Guaranteed Notes at the end of 2016 was \$7.9 billion, and the outstanding principal balance of the legacy assets \$11.2 billion, down from \$16.2 billion at the end of 2015. This decline was primarily due to principal repayments.

Because of these improvements and because of continued success in obtaining legal recoveries, we repaid \$1.7 billion on the agency's outstanding borrowing line with the U.S. Treasury in 2016. With the last payment in October, NCUA fully repaid the Stabilization Fund's outstanding debt and brought a critical chapter in the [Corporate System Resolution Program](#) to a close.

The Stabilization Fund also received a “clean” or unmodified audit opinion in 2016. These financial statements are not included in this *Annual Report*, but can be found at <https://go.usa.gov/xXc7A>.

Advancing Our Legal Recovery Efforts

Throughout 2016, NCUA continued to hold accountable those who sold faulty mortgage-backed securities to the five corporate credit unions that failed during the financial crisis. During the year, NCUA reached settlement agreements with Goldman Sachs, Royal Bank of Scotland and Nomura Home Equity Loan Inc., for \$575 million, \$1.1 billion and \$3 million in gross recoveries, respectively.

NCUA was the first federal financial institutions regulator to recover losses from investments in faulty mortgage-backed securities. Since 2011, NCUA’s legal recoveries from various financial institutions have totaled \$4.3 billion.

Additionally, to provide stakeholders with more information about our legal recovery efforts and strategy, we posted on our website [detailed information about our legal recoveries, fees and expenses](#). As of December 31, 2016, NCUA has paid more than \$1 billion or 23.2 percent of total recoveries in legal fees and expenses to two outside law firms hired under a contingency arrangement.

NCUA still has litigation pending against other financial institutions and firms, alleging they sold faulty residential mortgage-backed securities to corporate credit unions. NCUA also has pending litigation against various residential mortgage-backed securities trustees and LIBOR banks related to corporate credit union losses. At the end of 2016, NCUA still had eight pending lawsuits against banks and Wall Street financial firms.

PROMOTING CONSUMER PROTECTION AND FINANCIAL LITERACY

Promoting [financial literacy](#) is a core credit union mission. Consumers who have a strong foundation in personal finance are essential to a healthy credit union system. Better-informed consumers make better financial decisions and are able to utilize the products and services federally insured credit unions offer fully.

NCUA participated in national financial literacy initiatives throughout 2016, including the Financial Literacy and Education Commission, an interagency group created to improve the nation’s financial literacy and education. We also participated in the Military and America Saves campaigns, National Consumer Protection Week, Financial Capabilities Month, and the National Savings Forum, among other outreach events and initiatives.

In addition, we continued to experience growing interest in our online consumer financial protection and financial literacy resources. English and [Spanish-language versions](#) of NCUA’s consumer website, [MyCreditUnion.gov](#), had 829,064 visits in 2016, an increase of 11.6 percent over the 742,613 visits registered in 2015.

Responding to Consumer Complaints

NCUA uses a two-step process for addressing the consumer complaints we receive. First, a complaint filed with our [Consumer Assistance Center](#) involving a federal consumer financial protection matter is sent to the credit union for attempted resolution, as appropriate. Second, if the complaint remains unresolved after 60 days, our Consumer Assistance Center may begin its own investigation to determine compliance with federal consumer financial protection laws and regulations.

During the year, our Consumer Assistance Center assisted 49,543 consumers and recorded for complainants more than \$1.7 million in monetary benefits.¹

Expanding Access to Affordable Financial Services

In 2016, as part of the agency's chartering and field-of-membership responsibilities, NCUA worked to expand access to affordable financial services. Notably, as discussed later in this section, we modernized our field-of-membership rules to make more Americans eligible for credit union products and services.

Additionally, NCUA approved 21 community-charter conversions, the expansion of 29 existing community charters and 23 expansions into underserved areas in 2016. We also approved the addition of 9,236 groups to the fields of membership of multiple common-bond credit unions.

Addressing Consumer Compliance and Fair Lending

In 2016, our Office of Consumer Financial Protection and Access spent 3,269 hours examining 24 credit unions for compliance with fair lending laws and regulations. Agency staff spent an additional 1,217 hours performing 50 offsite supervision contacts to review credit unions' loan policies and, if necessary, provide recommendations to bring them into compliance with fair lending laws.

To further educate credit unions about their consumer financial protection responsibilities, our Office of Consumer Financial Protection and Access facilitated numerous outreach meetings throughout 2016 with industry groups and credit unions. Staff also drafted seven [Regulatory Alerts](#) on changes to federal fair lending and consumer financial protection laws and regulations in 2016. Topics included data collection requirements under the [Home Mortgage Disclosure Act](#) requirements under the [Military Lending Act](#) and changes to the regulations governing prepaid accounts.

Assessing Diversity Policies and Procedures at Credit Unions

NCUA and five other federal financial services regulatory agencies approved an [interagency policy statement](#) in 2015 establishing standards for assessing diversity policies and procedures in the entities regulated by each agency. These standards focus on five keys areas:

- Leadership's commitment to diversity and inclusion;
- Employment practices related to diversity and inclusion;
- Supplier diversity policies and practices;
- Transparency of diversity and inclusion practices; and
- Assessing and monitoring diversity and inclusion practices.

In 2016, NCUA developed a [Diversity Assessment Checklist](#), along with supporting material, to help credit unions evaluate their diversity levels and strengthen their diversity policies and practices. The diversity assessment checklist is voluntary and has no effect on a credit union's composite CAMEL rating. Thirty-five credit unions voluntarily submitted this data to the agency and we will use these results as a baseline from which to assess diversity in the credit union system.

¹ This figure includes restitution by the credit union, relief from an alleged monetary obligation imposed by the credit union, and access to disputed credit or financial services products otherwise not available to the member by the credit union.

DEVELOPING A REGULATORY ENVIRONMENT THAT IS TRANSPARENT AND EFFECTIVE, WITH CLEARLY ARTICULATED AND EASILY UNDERSTOOD REGULATIONS

As credit unions continue to grow larger and more complex, the regulatory framework must evolve with it. Throughout 2016, NCUA continued to modernize our rules to create a regulatory framework that acknowledges the need for flexibility, creates new avenues for growth and strengthens the system's resiliency, while simultaneously reducing credit unions' regulatory burden where prudent and appropriate.

Here, we highlight our most significant rulemakings and actions in 2016. A full listing and description of the [final](#) and [proposed rules](#) approved by the NCUA Board in 2016 can be found on our [website](#).

Modernizing Our Field-of-Membership Rules

In October, the NCUA Board approved [comprehensive changes to the agency's](#) field-of-membership regulations, allowing more Americans to become eligible for credit union membership.

In recent years, several states have updated their field-of-membership rules for state-chartered credit unions. Our final rule similarly enhances consumer access to credit by sensibly and reasonably updating NCUA's rules within the requirements of federal law.

These changes, [first proposed in 2015](#), updated key definitions and made more than a dozen changes to NCUA's chartering and field-of-membership rule for federal credit unions. Each of these changes is consistent with the flexibility and limitations that Congress put in place in the Federal Credit Union Act concerning field of membership.



Acting Chairman J. Mark McWatters (then-Board Member) addresses the Defense Credit Union Council in August 2016. Photo by Spencer Butterfield (SRB Photography LLC)

Specifically, our final field-of-membership rule provides federal credit unions with new avenues for potential growth by:

- Allowing greater flexibility to community charter credit unions in how they define the local communities they serve;
- Providing credit unions with better opportunities to serve underserved areas by updating the process for defining those areas;
- Enhancing access to credit union services for residents of rural areas by allowing rural district credit unions to serve up to 1 million people;
- Streamlining paperwork for multiple common-bond credit unions that seek to serve additional groups, such as including independent contractors with a strong dependency relationship with an employee group; and
- Expanding credit union access for honorably discharged veterans by allowing them to join credit unions serving their active-duty counterparts.

The final rule also modified the type and extent of information that a federal credit union must submit to support an application to expand its field of membership.

Not only will these changes to our regulations provide consumers and businesses with greater access to the national system of cooperative credit, but they also strengthen the dual-chartering system for credit unions, helping to promote greater innovation and strength within the credit union system.

The final rule went into effect on February 6, 2017.

In addition to approving these changes, the NCUA Board approved in October a [proposed rule](#) that would make further changes to NCUA's field-of-membership regulations. The proposed rule responds to stakeholder suggestions received during the initial field-of-membership rulemaking, but which could not be incorporated into the final rule because of the Administrative Procedure Act.

Specifically, the proposed rule would:

- Raise the current population cap for a “well-defined local community” from 2.5 million people to 10 million;
- Allow the use of a narrative approach to create a new well-defined local community; and
- Correct an error in the final rule that inadvertently restricts fields of membership inside core-based statistical areas to not more than 2.5 million people in a metropolitan division, rather than the core-based statistical area.

The proposed rule also asked questions about possible alternative approaches to field-of-membership issues. We are currently reviewing [the comments received](#) on this proposed rule and anticipate approving a final rule in 2017.

Changing to a Principles-Based Approach to Member Business Lending

In February, the NCUA Board approved a final rule that made practical [changes to the regulations governing member business lending](#), providing federally insured credit unions with greater latitude to make commercial lending decisions that are consistent with safety and soundness. This rule did not expand credit unions' business loan authority or modify the statutory limit on member business lending. As such, it is consistent with the requirements of the Federal Credit Union Act.

Our updated rule enables credit unions to better meet the needs of their members, particularly small businesses. It also provides regulatory relief, while simultaneously helping to stimulate economic growth and new jobs through increased small business lending.

In particular, the final rule moved away from prescriptive limits on credit unions—such as collateral and security requirements, equity requirements and loan limits—to principles-based regulation. Key changes in the final rule include:

- Giving credit union loan officers the ability to make personal guarantees from borrowers optional;
- Replacing explicit loan-to-value limits with the principle of appropriate collateral and eliminating the need for a waiver;
- Lifting limits on construction and development loans; and
- Affirming that non-member loan participations do not count against the statutory member business lending cap.

The rule also empowers credit unions to write their own policies and determine limits appropriate to servicing members and within their capacity. Smaller credit unions that make only a few commercial loans are exempt from the requirement to establish a commercial loan policy and hire commercial lending staff.

Finally, the new member business lending rule established a new baseline minimum safety and soundness standard to protect the Share Insurance Fund. States may choose to impose higher standards in their own rules on member business lending, but not lower. The seven states with pre-approved member business lending rules were grandfathered in.

The rule went into effect in two stages. The provisions to eliminate the member business loan waiver process went into effect on May 13, 2016. All other aspects of the rule went into effect on January 1, 2017.

Updating the Occupancy Rule to Provide Greater Flexibility

In December, the NCUA Board approved [a final rule](#) to eliminate the requirement that federal credit unions must plan for and eventually reach full occupancy of acquired premises. The change provides federal credit unions and their leadership greater flexibility in acquiring and holding property.

Specifically, the final rule modified the definition of “partially occupy” to mean occupation and use, on a full-time basis, of at least 50 percent of a premises by a federal credit union or by a combination of the federal credit union and a credit union service organization in which the federal credit union has a controlling interest. The modernized rule kept the current regulatory timeframes for the partial occupancy of premises.

The rule became effective on January 20, 2017.

Reducing Incentives for Excessive Risk

In April, the NCUA Board joined with five other federal financial services regulators to issue a proposed rule that would require federally insured credit unions with assets of \$1 billion or more to provide NCUA with information about the structure of future incentive-based executive compensation programs.

Required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, [the joint-agency rulemaking](#) would prohibit incentive-based compensation payment arrangements in financial institutions with \$1 billion or more in assets that the agencies determine would encourage inappropriate risks by providing excessive compensation or that could lead to material financial loss. The proposal issued in April superseded an earlier [draft proposed in 2011](#). The agencies are currently reviewing the comments received.



Board Member Rick Metsger (then-Chairman) speaks with Lucy Ito, president and CEO of the National Association of State Credit Union Supervisors, just before the start of the May 2016 Board meeting

Improving Transparency in the Budget Process

NCUA appreciates the enormity of our fiduciary responsibility, and we are committed to being as transparent as possible about our operations and policies. Detailed fact sheets, line-by-line office budgets and answers to frequently asked questions about NCUA's budget process are publicly available on our [budget resources webpage](#).

In 2016, we resumed the practice of holding a public briefing on the NCUA's budget, including livestreaming the event online for those who could not attend. The briefing was held on October 27, and seven representatives from the credit union community presented their recommendations and comments before the Board.

Detailed information about the staff's proposed budget was made available on NCUA's website prior to the briefing to allow for careful review. Stakeholders also had eight additional days after the briefing to submit comments. All recommendations were considered when finalizing the agency's 2017–2018 budget.

In response to stakeholder requests for greater transparency, the NCUA Board also put out for public comment at the beginning of the year the methodologies for calculating [the Overhead Transfer Rate and the Federal Credit Union Operating Fee](#), which are the two primary funding mechanisms for the agency's operating budget.

At this time, we are reviewing these comments and determining what improvements to the Overhead Transfer Rate and the Federal Credit Union Operating Fee can be made to ensure they are implemented in a fair and equitable manner to all federally insured credit unions.

Enhancing the Policymaking Process

Additionally, we worked to improve transparency in the agency's decision-making process by initiating public briefings during open Board meetings on key regulatory and supervisory issues facing the agency and the credit union system. Some of the topics discussed during these briefings in 2016 included:

- Preparing for emerging cybersecurity risks;
- Considering adding an "S" for interest rate sensitivity to the CAMEL rating system that is used to evaluate credit unions;
- Outlining the potential policy issues surrounding supplemental capital;
- Weighing the potential need for a Share Insurance Fund premium to restore the equity ratio to the Board-approved normal operating level of 1.30 percent; and
- Highlighting issues related to closing the Stabilization Fund.

Making Critical Supervisory Information Accessible

In 2016, NCUA published a redesigned, online [Examiner's Guide](#). Updating the content of the guide has been an agency-wide effort, involving our field staff and subject matter experts from across the country, as well as input from state regulators.

The guide's new format allows readers to easily navigate to topics of interest, search for content using keywords and connect more easily to resources provided by NCUA and other regulatory agencies. The new format also allows us to update the *Examiner's Guide* continuously, such as in the event of a new law or regulation, changes in agency policy, new products and services or changes in the broader economy. Additionally, the guide includes a feedback button, allowing stakeholders to provide input and suggestions for additional clarification.

In launching the online *Examiner's Guide* in October, we issued updated guidance on four topics: interest rate risk, risk-focused examinations, the total analysis process and fidelity bond coverage. We later added information on member business lending to the guide in November. Over the course of the next year, we will issue updated guidance on other topics. Eventually, the online guide will include updated guidance on such supervisory areas as consumer and real estate lending, internal controls, asset-liability management, investments and fraud, among others.

CULTIVATING AN ENVIRONMENT THAT FOSTERS A DIVERSE, WELL-TRAINED AND MOTIVATED STAFF

NCUA's most important resource is a highly qualified, skilled staff. To maximize their contributions to the agency's mission, efficient processes, effective tools and leading-edge technology must support our staff. Throughout 2016, NCUA took a number of steps to nurture and develop this asset to meet the future needs of the agency.

Attracting and Retaining a Diverse and Highly Skilled Workforce

Just as credit unions' workforces continue to evolve so does NCUA's. Not only do we need employees with the expertise in accounting and finance, but we also need staff who understand commercial and residential lending, payments and information technology systems and consumer financial protection regulations, among other skill sets. We, therefore, continued to invest in attracting, retaining and training a highly skilled and diverse workforce during 2016 to meet these needs.

In 2016, we successfully expanded a pilot program to consolidate recruitment within all five of our regions for entry-level credit union examiners. The pilot increased coordination among the geographically dispersed regions, helping to improve our efficiency. We also developed and implemented a new assessment tool for potential applicants for new examiner positions.

NCUA continued to post vacant positions on diversity websites, as well as on the Office of Personnel Management's USAJOBS website. We also utilized USAJOBS' resume-mining features to reach out to individuals directly letting them know of their eligibility for employment. NCUA also recruited by advertising in diversity magazines like the *Black Journal*, *Hispanic Network*, *U.S. Veterans Magazine* and *Professional Women's Magazine*, utilizing social media networking sites, like the agency's [LinkedIn page](#), and attending strategically focused hiring events throughout the year.

These combined efforts resulted in a more diverse and qualified applicant pool, as well as candidates with more education and experience when compared to individuals previously referred. Of the 79 employees hired in 2016,

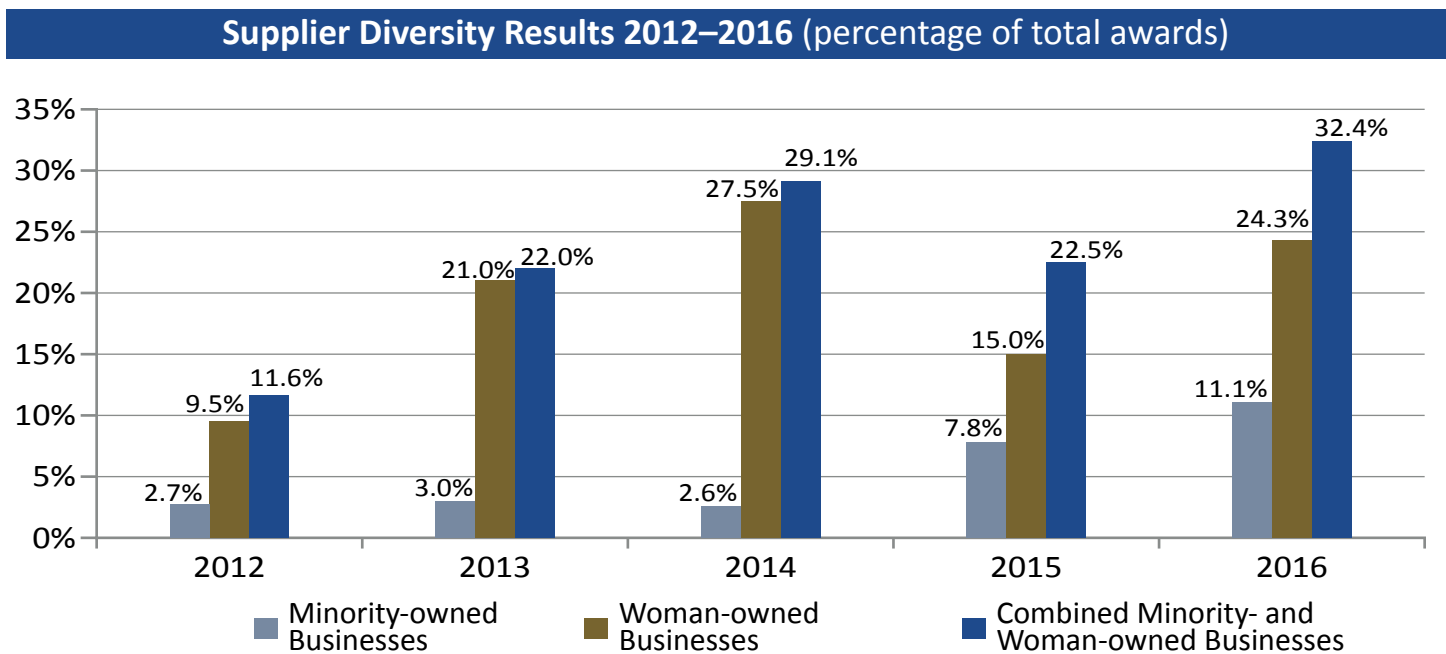
66 percent identified as a minority, a female or a female minority. Twenty percent of the agency’s new hires in 2016 were veterans, and 13 percent of new hires were disabled veterans.

One of the hallmarks of an organization strategically focused on diversity and inclusion is a formal mentoring program. We began an agency-wide mentoring program in April. The program is a coordinated effort to increase diversity, build cross-cultural understanding, create a more inclusive environment and serve as a developmental resource to many agency employees. It also connects new or less experienced employees with seasoned staff and managers. Feedback from participants has been positive and we will continue to refine and develop this program in 2017.

Improving Supplier Diversity

In 2016, we continued to advance NCUA’s [supplier diversity initiatives](#). Required by law, our supplier diversity efforts promote the inclusion of minority- and women-owned businesses in NCUA’s contracting opportunities. Throughout the year, the Office of Minority and Women Inclusion researched and identified top minority- and women-owned businesses to invite to participate in the agency’s contracting opportunities.

In 2016, 32.4 percent of NCUA’s reportable contracting dollars were awarded to minority- and women-owned businesses, up 10 percentage points from 22.5 percent in 2015. This performance represents the highest showing for NCUA since the program’s creation, and places us in the top supplier diversity performers among other federal financial regulatory agencies.



Source: NCUA Supplier Data

Giving Back to Others

NCUA strives to be a model corporate citizen, including in the area of charitable giving.

Agency employees across the nation got into the spirit of giving in 2016. In all, our employees collected 68,770 pounds of food or 57,308 meals in the [2016 Feds Feed Families campaign](#). Feds Feed Families is an annual charitable event coordinated by the U.S. Department of Agriculture. In the past four years, NCUA has collected 337,540 pounds of food for Feds Feed Families.

In addition to the agency's contributions to Feds Feed Families, NCUA employees based in Alexandria, Virginia, donated or pledged a total of \$112,055 during the 2016 Combined Federal Campaign, compared to \$101,180 in 2015. Because of this generosity, the agency received the President's, Summit, Participation and e-Giving awards from the Combined Federal Campaign.

LOOKING FORWARD

While NCUA achieved much in 2016, evolving risks to the nation's credit union system continue to pose new challenges for the agency. In 2017 and beyond, we will work to successfully manage enterprise risks, continue our efforts to maintain a highly skilled and diverse workforce, and develop new tools, processes and systems to improve our effectiveness and efficiency.

ADDRESSING RISKS TO THE SYSTEM

By nearly every measure, federally insured credit unions as a group remain sound. However, a number of risks could potentially affect the safety and soundness of the credit union system and Share Insurance Fund going forward. Some of the areas of concern to NCUA include:

- **Growing Cybersecurity Threats**—Technology, such as mobile banking and payment applications on mobile devices, is changing the way consumers interact with their financial institutions. As a result, consumers are increasingly able to make and implement financial decisions nearly instantaneously.

However, the greater use of technology makes credit unions and banks more vulnerable to cyberattacks and disruptions. [Cybersecurity](#), therefore, remains a pressing concern for all financial institutions, including credit unions. Cyberattacks also will likely increase in frequency and severity as worldwide interconnectedness grows, the tools to commit cybercrimes become more readily available, and as criminals, hackers and terrorists become more sophisticated.

With credit unions and other small financial institutions increasingly targeted, NCUA must continue to strengthen the resiliency of individual credit unions, the entire credit union system and the agency. As such, NCUA is developing a new cybersecurity component to its examination process. In 2017 and beyond, we will continue to foster and facilitate the sharing of best practices to strengthen credit unions' existing cybersecurity programs.

Additionally, in 2016, congressional interest grew in the cybersecurity of third-party vendors used by financial institutions. Although the federal banking agencies have the statutory authority to examine third-party vendors, NCUA lacks similar powers under the Federal Credit Union Act. In 2017, we will continue our discussions with Congress and other interested stakeholders to ensure effective safeguards are put in place to mitigate the risks posed by third-party vendors in the area of cybersecurity.

- **Managing Interest Rate Risk**—NCUA has made interest rate risk a heightened supervisory focus since 2010, and it continues to be a concern for the credit union system. With many observers suggesting the U.S. is at the beginning of a rising rate environment, NCUA and credit unions will need to continue to manage this risk in 2017 and beyond.

After keeping short-term interest rates at extremely low levels for nearly nine years, the Federal Reserve's Federal Open Market Committee raised rates in December 2015 and December 2016. The Fed has

signaled plans to continue raising rates in the future, if the economy continues to grow and inflation increases, but the timing of these potential rate increases remains uncertain.

Private forecasters think longer-term interest rates will be heading higher, though there is uncertainty about when and by how much. As a result, the outlook for interest rates—specifically for longer-term rates and the shape of the yield curve—is also uncertain. Additionally, there is increased uncertainty about future economic and fiscal policies, and how they will influence the economy going forward—especially in the second half of 2017 and the start of 2018. As such, to fully understand the implications of their lending and investment portfolios, credit unions must evaluate their income and balance sheets under a range of interest rate scenarios, including scenarios in which short-term rates rise relative to long-term rates and long-term rates rise relative to short-term rates.

To mitigate interest rate risk, we issued updated guidance in 2016. We also developed a new tool to evaluate interest rate risk and a new net economic value supervisory test for our examiners to use when evaluating a credit union's interest rate risk profile. The net economic value supervisory test measures the degree of market risk inherent in a credit union's balance sheet, under a prescribed interest-rate shock scenario. This test allows examiners to adjust the scope of their review as necessary, based on the results. The tool also provides greater consistency in how our examiners assess interest rate risk across the credit union system.

Ultimately, the management and boards of credit unions of all sizes must be prepared for the challenges posed by a changing interest rate environment, and this includes adapting to threats posed by new and traditional competitors who may offer higher rates on deposits and other accounts.

- **Managing Concentration Risk**—Loan diversification is an important way to avoid concentration risk. Credit unions that specialize in a particular loan product are prone to a greater risk of loss. NCUA expects such credit unions to analyze the potential risks and have proper mitigation measures in place, such as monitoring liquidity, tracking loan performance and holding adequate levels of net worth. When credit unions follow these practices, they are better able to withstand economic stress, and the risk of loss to the Share Insurance Fund is reduced.

A number of credit unions have made the business decision to focus on certain types of loans. While some specialized products are stable and profitable, recent changes in technology and consumer preferences have led to market disruptions in others, causing the underlying assets supporting these types of loans to decrease in value. As a result, some of these credit unions have experienced financial stress. We are carefully monitoring these institutions through the examination process.

The credit union system's exposure to these specialized loan products is finite and manageable, but some individual credit unions that concentrated in these specialized products may fail. However, members' accounts at these credit unions remain protected and insured by the Share Insurance Fund up to the limits provided by law.

Moving forward, NCUA will continue to closely monitor and supervise credit unions specializing in certain products and we will continue to work to resolve issues affecting their operations and financial viability, if necessary. NCUA will also continue to mitigate the potential risk these institutions may pose to the Share Insurance Fund.

- **Continuing Pressure on the Share Insurance Fund Equity Ratio**—In recent years, the [Share Insurance Fund's equity ratio has declined](#), primarily from strong growth in insured shares and reduced investment

income resulting from a low interest-rate environment. At the end of 2016, the equity ratio stood at 1.24 percent, down from 1.26 percent a year ago and down from 1.31 three years ago.

The capacity of the Share Insurance Fund to cover any losses is approximately \$2.8 billion before the fund would have to call on credit union capital to absorb losses from failed institutions.¹ Any incident, a like significant failure, that drops the equity ratio below 1 percent would result in a direct expense to credit unions through the impairment of the 1 percent capital deposit they deposit with the fund, which they show as an asset on their financial statements.

The NCUA Board is carefully monitoring these trends and will consider in 2017 whether a premium is necessary. Before making this decision, the agency will undertake an in-depth analysis to determine the need for a premium and the effect of a premium on credit unions and their members, including credit unions' bottom lines. We also must assess the desirability of maintaining the fund at its full normal operating level during times of strong credit union system performance to avoid charging a larger premium later, especially during an economic downturn, should the need arise.

- **Changing Demographics**—Credit unions continue to face challenges with respect to an aging and diversifying population. As the U.S. population ages and more Americans retire, credit unions may see shifting growth trends and changing demand for certain products and services. In addition, new and diverse populations also may want different products and services than what has been offered previously. Credit unions need to be aware of these trends and adjust their business plans accordingly.

NCUA is taking a number of steps to address the issue of changing demographics. The 2016 updates to the agency's field-of-membership rule to increase consumer access to credit unions will provide new opportunities for credit union financial and membership growth. In addition, NCUA will continue to strengthen and support the agency's Minority Depository Institutions Preservation Program. NCUA also will continue providing technical assistance and grants through the Community Development Revolving Loan Fund to help low-income credit unions expand the products and services they offer and respond to the needs of more diverse populations.

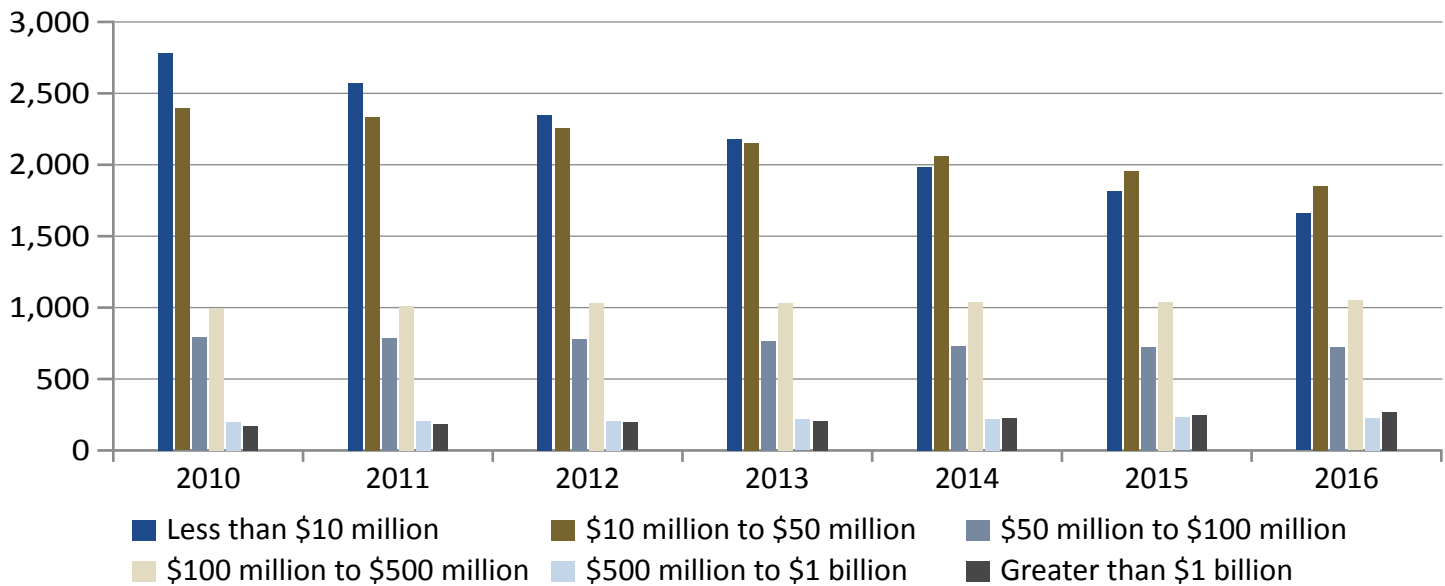
- **Increasing Competition and Continuing Consolidation**—Across a variety of economic cycles, the number of banks and credit unions has fallen at a steady rate for nearly three decades.

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

Together, these trends indicate that credit unions face increased competition. In recent years, consolidation has primarily occurred among credit unions with \$50 million or less in assets. However, going forward, it is possible that increased competition could result in more mergers of equals—larger credit unions merging strategically, as opposed to the current trend of smaller credit unions merging into larger ones to provide greater access to financial services for their membership.

¹ The year-end Share Insurance Fund equity ratio as reported on the financial statements is 1.24 percent. However, once credit unions are invoiced for the adjustment to the one percent contributed capital deposit, the equity ratio is expected to increase to 1.27 percent, based on year-end retained earnings and insured shares.

Credit Unions by Asset Class at Year-end 2010–2016



Source: NCUA Call Report Data

- Growing Performance Disparities between Large and Small Credit Unions**—While credit unions as a group performed well in 2016, much of the system's growth was mainly due to the largest institutions. Credit unions with assets of less than \$10 million have seen less loan and net worth growth than credit unions with more assets. In addition, membership continued to decline at credit unions with less than \$10 million in assets, and membership growth at credit unions with less than \$500 million in assets continued to lag behind credit unions with more than \$500 million in assets.

For additional information on the financial performance of federally insured credit unions in 2016, please see the [Statistical Data](#) section of this report.

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

To ensure their viability, NCUA will continue providing consulting services to credit unions with less than \$100 million in assets, minority depository institutions, low-income credit unions and new credit unions. Offered through our Office of Small Credit Union Initiatives, these consulting services assist credit unions in marketing, new product development, budgeting and strategic planning.

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

PREPARING NCUA FOR THE FUTURE

NCUA also faces a number of complex issues in 2017 and beyond. Some of the areas of interest to the agency include:

- **Deploying New Information Technology Systems**—In 2017 and future years, NCUA will continue to implement our Enterprise Technology Roadmap and engage with internal and external stakeholders on the benefits of these new systems and processes.

Additionally, as part of the Enterprise Solution Modernization initiative, NCUA will consult with stakeholders in the credit union community about how our systems may change and how that may affect their operations. We will also analyze the systems used by our state regulatory partners and other financial regulators to determine if an off-the-shelf commercial application can meet our needs, and begin laying the groundwork for procuring new applications and systems.

In pursuing these needed technology upgrades, we will need to proceed carefully and deliberately to design effective systems, select appropriate vendors and contractors, and ensure cost effectiveness.

- **Providing Regulatory Relief**—NCUA has an obligation to consider the regulatory and supervisory compliance burdens on credit unions. To provide credit unions with the opportunity to grow and the flexibility to serve the needs of their members, we must work to eliminate needless regulation. As permitted by law and consistent with safety and soundness mandates, NCUA will continue to decrease regulatory burdens, where prudent, in 2017 and beyond. Our recent modifications to the member business lending and field-of-membership rules serve as regulatory relief issued in accordance with applicable law.

In 2017, we will continue implementing the recommendations of the Exam Flexibility Initiative, making additional improvements in the way NCUA coordinates examinations with state supervisory authorities, among other areas. NCUA will work collaboratively with stakeholders on ways to improve our Call Report information and submission process, helping to reduce further the regulatory burdens on credit unions.

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

To address these challenges, NCUA continues to make critical investments in human capital. We improved our recruitment program for new examiners, which has provided us with a more diverse and highly skilled pool of applicants. The agency also continues to develop the next generation of leaders through its executive training and management development programs. These programs, along with the agency's new mentoring program, will help the agency grow its talent pool and identify those individuals who can step into critical leadership roles in the future.

Additionally, NCUA will continue to create a workplace that is inclusive. An inclusive environment where all employees are able to contribute fully improves morale and leads to higher retention rates, greater productivity, better outcomes and a stronger and better-equipped agency to meet current and future challenges. NCUA will continue to provide training to managers on the importance of and the business

case for diversity and inclusion. We also will continue to offer programs and additional opportunities for engagement that will enhance cross-cultural understanding among our employees.

- **Closing the Stabilization Fund and Disposing of the Legacy Assets**—In 2017, NCUA will diligently [explore the implications](#) of [closing the Stabilization Fund](#) early and transferring the corporate system resolution program's assets and obligations—including the guarantees on any outstanding NCUA Guaranteed Notes—into the Share Insurance Fund.

SEIZING OPPORTUNITIES IN THE YEAR AHEAD

Overall, 2016 was a successful year for both the credit union system and the agency. During the year, we completed several rulemaking initiatives that increased consumer and small business access to credit through improvements to our member business lending and field-of-membership rules. Through our regulatory relief efforts, we also provided credit unions with additional flexibility to carry out their operations and better serve their members, while still maintaining the principles of safety and soundness.

Additionally, we took important steps to promote transparency in the policymaking and budget processes. We also made a number of critical investments that will have enormous benefits to the agency and to the credit union system in the future. Improvements in the agency's technology and critical systems will improve our operations and reduce the regulatory and examination burdens for credit unions.

As outlined in NCUA's [2017–2021 Strategic Plan](#), we will continue to address changes in the credit union system, including working with the credit union community and our fellow financial institutions regulators to address critical cybersecurity risks. We also will continue to make the critical investments in our human capital and technology.

Credit unions have shown that they are able to adapt to the changing financial services marketplace and develop a variety of products and services to meet their members' needs. As we look to the coming year and beyond, NCUA will continue to ensure that consumers and businesses can use the national not-for-profit cooperative system of credit confidently.

PERFORMANCE HIGHLIGHTS

Performance information in this report is organized around the strategic goals and objectives identified in NCUA's [2014–2017 Strategic Plan](#), which outlines our efforts to provide, through regulation and supervision, a safe and sound credit union system, which promotes confidence in the national system of cooperative credit. The strategic goals and objectives outlined below serve as the foundation for the agency's operations.

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

Strategic Objectives

- 1.1 Identify, measure, monitor and mitigate levels of risk in the credit union industry through effective regulations, supervision and examination
- 1.2 Manage operational vulnerabilities resulting from new products and services, especially shifts in balance-sheet composition
- 1.3 Implement tools and models for evaluation and assessment of industry wide risks
- 1.4 Be prepared for and promote awareness of critical risk issues, emerging technologies and related threats
- 1.5 Increase ability to manage risk through an effective examination and supervision program that minimizes loss to the National Credit Union Share Insurance Fund

Strategic Goal 2: Promote Consumer Protection and Financial Literacy

Strategic Objectives

- 2.1 Establish a framework of well-balanced regulations and policy statements
- 2.2 Ensure federally insured credit unions comply with rules and regulations established to protect consumers
- 2.3 Develop and promote financial literacy education programs to empower consumers to make informed financial decisions
- 2.4 Promote access to federally insured financial services for consumers of all backgrounds and income levels
- 2.5 Review marketing and business plans of community charters to ensure progress toward meeting stated goals
- 2.6 Educate credit unions about consumer compliance issues

Strategic Goal 3: Further Develop a Regulatory Environment that Is Transparent and Effective, with Clearly Articulated and Easily Understood Regulations

Strategic Objectives

- 3.1 Reduce unnecessary obstacles to credit union competitiveness through modernized regulations
- 3.2 Collaborate with other regulators to discuss strategies and goals for implementing new or revised regulations
- 3.3 Maintain a regulatory environment that safeguards member interests and stability in the credit union system
- 3.4 Enhance NCUA's communication with credit unions through transparent regulations and guidance

Strategic Goal 4: Cultivate an Environment that Fosters a Diverse, Well-trained and Motivated Staff

Strategic Objectives

- 4.1 Develop and maintain the optimal knowledge, skills and abilities of the agency's workforce to meet emerging needs
- 4.2 Enhance staff effectiveness and efficiency through the use of technology
- 4.3 Recruit and retain a well-diversified and highly qualified workforce that reflects the relevant labor force
- 4.4 Maintain an effective plan of succession to ensure continuity of leadership throughout all levels of the organization
- 4.5 Improve NCUA's internal communication, both horizontally and vertically
- 4.6 Enhance NCUA's position as one of the best places in the government to work

MANAGING PERFORMANCE

NCUA's performance management process begins with the agency's strategic plan. It serves as the cornerstone for the performance management process by defining our mission, long-term goals, strategies planned and the approaches we will use to monitor our progress in addressing the challenges and opportunities related to our mission.

The [2016-2017 Annual Performance Plan](#) functions as the agency's operational plan. It outlines our annual or short-term objectives, strategies and corresponding performance goals that contribute to the accomplishment of our established strategic goals. Senior executives are appointed as the goal leader for each strategic goal, and they are responsible for all aspects of the strategic goal, including implementation and results achieved.

NCUA's four strategic goals are supported by 21 strategic objectives. These objectives contribute to the broader impact described in the strategic goal, while also indicating how the strategic goal will be achieved. These objectives are assessed by 49 performance goals. The performance goals are measurable outcomes to achieve within the plan's period. Each performance goal includes one or more indicators with quantitative levels of performance or targets to be accomplished within a specific timeframe.

We routinely measure and report our progress in meeting our performance goals. During 2016, senior executives submitted quarterly data on the progress made toward achieving the performance measures and targets for

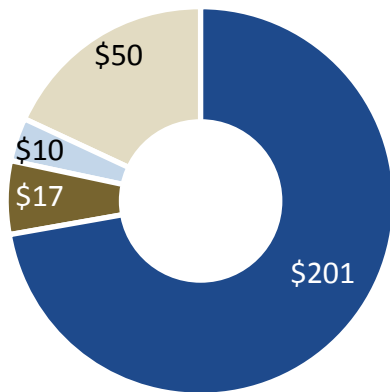
which they were accountable. The data was reviewed and analyzed throughout the year to monitor our progress. We also produced a performance goal progress report each quarter and discussed causes of variance or changes in trends for the performance indicators, as well as whether the target was met. We used these reports as a basis for developing the *2016 Annual Report*.

RESOURCE ALLOCATION BY STRATEGIC GOAL

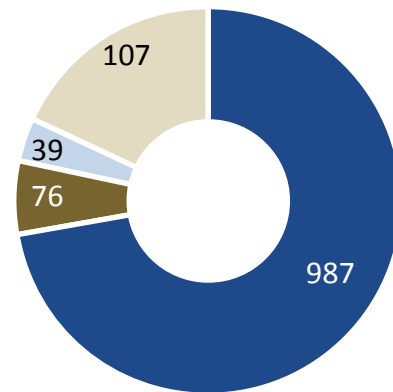
We are working to create a stronger link between resources and performance. In our continued effort to strengthen the planning and budget processes, the development of the annual performance plan and the agency's budget occurs simultaneously. This link helps NCUA focus on accomplishing its priorities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

Gross Operating Expenses by Strategic Goal

(in millions)



Full-time Equivalent Employee by Strategic Goal



- Goal 1: Ensure a safe, sound and sustainable credit union system
- Goal 2: Promote consumer protection and financial literacy
- Goal 3: Further develop a regulatory environment that is transparent and effective, with clearly articulated and easily understood regulations
- Goal 4: Cultivate an environment that fosters a diverse, well-trained and motivated staff

Note: All numbers rounded to the nearest whole number

NCUA's expenses for 2016 totaled \$277.7 million. We allocated the majority of this cost, \$200.6 million, for Strategic Goal 1-related programs, followed by \$49.9 million for Strategic Goal 4-related programs. These goals are largely comprised of our supervision and examination programs, and talent management and information technology programs, respectively.

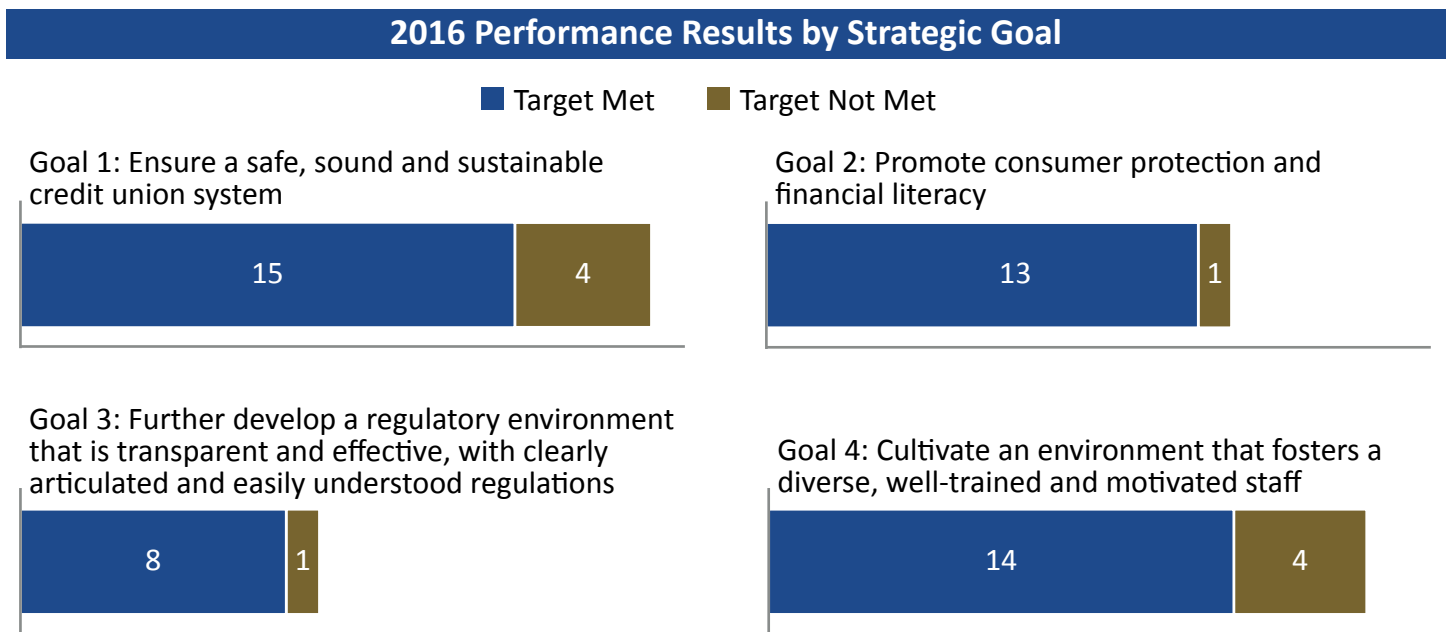
Remaining costs were \$17.1 million for Strategic Goal 2-related programs, and \$10.2 million for Strategic Goal 3-related programs. In addition, we proportionally allocated general and administrative costs across all goals.

We allocated the majority of our workforce in 2016 to Strategic Goal 1, followed by Strategic Goal 4. At year-end, NCUA had 1,208 full-time equivalent employees.

PERFORMANCE AT A GLANCE

We identified 60 measures to evaluate and assess progress towards the goals stated in the [2014–2017 Strategic Plan](#). We made significant progress against the goals we set in 2016, meeting or exceeding the target for 50 performance measures established in the [2016–2017 Annual Performance Plan](#).

A summary of NCUA’s overall performance in 2016 is illustrated in the following chart. The performance measures are grouped below by strategic goals. The [Performance Results](#) section of this report includes a complete discussion on our progress toward meeting our goals and objections and discusses causes of variance or changes in trends for the performance indicators.



SUMMARY RESULTS OF AGENCY PRIORITY GOALS

NCUA’s agency priority goals are a subset of our performance goals with the highest implementation priorities. In 2016, we focused on six agency priority goals. Several performance goal indicators in this report are new for 2016. Therefore, historical data is not available. These indicators are marked as “-” in the performance results indicator and target tables.

The following tables list each priority goal, its measure and whether the target was met or not in 2016.

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

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

Strategic Objective 1.2 – Manage operational vulnerabilities resulting from new products and services, especially shifts in balance sheet composition

Credit unions become more complex as they grow in size and provide a wider array of products and services. Such complexity can be beneficial when it addresses members' needs and when it leads to increased diversification of credit union assets. However, operational vulnerabilities and shifts in balance-sheet composition resulting from the introduction of new products and services, particularly in large concentrations, must be well managed, monitored and controlled to ensure a safe, sound and sustainable credit union system.

Credit union balance sheets should be resilient under a wide variety of interest rate environments. Credit unions' ability to manage and mitigate interest rate risk remains vital for their success. As such, we identified the implementation of a robust supervision framework for our financial reform regulations as an agency priority goal.

In 2016, we used four performance indicators to gauge our efforts for this priority goal:

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	2016 Result	Status
1.2.1 Implement a robust supervision framework for NCUA's financial reform regulations including interest rate risk, liquidity and contingency funding plans, derivatives authority, and capital planning and stress testing— <i>Agency Priority Goal</i>								
Incorporate approved interest rate risk criteria into supervision policies that specify potential prompt corrective action remedies for high-risk institutions	--	--	--	--	--	Fourth Quarter 2016	Achieved	✓
Issue enhanced examiner guidance on interest rate risk management; including sensitivity analysis and evaluation of quantitative risk measurements. Conduct training and outreach communications throughout 2016	--	--	--	--	--	Fourth Quarter 2016	Achieved	✓
Review and assess all capital plans and stress tests for credit unions with assets greater than \$10 billion within timelines outlined in regulation	--	--	--	Regulation Established	Achieved	Achieve	Achieved	✓
Develop plan and initiate first phase of incorporating an interest rate risk sensitivity component ("S") into the examination rating system (CAMEL)	--	--	--	--	Assessment Completed	Fourth Quarter 2016	Achieved	✓

Discussion. In June 2016, staff from the Office of Examination and Insurance briefed the NCUA Board on the first phase of a plan to incorporate a sensitivity to market risk component (“S”) into the examination rating system (CAMEL). The briefing detailed the development and proposed implementation of a revised interest-rate-risk supervision approach designed to better capture a credit union’s sensitivity to market risk and provide greater consistency in how our field staff assesses interest rate risk across the credit union system.

The revised supervision approach became effective on January 1, 2017, and all stakeholders received full details on it in October 2016, through [Letter to Credit Unions, 16-CU-08, “Revised Interest Rate Risk Supervision.”](#)

Further analysis, coordination and resources are required to revise the definitions of the CAMEL-rating system components and implement these changes across our systems, policies and processes. This consideration is also being weighed against other existing projects and priorities, such as the Enterprise Solution Modernization initiative, that require programming and editing resources.

Priority goal 1.2.1 successfully met its targets in other areas by examining all five consumer credit unions with \$10 billion or more in assets. During these examinations, staff from the Office of National Examinations and Supervision focused on key areas of potential risk for these large consumer credit unions, including interest rate risk, lending and credit practices, capital markets, information technology and payment systems. In addition, these institutions underwent stress tests to assess their capital reserves under adverse financial and economic scenarios. All capital plans and stress tests in 2016 were completed, reviewed and assessed within the regulatory timeframes.

Strategic Objective 1.4 – Be prepared for and promote awareness of critical risk issues, emerging technologies, and related threats

We are committed to being prepared for and promoting awareness of critical risk issues, emerging technologies and related threats to the credit union system. As such, we identified this goal as an agency priority goal.

NCUA participates on two interagency groups designed to prepare for and promote awareness of critical risk issues and related threats in the financial sector—the [Federal Financial Institutions Examination Council](#) and the [Federal Banking Information Infrastructure Committee](#). Participation in interagency groups like these better prepares the agency and the credit union system to address critical risk issues. In addition, NCUA’s Risk Forum, comprised of senior executives, enhances awareness of the macro risks facing the system. In 2016, we used one performance indicator to measure our efforts for this priority goal.

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	2016 Result	Status
1.4.2 Issue industry guidance related to emerging cyber-security risks and related threats — <i>Agency Priority Goal</i>								
Train all examiners on the FFIEC’s Cybersecurity Assessment Tool and implement into examination procedures	--	--	--	--	Tool Released	Third Quarter 2016	Achieved Fourth Quarter	✓

Discussion. In 2016, we required all of our examiners to complete two training modules related to cybersecurity. At the National Examination Program Training, field staff also completed the FFIEC's Cybersecurity Assessment Tool and the cybersecurity examiner trainings. Both of these programs targeted examiners without prior IT-examination experience.

In 2016, we launched cybersecurity training to all the field staff and state examiners. We also partnered with the Office of the Comptroller of the Currency to further incorporate cybersecurity and the Cybersecurity Assessment Tool into our exam procedures. Additional training will be offered to examiners in the second quarter of 2017.

This initiative experienced slight delays, but was achieved off-pace in 2016.

Strategic Goal 2: Promote Consumer Protection and Financial Literacy

Strategic Objective 2.3 – Develop and promote financial literacy education programs to empower consumers to make informed financial decisions

Our Office of Consumer Financial Protection and Access empowers consumers to make informed financial decisions by developing and promoting financial literacy education. In addition, the office responds to inquiries from credit unions, credit union members and consumers involving consumer financial protection and share insurance matters. It also handles consumer complaints filed against credit unions.

Monitoring issues and trends in consumer complaints to develop effective financial literacy education programs is also an agency priority goal. In 2016, we used one performance indicator to gauge NCUA's efforts for this priority goal.

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	2016 Result	Status
2.3.1 Monitor issues or trends in consumer complaints to develop effective financial literacy education programs and initiatives— <i>Agency Priority Goal</i>								
Conduct quarterly reviews of top 10 consumer complaints to ensure existing and planned education programs align with complaint trends	--	--	--	--	--	4	4	✓

Discussion. In 2016, NCUA's Division of Consumer Affairs, through the NCUA Consumer Assistance Center, assisted 49,543 consumers. The efforts included facilitating the resolution of consumer complaints filed with the Consumer Assistance Center involving federal consumer financial protection laws and regulations overseen by the [Consumer Assistance Center](#), responding to both telephone and written inquiries from consumers about consumer financial protection laws and regulations, and providing consumers with access to consumer financial protection and financial literacy information through the online educational tools and resources found on [MyCreditUnion.gov](#).

The Consumer Assistance Center handled 22,367 telephone calls, 5,893 consumer complaints, and 2,192 inquiries and had 19,091 "Find an Answer," knowledge base visits.

Strategic Goal 3: Further Develop a Regulatory Environment that is Transparent and Effective, with Clearly Articulated and Easily Understood Regulations

Strategic Objective 3.4 – Enhance NCUA's communication with credit unions through transparent regulations and guidance

NCUA maintains open communications with credit unions to help increase their understanding and implementation of our regulations and initiatives. To educate credit union managers and boards of directors further, we offer informative webinars on current risk issues and relevant guidance. The agency also produces [YouTube videos](#) addressing NCUA Board actions, economic data and regulatory information. Our monthly newsletter, [The NCUA Report](#), also highlights important Board actions and important regulatory and supervisory issues that credit unions need to know. We also emphasized the importance of effective communication by making the development and issuance of timely guidance an agency priority goal in 2016.

In 2016, we used one performance indicator to gauge our efforts for this priority goal.

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	2016 Result	Status
3.4.1 Develop guidance to credit unions to provide explanation of regulatory changes and best practices for implementation— <i>Agency Priority Goal</i>								
Issue appropriate guidance such as Letters to Credit Unions, supervisory letters, webinars, AIREs questionnaires, or other multi-media outreach in conjunction with regulatory changes issued by the Board when warranted	--	--	--	Achieved	Achieved	Achieve	Achieved	✓

Discussion. In February, the NCUA Board approved a final rule, effective January 1, 2017, revising NCUA's rules on member business lending. The new rule reflects a principles-based approach to regulation, and is designed to provide greater flexibility to credit unions to meet the needs of their members through prudent risk-management and sound commercial lending practices.

Supervisory guidance that elaborates on the principles of sound commercial lending reflected in the revised rule, along with those addressing the statutory cap on member business loans, were incorporated into NCUA's new online [Examiner's Guide](#) in November. The availability of this guidance, which will help credit unions understand NCUA's supervisory expectations for sound commercial risk-management practices, was communicated to credit unions through [Letter to Credit Unions, 16-CU-11](#), "Member Business Loan Guidance Added to Examiner's Guide."

We also issued guidance on a variety of other regulatory and supervisory changes throughout 2016. Thirteen [Letters to Credit Unions](#) were issued on topics like: Supervisory Priorities for 2016, Regulatory Relief on Annual Privacy Notices, Military Lending Act Examination Approach, Revised Interest Rate Risk Supervision and Risk-based Examination Scheduling.

We also held 19 webinars on topics including micro-enterprise lending, CDFI-Fund certifications, fair lending and cybersecurity. Additionally, we continued to produce a video training series for credit union boards of directors in 2016.

Strategic Goal 4: Cultivate an Environment that Fosters a Diverse, Well-trained and Motivated Staff

Strategic Objective 4.3 – Recruit and retain a well-diversified and highly qualified workforce that reflects the relevant labor force

Improving diversity and inclusion is one of NCUA's agency priority goals, and the agency includes these principles as part of our core values. Diversity and inclusion serve as the foundation for building an environment where the talents of all individuals are utilized fully. When applied effectively, these principles create a workplace where employees not only succeed, but are provided the opportunity to reach their fullest potential.

In 2016, two performance indicators were used to gauge this priority goal.

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	2016 Result	Status
4.3.1 Increase the number of women and minority staff at all levels particularly in the management ranks— <i>Agency Priority Goal</i>								
Maintain NCUA's position in the top five mid-sized agencies for the Support for Diversity Indicator	--	4 th	4 th	5 th	6 th	Top 5	7 th	✘
Maintain NCUA's position in the top 6 agencies in its size category for the Office of Personnel Management's new Inclusion Quotient. The new Inclusion Quotient identifies behaviors that help create an inclusive environment	6 th	6 th	6 th	4 th	6 th	Top 6	4 th	✔

Discussion. Performance goal 4.3.1 contains one indicator that finished slightly below target. NCUA did not finish in the top five mid-sized agencies for the Support for Diversity Indicator in the Federal Employee Viewpoint Survey that was administered in May 2016. Slight declines in the score for survey questions 45 (My supervisor is committed to a workforce representative of all segments of society) and 55 (Supervisors work well with employees of different backgrounds) primarily contributed to the agency's decline in the overall rankings. Our score dropped 0.7 points, from 68 in 2015 to 67.3 in 2016. As a result, we dropped from sixth to seventh place among mid-sized agencies.

However, we noted an increase in positive responses for survey question 34 (Policies and programs promote diversity in the workplace, for example, recruiting minorities and women, training in awareness of diversity issues, mentoring).

Throughout 2016, we continued to improve our diversity and inclusion through delivering diversity training to all staff and training on unconscious bias to field staff and supervisors, and revising the agency's [Diversity and Inclusion](#) and [Equal Employment Opportunity](#) policies.

In 2016, and for the past four years, we have ranked as a "Best of the Best" place to work for minorities and women in the annual rankings published by DiversityComm, Inc., a human resources research and consulting firm specializing in workplace diversity. We also received the Outstanding Public Sector Award from the Hispanic Association of College and Universities for providing more than 50 internships to college students since 2012.

Through these efforts and others, we have seen improvements in the diversity and quality of candidates hired. Of the 79 employees hired in 2016, 66 percent identified as a minority, a female or a female minority. Twenty percent of the agency's new hires in 2016 were veterans, and 13 percent of new hires were disabled veterans.

Strategic Objective 4.6 – Enhance NCUA’s position as one of the best places in the government to work.

A fundamental component of enhancing our position as one of the best places in government to work is a commitment to a safe and secure work environment. NCUA is committed to strengthening our security programs and information systems and we have made this objective an agency priority goal.

Our Office of Continuity and Security Management is responsible for our continuity of operations and emergency management programs, and our physical security, personnel security, and national security and intelligence initiatives.

In 2016, we used two performance indicators to measure this priority goal.

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	Result	Status
4.6.4 Strengthen the security program in the areas of personnel, facilities, continuity of operation and secure communications— <i>Agency Priority Goal</i>								
Maintain a favorable response rate of 70 percent or above for NCUA’s Federal Employee Viewpoint Survey Question 36: “My organization has prepared employees for potential security threats.”	69%	71%	60%	63%	76%	Greater than or Equal to 70%	82%	✓
Migrate NCUA’s technology infrastructure from the legacy data center to a modern, completely redundant, and secure data center facility	--	--	--	--	--	Second Quarter 2016	Achieved	✓

Discussion. In 2016, we continued to strengthen the agency’s security and continuity of operations programs by coordinating with the intelligence community on classified cyberthreat reporting, conducting fire and active-shooter drills, developing security processing and screening policies, establishing our insider threat and counterintelligence programs, and conducting security-risk assessments.

Additionally, the Office of Chief Information Officer migrated our 20-year-old legacy data center to a modern, secure and fully redundant commercial data center facility. This initiative experienced slight delays, but was achieved off-pace in 2016. The new data center’s hosting capabilities can be scaled up to accommodate the anticipated increases in computing demands imposed by future technology initiatives.

FINANCIAL HIGHLIGHTS

NCUA operates four permanent funds: the National Credit Union Share Insurance Fund, the Operating Fund, the Central Liquidity Facility and the Community Development Revolving Loan Fund. Once again, NCUA received unmodified or “clean” audit opinions by an independent auditor on its financial statements for each of these funds for the years ending December 31, 2016, and December 31, 2015.

The following highlights provide an overview of NCUA's 2016 financial statements. The complete financial statements, including the independent auditors' reports, are located in the [Financials Section](#) of this report.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

NCUA administers the National Credit Union Share Insurance Fund. Created by Congress in 1970, the fund insures the deposits of over 106.9 million members at federally insured credit unions up to \$250,000.¹ The Share Insurance Fund is backed by the full faith and credit of the United States.

As of December 31, 2016, the Share Insurance Fund insured 5,785 credit unions, with insured member shares reaching \$1.0 trillion, an increase of \$67.4 billion or 7 percent from 2015.² At December 31, 2016, federally insured credit unions held nearly \$1.3 trillion in total assets.

The Share Insurance Fund ended 2016 with \$12.9 billion in total assets, an increase of \$541.1 million from 2015. This increase came primarily from biannual net collections of capital deposits of \$634.3 million. Insured credit unions are required to make capital deposits of 1 percent of insured shares into the Share Insurance Fund.

In accordance with the Federal Credit Union Act, NCUA invested these capital deposits in U.S. Treasury securities and earned interest revenue of \$227.2 million in 2016, an increase of \$8.6 million from 2015. The growth of interest income over prior years was primarily due to the growth of capital deposits, which reflected the increase in insured shares in all federally insured credit unions.

The Share Insurance Fund ended 2016 with total liabilities of \$203.0 million, an increase of \$30.5 million from 2015. This change was primarily due to an increase in insurance and guarantee program liabilities, which increased \$31.8 million from 2015 due to an increased risk of loss due to potential credit union failures.

Net position was \$12.7 billion in 2016, an increase of \$510.6 million from 2015. This change included a \$634.3 million increase in contributed capital caused by the growth of insured shares in credit unions, and \$227.2 million in interest revenue on investments. Offsetting these increases were net cost of operations

The Share Insurance Fund At a Glance:

- **Assets**
2016 - \$12.9 billion
2015 - \$12.3 billion
- **Liabilities**
2016 - \$203.0 million
2015 - \$172.5 million
- **Operating Expenses**
2016 - \$209.3 million
2015 - \$197.8 million
- **Equity Ratio**
2016 - 1.24%
2015 - 1.26%
- **Insured Shares**
2016 - \$1.0 trillion
2015 - \$961.3 billion

¹ The Share Insurance Fund insures the balance of each members' account, dollar-for-dollar, up to the standard maximum share insurance amount of \$250,000, including principal and posted dividends through the date of failure, subject to various rules on account types, rights and capacities.

² Differences due to rounding

of \$214.7 million and net unrealized losses on investments of \$136.1 million. Investments in U.S. Treasury securities account for approximately 99 percent of total assets.

Operating expenses are primarily administrative services provided by the NCUA Operating Fund. Services are charged based on an NCUA Board-approved allocation methodology and derived from a study of insurance and regulatory efforts. The rate determined under the allocation methodology, known as the Overhead Transfer Rate, increased from 71.8 percent for 2015 to 73.1 percent for 2016. The increase in the rate primarily reflect increased time spent on insurance-related activities by agency staff.

The financial performance of the Share Insurance Fund can be measured by comparing the equity ratio to the normal operating level. The equity ratio is calculated as the ratio of the contributed 1 percent deposit, plus the cumulative results of operations, excluding net cumulative unrealized gains and losses on investments, to the aggregate amount of the insured shares in all insured credit unions. The normal operating level is the desired equity level for the Share Insurance Fund. The NCUA Board sets the level between 1.20 percent and 1.50 percent. The current normal operating level is set at 1.30 percent.

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

The equity ratio at the end of 2016 was 1.24 percent, which is below the normal operating level. As a result, no distribution was payable to insured credit unions in 2016. For 2015, the equity ratio was 1.26 percent, which resulted in no distribution to the Temporary Corporate Credit Union Stabilization Fund.³

NCUA expects the Share Insurance Fund will receive additional capitalization deposits of approximately \$300.1 million from insured credit unions in early 2017 when NCUA invoices for its biannual contributed capital adjustment. The additional capitalization deposits will result in a projected equity ratio of approximately 1.27 percent.

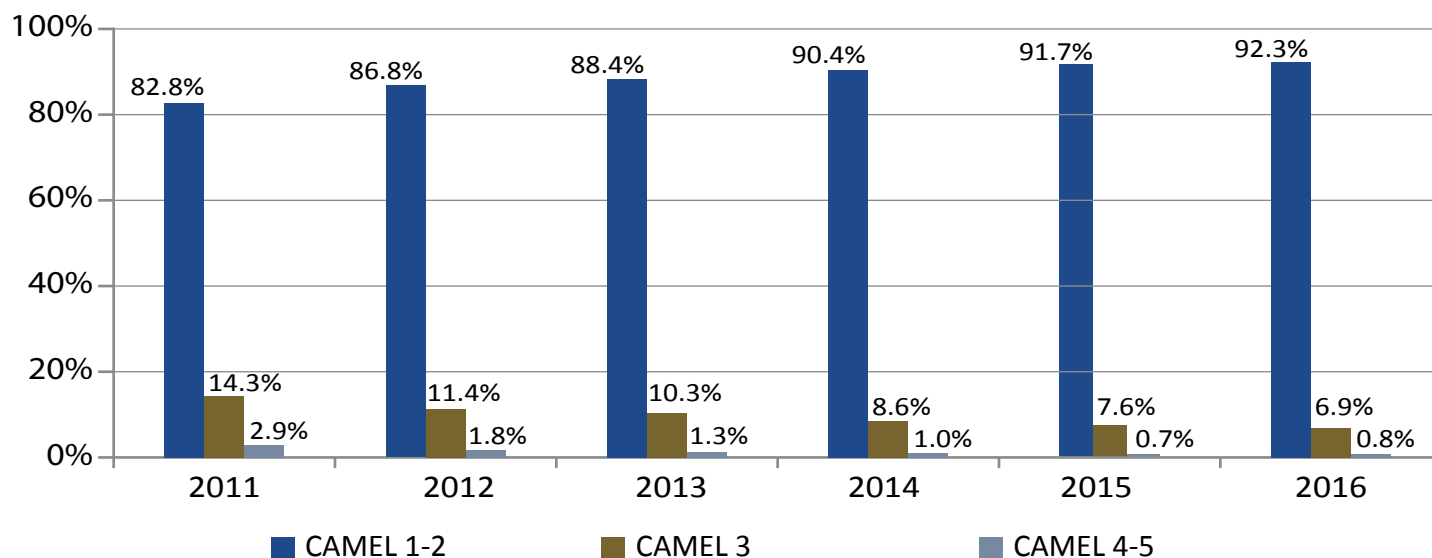
Total insured shares were estimated at \$1.0 trillion and \$961.3 billion as of December 31, 2016, and 2015, respectively. In 2016, credit union membership grew by 4 percent to 106.9 million members. This increase in the deposit base contributed to the decrease in the equity ratio for 2016.

The health of the credit union industry remained stable during 2016, as reflected by the slight reduction of assets in CAMEL 3, 4 and 5 rated credit unions as compared to 2015. NCUA's composite CAMEL rating consists of an assessment of a credit union's capital adequacy, asset quality, management, earnings and liquidity. The CAMEL rating system is designed to take into account and reflect all significant financial, operational and management factors field staff assess in their evaluation of a credit union's performance and risk profile. CAMEL ratings range from 1 to 5, with 1 being the best rating. NCUA collectively refers to CAMEL 4 and 5 credit unions as "troubled credit unions."

Assets in CAMEL 3, 4 and 5 rated credit unions decreased to \$98.2 billion at the end of 2016, versus \$98.3 billion at the end of 2015, continuing a trend of steady decline since 2010.

³ The NCUA Board administers the Temporary Corporate Credit Union Stabilization Fund that was established in 2009 to accrue the losses of corporate credit unions during the credit crisis and to recover such losses over time. By statute, when the Stabilization Fund has a loan from the U.S. Treasury, distributions from the Share Insurance Fund are paid to the Stabilization Fund.

Distribution of Assets by CAMEL Ratings at Year-End 2011–2016



Source: NCUA Examination Data

A detailed overview of the Share Insurance Fund, including additional financial statement analysis and more information on equity ratio, contingent liabilities, capital resources and fiduciary activity, can be found in the [Financials Section](#) of this report.

NCUA OPERATING FUND

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

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

In 2016, NCUA chartered no new federal credit unions. At year-end, the total number of federal credit unions was 3,608, with total assets of \$670.2 billion.

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

The Operating Fund is managed by the NCUA Board and supports the other four funds—also managed by the Board. The Operating Fund provides office space, information technology services and supplies, and pays

employees' salaries and benefits. The Share Insurance Fund, Central Liquidity Facility and Temporary Corporate Credit Union Stabilization Fund reimburse administrative support. Support to the Community Development Revolving Loan Fund is not reimbursed.

Operating Fund Summary Results		
Financial Results (in thousands)	2016	2015
Total Assets	\$89,911	\$80,411
Total Liabilities	\$44,657	\$42,616
Fund Balance	\$45,254	\$37,795
	2016	2015
Total Revenue	\$82,186	\$79,895
Total Expenses	\$74,727	\$75,528
Excess Revenues Over Expenses	\$7,459	\$4,367

Total expenses are shown, net of reimbursements from related parties

Source: Audited financial statements for the NCUA Operating Fund

The Operating Fund ended 2016 with total assets of \$89.9 million, an increase of \$9.5 million from 2015. This change was primarily attributable to an increase in cash and cash equivalents due to actual expenses being less than budgeted for the year.

Total liabilities at December 31, 2016, were \$44.7 million, an increase of \$2.0 million from 2015. The change was primarily attributable to an increase in accrued wages and benefits.

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

As part of our mid-session budget review, NCUA estimated \$2.7 million in reduced expenses from the 2016 operating budget. Most of this was associated with pay and benefits, and lower full-time equivalent utilization. At mid-session, we projected the year-end full-time equivalent level would be 1,214. The actual year-end result was 1,208, compared to the authorized 1,247.

In 2016, NCUA operating expenses were under budget by \$13.2 million or 4.5 percent, compared to being under budget by approximately \$9.4 million for last year. Of the total variance, employee pay and benefits were under budget by \$3.8 million or 1.8 percent. Travel costs were under budget by \$2.8 million or 9.5 percent. Contracted services were under budget by \$3.5 million or 12.3 percent. The remaining expense categories combined were under budget by \$3.0 million or 13.8 percent. It should be noted that expenses include certain non-cash items, such as depreciation. The high full-time equivalent vacancy rate in 2016 was the primary driver of the reduced cost of travel and personnel compensation. Fewer employees attended NCUA's biennial National Program Exam Training, contributing to travel, rental and other contract savings. There were also information technology and security project delays, accounting for lower contract expenses than planned. However, many of the projects funded from the contract and administrative budgets will continue in 2017 and will use the available resources to complete those activities.

CENTRAL LIQUIDITY FACILITY

The Central Liquidity Facility's purpose is to improve the general financial stability of credit unions by serving as a liquidity lender to credit unions experiencing unusual or unexpected liquidity shortfalls. The Central Liquidity Facility accomplishes its purpose by lending funds, subject to certain statutory limitations, when a liquidity need arises. The two primary sources of funds for the Central Liquidity Facility are stock subscriptions from credit unions and borrowings from the Federal Financing Bank.

A credit union becomes a member by purchasing shares of capital stock of the Central Liquidity Facility. As of December 31, 2016, the Central Liquidity Facility had 268 members that contributed \$239.9 million of capital stock.

Central Liquidity Facility Capital Stock Accounts			
2016		2015	
Shares	Amount	Shares	Amount
4,798,149	\$239,907	4,362,903	\$218,145

Amounts in thousands, except for share data

Source: Audited financial statements for the Central Liquidity Facility

Investments totaled \$265.7 million at year-end, and investment income totaled \$3.2 million, which funded operations and paid \$1.0 million in dividends to members. The dividend rates were \$0.125 per share for the first quarter and \$0.25 per share for the second, third and fourth quarters of 2016. The borrowing authority as of December 31, 2016, is \$6.1 billion. Investments are the Central Liquidity Facility's primary asset and are restricted to obligations of the U.S. government and its agencies, deposits in federally insured financial institutions and shares and deposits in credit unions.

COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

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

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

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

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

As of December 31, 2016, the Revolving Loan Fund loan portfolio had \$10.2 million in outstanding loans—29 loans outstanding to 29 credit unions. In addition, Congress granted multi-year appropriations of \$2 million in both 2016 and 2015, for the technical assistance program. In 2016, the fund made 309 technical assistance awards totaling \$2.5 million from the multi-year appropriations received.

MANAGEMENT ASSURANCES AND COMPLIANCE WITH LAWS



National Credit Union Administration

Office of the Chairman

February 14, 2017

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

Dear Mr. President:

The National Credit Union Administration's (NCUA) management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act. NCUA conducted its assessment of risk and internal control in accordance with Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. Based on the results of the assessment, NCUA can provide reasonable assurance that internal control over operations, reporting, and compliance was operating effectively as of December 31, 2016.

In addition, NCUA conducted an assessment of the effectiveness of internal control over financial reporting, which includes the safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements in Appendix A to OMB Circular A-123, Internal Control Over Financial Reporting. Based on the results of this evaluation, NCUA can provide reasonable assurance internal control over financial reporting as of December 31, 2016 was operating effectively and no material weaknesses were found in the design or operation of internal control over financial reporting.

Respectfully,

A handwritten signature in black ink, appearing to read "J. Mark McWatters".

J. Mark McWatters
Acting Chairman

1775 Duke Street – Alexandria, VA 22314-6113 – 703-518-6300

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

Internal control is an essential component of effective management, providing reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of reporting, and compliance with laws and regulations. The Federal Managers' Financial Integrity Act establishes management's responsibility to assess and report on internal accounting and administrative controls. The act requires agencies to establish controls that reasonably ensure obligations and costs comply with applicable law; all assets are safeguarded against waste, loss, unauthorized use, and misappropriation; and revenues and expenditures are properly recorded and accounted for to maintain accountability of the assets. The Office of Management and Budget provides guidance for implementing the Federal Managers' Financial Integrity Act through Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control."

NCUA is committed to continuously enhancing and improving its systems of internal control and realizing more efficient and effective ways to accomplish its mission. Although no material weaknesses in internal controls were identified, NCUA continues to take steps to strengthen internal controls such as implementing an enterprise risk-management process, furthering development and enhancement of policies and procedures, and establishing more robust internal controls over financial reporting.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

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

MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL

NCUA managers monitor and assess their relevant internal controls and report on their assessments annually. The central, regional, and Asset Management and Assistance Center office assurance statements of compliance support the Chairman's assurance statement. Each assurance statement is supported by the performance of internal control assessments by office directors and no material weaknesses were identified. The assessments identified deficiencies, but none that would rise to the level of a material weakness. The issues are being addressed and mitigating controls will be put in place and monitored closely within NCUA this next year through corrective action plans.

The 2016 Chairman's annual assurance statement for the Federal Managers' Financial Integrity Act and internal controls over reporting provided reasonable assurance that the necessary objectives (efficient and effective operations, reliability of reporting and compliance with applicable laws and regulations) were achieved.

The results of these assurance statements were considered with other sources of information, which included the following:

- An entity-level control survey;
- Results of internal control testing under Circular A-123, Appendix A, “Internal Control over Financial Reporting;”
- Annual review of improper payments in accordance with Circular A-123, Appendix C, “Requirements for Effective Estimation and Remediation of Improper Payments;”
- Reviews of financial management systems under Circular A-123, Appendix D, “Compliance with the Federal Financial Management Improvement Act;”
- Reports issued by the Government Accountability Office and NCUA’s Office of Inspector General;
- Reports pursuant to the Federal Information Security Management Act and Circular A-130, “Management of Federal Information Resources;” and
- Additional internal management reviews or assessments.

With respect to internal controls over financial reporting, NCUA conducted a risk-based assessment over the most material financial statement line items in four funds, in accordance with Appendix A to Circular A-123, “Internal Control over Financial Reporting.” NCUA documented the end-to-end processes, identified key controls, and assessed the design and effectiveness of these controls through test procedures. NCUA analyzed deficiencies, both individually and taken together, to determine if a material weakness existed in the financial reporting processes. None rose to the level of a material weakness. NCUA is addressing these deficiencies through corrective action plans and will monitor closely through the next year.

In addition, it is anticipated that NCUA’s Office of Inspector General will issue a report on the agency’s procurement process later in 2017. Based on our understanding of Office of Inspector General’s likely findings, management determined that the deficiencies, in aggregate, did not rise to the level of a material weakness. In 2016, NCUA sought ways to improve its procurement process, including the implementation of a new procurement system. NCUA implemented a new procurement system in January 2017, which will reduce manual processes, improve data reporting, and enhance controls with automated workflows. More work remains to improve controls around the procurement process, and we will endeavor to address the issues raised by the Office of Inspector General’s review.

The assurance statements from all office directors, the consideration of other sources of information described above, and the results of the internal controls over financial reporting testing serve as a foundation for senior management to advise the Chairman as to whether NCUA has any deficiencies in internal control significant enough to be reported as a material weakness.

This report provides a Summary of Financial Statement Audits and Management Assurances in the [Other Information](#) section, as required by Circular A-136, “Financial Reporting Requirements.”

IMPROPER PAYMENT ELIMINATION AND RECOVERY IMPROVEMENT ACT

The Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012, requires federal agencies to review all programs and activities they administer and to identify those that may be susceptible to significant improper payments.

NCUA annually assesses improper payment risks covering all programs, as required by Circular A-123, Appendix C, “Requirements of Effective Measurement and Remediation of Improper Payments.” NCUA has no activities that are risk-susceptible to the threshold amounts in Appendix C. Significant improper payments are defined as gross annual improper payments in a program exceeding both 1.5 percent of program outlays and \$10 million of all program payments made during the year, or \$100 million. Therefore, NCUA is not required to determine a statistically valid estimate of erroneous payments or develop a corrective action plan.

FEDERAL INFORMATION SECURITY MODERNIZATION ACT OF 2014

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

NCUA’s Office of Inspector General performs an annual independent evaluation to determine the effectiveness of the agency’s information security programs and practices, as required by the Federal Information Security Modernization Act of 2014, and to assess NCUA’s privacy management program. The Office of Inspector General completed the fiscal year 2016 audit in November 2016, and the report is publicly available at <http://go.usa.gov/x9Jne>.

PROMPT PAYMENT ACT

The Prompt Payment Act requires federal agencies to make timely payments to vendors, including any interest penalties for late invoice payments. In 2016, NCUA processed over 5,000 invoices totaling more than \$91 million that were subject to prompt payment. During 2016, NCUA paid \$2,169 in interest penalties, or 0.0024 percent of total dollars invoiced.

DEBT COLLECTION IMPROVEMENT ACT

The Debt Collection Improvement Act of 1996 prescribes standards for the administrative collection, compromise, suspension and termination of federal agency collection actions and referrals to the proper agency for litigation. All eligible, nonexempt debts more than 120 days old have been transferred to the U.S. Department of the Treasury for cross servicing. In addition, in accordance with the provisions of the Debt Collection Improvement Act, NCUA’s recurring payments were processed via electronic funds transfer.

FINANCIAL MANAGEMENT SYSTEM STRATEGY

NCUA strives to maintain and enhance financial management systems, processes, and controls that ensure financial accountability and transparency, provide financial management data and information to decision makers, and comply with applicable laws and regulations. NCUA’s financial system, Delphi, is supported by an approved Federal Shared Services Provider and meets the requirements of Federal Financial Management Improvement Act.

In 2016, NCUA worked to update its acquisition function. Working with its Shared Services Provider, the Department of Transportation’s Enterprise Services Center, NCUA made significant progress in acquiring PRISM, a web-based, commercial off-the-shelf, procurement and contract management system. In January 2017, NCUA implemented PRISM. NCUA believes this solution will help provide better audit trails to track acquisitions through every stage, provide improved internal and external reporting capabilities, and put its acquisition controls on a more sustainable path.



PERFORMANCE RESULTS

Throughout 2016, NCUA implemented strategies and initiatives designed to achieve our mission to provide, through regulation and supervision, a safe and sound credit union industry which promotes confidence in the national system of cooperative credit. This mission is consistent with our vision of protecting consumer rights and credit union member deposits.

The Performance Results section includes:

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

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

PERFORMANCE STRUCTURE

The Performance Results Section is organized by strategic goals to describe NCUA's efforts to meet the objectives defined in the [2014–2017 Strategic Plan](#). This strategic plan outlines four strategic goals that are supported by 21 strategic objectives, 49 performance goals and 60 performance indicators.

- **Strategic goals** are general, outcome-oriented, long-term goals for the major functions and operations of the agency. Strategic goals address the broader result that is desired by the organization.
- **Strategic objectives** break down the broader strategic goals to a level that reflects the outcome or impact the agency is trying to achieve. They contribute to the broader impact described in the strategic goal, while also indicating how the strategic goal will be achieved by the agency.
- **Performance goals** are the steps the agency intends to take and measure to implement the strategic objectives. Each performance goal is supported by one or more indicators or measures.
- **Performance indicators** or measures include a quantitative level of performance, or target to be accomplished within a specific timeframe.
- **Strategies** are how the agency plans to make progress on the strategic objectives. This includes operational processes, human capital, training skills, technology, information and other resources critical to mission delivery.

The diagram below illustrates the hierarchy of these goals and measures.



PERFORMANCE PLANNING AND PROCESS

The [2016–2017 Annual Performance Plan](#) sets out performance measures and targets in support of the goals and objectives in the strategic plan. Developing the performance plan is a collaborative process that includes all NCUA central and regional offices. Strategic and performance goals are developed during the planning process and approved by the NCUA Board. Senior executive leaders develop performance measures, as well as the means and strategies that describe how we will assess progress towards the objectives.

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

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

PROGRAM EVALUATION AND REVIEW

NCUA periodically reviews its performance framework and focuses on tracking and reporting the most appropriate and meaningful outcome performance goals to show effectiveness, efficiency and results. We use the results of the quarterly reviews and our annual performance report as data points for future development of the strategies, goals, measures and targets.

Targets and Historical Data

NCUA provides five years of historical trend data for each performance measure when available. Several performance goal indicators in this report are new for 2016. Therefore, historical data is not available. These

indicators are marked as “- -” in the performance results indicator and target tables. Baseline data collected in 2016 will be used to formulate performance goal targets for future years.

NCUA achieved some results that were significantly better than the target. However, we will not, in all cases, set future years’ targets to reflect this year’s results. As part of our collaborative performance planning process, the Office of the Chief Financial Officer works closely with our Chief Economist and subject matter experts across NCUA to consider external factors and risks to the credit union system when developing meaningful, challenging and realistic targets. In the case of select performance measures, target selection is guided by NCUA’s [Rules and Regulations](#), formal instructions or policy statements.

Measure Quality

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

As part of the 2016–2017 planning effort, NCUA conducted a review of performance indicators and made a distinction between strategic measures and operational measures for reporting purposes. Strategic measures are developed by leadership and subject matter experts to communicate the value delivered to our stakeholders, framed in terms of results related to NCUA’s strategic foundation. These indicators will continue to be published in NCUA’s *Annual Report* and *Annual Performance Plan*.

Operational measures are those managed at the program level, and they contain detailed information on how operations are performing. These measures are not published externally, but instead are tracked internally and used to identify opportunities for improvement. NCUA’s strategic- and operational-performance indicators integrate to measure our agency’s progress toward our performance goals and contribute to the accomplishment of our agency’s mission.

It is important to note that in 2016, as part of an immediate policy change to the examination schedule, the NCUA Board retired two agency performance goals, 1.1.3 and 1.1.4, that required the examination each calendar year of all federally insured, state-chartered credit unions with more than \$250 million in assets and every federal credit union regardless of asset size. Additional information on these performance goals is provided in the [Performance Results by Strategic Goal](#) section.

Enterprise Risk Management

In 2016, NCUA stood up an enterprise risk-management program to consider risks more systematically across our major program areas. Enterprise risk management looks at the full spectrum of the agency’s risks related to achieving its strategic objectives and provides agency leadership with a portfolio view of risk to help inform decision-making.

NCUA has established an Enterprise Risk-Management Council and set the foundational elements of the program to include an enterprise risk appetite and risk taxonomy. In 2017, NCUA will create a prioritized risk profile and assign roles and responsibilities for risk-monitoring activities.

CROSS-AGENCY PRIORITY GOALS

The Government Performance and Results Modernization Act requires federal agencies to address cross-agency priority goals in their strategic plan, annual performance plan and annual performance report. The national-level cross-agency priority goals are located at www.Performance.gov. NCUA aligns its efforts to five cross-agency

priority goals: cybersecurity, insider threat and security clearance reform, open data, smart IT delivery and people and culture.

NCUA is also involved in numerous cross-agency initiatives on regulatory reform and improving the efficiency and effectiveness of the examination process. NCUA collaborates with the other federal financial regulatory agencies, federal agencies, state supervisory authorities and the private sector through participation on the Financial Stability Oversight Council, the Federal Financial Institutions Examination Council, the Financial and Banking Information Infrastructure Committee, the Federal Senior Intelligence Council Advisory Board and the Office of Management and Budget’s Performance Improvement Council.

NCUA serves as one of ten voting members on the Financial Stability Oversight Council. Chaired by the Secretary of the Treasury, this council is charged with identifying risks to financial stability, promoting financial market discipline and responding to emerging risks that could threaten the stability of the U.S. financial system. Participation on the Financial Stability Oversight Council has helped the agency identify emerging risks to credit unions and improved our access to critical financial and market information.

The agency continued to participate on the Federal Financial Institutions Examination Council during 2016 to establish uniform principles, standards and report forms for the federal examination of financial institutions.

NCUA also participates on the Federal Banking Information Infrastructure Committee, an interagency body created to prepare the financial sector for and promote awareness of critical issues and related threats to the nation’s financial infrastructure. In 2016, NCUA signed memoranda of understanding with all members of the committee to improve information sharing on cybersecurity and other national security threats between the participating agencies, credit unions and others in the financial services sector.

NCUA continued its partnership with the Small Business Administration to increase the awareness of credit unions to the lending programs offered by SBA, helping small businesses and start-ups across the nation to get greater access to critical capital.

These councils and their many associated taskforces and working groups contribute to the success of NCUA’s mission.

PERFORMANCE RESULTS BY STRATEGIC GOAL

NCUA performed well across all four strategic goals in 2016, meeting or exceeding 50 performance indicators. Each strategic goal and the supporting strategic objectives and performance goals are presented in the subsequent sections, including the detailed results of each indicator used to measure agency performance.

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

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

Stability is the foundation that enables federally insured credit unions to provide services to their members and introduce new services and products that meet the evolving financial needs of their membership. NCUA's primary function is to identify and assess credit union system risks, threats and vulnerabilities, determine the magnitude, and mitigate unacceptable levels through our examination and supervision program.

Strategic Goal 1's objectives focus on minimizing current and future risks as early as possible and encouraging stability within the system. Future risks to credit unions include escalating cybersecurity threats, interest rate and liquidity challenges, real estate and member business loan concentrations and rapid changes in technology. Each risk requires continual monitoring and, where prudent, risk-mitigation strategies to protect the overall credit union system from preventable losses or failures.

The Federal Credit Union Act assigns statutory responsibility of the Share Insurance Fund and oversight of the credit union system to NCUA. We focus on balancing safety and soundness and credit unions' abilities to meet member needs by ensuring all programs work in concert to achieve this goal.

NCUA aims to improve its ability to adapt to economic changes and emerging issues while ensuring staff have the resources they need to appropriately examine and supervise credit unions. NCUA established the Exam Flexibility Initiative internal working group on May 19, 2016, to evaluate the agency's examination and supervision program. This working group focused its efforts on determining a future-state for the examination cycle for federal credit unions and federally insured, state-chartered credit unions, and identifying areas where additional flexibility could be provided to credit unions and where agency's resources could be reallocated to mitigate risks.

In pursuit of these objectives, the working group's report recommended an extended examination cycle for well-managed, low-risk federal credit unions with assets of less than \$1 billion beginning in 2017. [The Exam Flexibility Initiative report](#) also made nine other recommendations to improve the agency's examination and supervision program, including: enhancing the coordination of federally insured, state-chartered credit union examinations, enhancing examination planning and notice procedures, and improving NCUA's offsite-monitoring capabilities.

The Strategic Goal 1 is supported by five strategic objectives, 13 performance goals (including two agency priority goals—1.2.1 and 1.4.2), and 19 indicators. NCUA performed well, meeting our target for 15 performance indicators. An explanation is provided for each indicator that did not meet its target.

Strategic Objective 1.1 – Identify, measure, monitor and mitigate levels of risk in the credit union industry through effective regulations, supervision and examination

Identifying and managing risk in credit unions is NCUA's core mission. Essential to achieving this strategic objective is the effective and efficient management and execution of our examination and supervision programs, including the proper allocation of resources and timely resolution of issues. A stable and sustainable system allows credit unions to continue to provide services to their members, as well as develop new services and products to meet the evolving needs of their members.

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	2016 Result	Status
1.1.1 Maintain strong levels of credit union system-wide net worth and corporate credit union leverage ratios								
Maintain aggregate net worth above 10 percent, annually	10.21%	10.43%	10.77%	10.96%	10.92%	Greater than 10%	10.89%	✓
Maintain the aggregate corporate credit union leverage ratio above 5 percent, annually	5.0%	6.3%	7.1%	7.7%	8.0%	Greater than 5%	5.6%	✓
1.1.2 Improve the number of rehabilitated problem credit unions (CAMEL Composite Codes 3, 4, and 5) as a percentage of problem credit unions								
Maintain Share Insurance Fund losses in problem credit unions at less than 0.03 percent of total assets in problem credit unions, annually	0.023%	0.102%	0.014%	0.014%	0.009%	Less than 0.03%	0.006%	✓
1.1.3 Examine all federal credit unions annually								
Examine all federal credit unions by December 31, annually	92.1%	99.7%	99.7%	99.9%	99.6%	Achieve	n/a	✗
1.1.4 Examine all federally insured state credit unions with assets above \$250 million annually								
Examine all federally insured, state-chartered credit unions with assets greater than \$250 million by December 31, annually	98.6%	97.3%	100%	100%	100%	Achieve	n/a	✗

Discussion. Performance goals 1.1.3 and 1.1.4 did not meet their respective targets in 2016. In June, the NCUA Board implemented immediate changes to the examination schedule while also launching the Examination Flexibility Initiative to recommend long-term solutions. In the second half of 2016, our Regional Directors had greater discretion to examine federal credit unions and federally insured, state-chartered credit unions. Specifically, Regional Directors had the discretion to schedule exams of federal credit unions within their assigned budgets and without respect to a given calendar year. However, the time between completion of the most recent exam and completion of the next exam could not exceed 23 months. For federally insured, state-chartered credit unions with assets above \$250 million, examinations were no longer required to occur each calendar year. Instead, within their assigned budgets, Regional Directors selected federally insured, state-chartered credit unions for examination based on various factors, including, but not limited to, the risk profile of the institution and emerging trends.

As part of this policy change, the Board retired two agency performance goals, 1.1.3 and 1.1.4, which required the examination each calendar year of all federally insured, state-chartered credit unions with more than \$250 million in assets and every federal credit union regardless of asset size. NCUA maintained an effective and efficient examination cycle through the end of 2016, but the targets and specific details of these two measures were no longer applicable.

The NCUA Board adopted the Examination Flexibility Initiative's recommendations in November. Effective in 2017, NCUA will begin the transition to an extended exam cycle for certain low-risk credit unions. Generally, examinations for federal credit unions meeting the eligibility requirements for an extended cycle will begin between 14–20 months from the prior examination completion date. Examinations for all other federal credit unions will begin between 8–12 months from the prior examination date. Examinations for federally insured, state-chartered credit unions meeting certain criteria will begin between 8 and 12 months from the prior examination date. NCUA anticipates a full transition to this extended examination cycle for eligible credit unions within two years.

The agency will do its best to operate within the exam cycle timeframes noted above. However, some credit unions may receive examinations earlier than the timeframes outlined above during the 2017 transition period.

Strategic Objective 1.2 – Manage operational vulnerabilities resulting from new products and services, especially shifts in balance sheet composition

Credit unions become more complex as they grow in size because they provide a wider array of products and services. Such complexity can be beneficial when it addresses members' needs and when it leads to increased diversification of a credit union's assets. However, operational vulnerabilities and shifts in balance-sheet composition resulting from the introduction of new products and services, particularly in large concentrations, must be well managed, monitored and controlled to ensure a safe, sound and sustainable credit union system.

Credit unions' balance sheets should be resilient under a wide variety of interest rate environments. As such, credit unions' ability to manage and mitigate interest rate risk remains vital to their success. In 2016, NCUA took steps to revise our supervision approach for interest rate risk.

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	2016 Result	Status
1.2.1 Implement a robust supervision framework for NCUA's financial reform regulations including interest rate risk, liquidity and contingency funding plans, derivatives authority, and capital planning and stress testing —Agency Priority Goal								
Incorporate approved interest rate risk criteria into supervision policies that specify potential prompt corrective action remedies for high-risk institutions	--	--	--	--	--	Fourth Quarter 2016	Achieved	✓
Issue enhanced examiner guidance on interest rate risk management, including sensitivity analysis and evaluation of quantitative risk measurements. Conduct training and outreach communications throughout 2016	--	--	--	--	--	Fourth Quarter 2016	Achieved	✓
Review and assess all capital plans and stress tests for credit unions with assets greater than \$10 billion within timelines outlined in regulation	--	--	--	Regulation Established	Achieved	Achieve	Achieved	✓
Develop plan and initiate first phase of incorporating an interest rate risk sensitivity component ("S") into the examination rating system (CAMEL)	--	--	--	--	Assessment Completed	Fourth Quarter 2016	Achieved	✓
1.2.2 Update the automated examination system to incorporate economic model analysis								
Initiate acquisition and develop an actionable roadmap and plan for modernizing NCUA's examination system (AIRES)	--	--	--	--	--	Fourth Quarter 2016	Delayed	✗

Discussion. Performance goal 1.2.2 did not meet its target in 2016. Strategies and activities were executed, but more progress is needed to fully satisfy the measure. The newly formed program management office experienced challenges related to staffing the team and unexpected turnover in project management positions. In addition, given the complexity of the emerging requirements, the team elected to expand the market research and peer organization benchmarking activities to better understand the full range of industry available solutions and the proven methods for implementing, operating, and maintaining the solutions. This extended due diligence will result in an accurate roadmap and reduce the risks for acquiring the necessary Examination and Supervision solution technology and technical support services.

To keep pace with the growing complexities of the credit union system, NCUA is redesigning its examination management system under the multi-year Enterprise Solution Modernization initiative. This program will improve the primary program examination tool used to manage our supervision and examination functions. This system is a critical and primary information source for documenting the industry's health, safety and soundness.

A Business Innovation Director and an Information Technology Project Manager were brought on board in 2016 to plan, direct and coordinate this multi-year modernization of NCUA's systems. In 2016, the Examination and Supervision Solution Integrated Product Team developed the functional objectives, capabilities and activities, and the Office of the Chief Information Officer developed the current-state architecture documentation, both required for the acquisition of a new solution.

Enterprise Solution Modernization continues to be a top priority for NCUA and an updated Business IT Strategy Roadmap indicates continued progress across this initiative in 2017. In the first quarter of 2017, Office of the Chief Information Officer and Business Innovation team will complete the benchmarking activities with peer organizations that have implemented similar solutions and the industry market research activities, finalize the acquisition strategy for acquiring the products and services for implementing the Examination and Supervision solution set, and define an actionable roadmap for the multi-year program. .

Strategic Objective 1.3 – Implement tools and models for evaluation and assessment of industry-wide risks

NCUA continues to explore ways to modernize our data collection and analysis capabilities to enhance the value of the data the agency collects from credit unions for offsite monitoring and pre-examination planning, as well as to reduce the reporting burden for credit unions, where possible.

In 2016, the Office of National Examinations and Supervision completed phase one of the Loan Data Analysis project, which included the receipt and analysis of loan data from the five largest credit unions supervised by NCUA. The data was successfully loaded into NCUA's data warehouse and will be used as a basis for developing analytics on credit union financial performance and health.

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	2016 Result	Status
1.3.1 Employ business intelligence tools to identify and monitor risks to the credit union industry								
Expand business intelligence tools and data analytics to strengthen reporting services and risk monitoring	--	--	--	--	Developed Reports	Fourth Quarter 2016	Achieved	✓
Publish quarterly Call Report data within 45 days of credit union submission deadline	Achieved	Achieved	Achieved	Achieved	Achieved	Less than or Equal to 45 Days	42 days	✓

Strategic Objective 1.4 – Be prepared for and promote awareness of critical risk issues, emerging technologies, and related threats

The greater use of technology makes credit unions more vulnerable to cyberattacks and disruptions. Cybersecurity, therefore, remains a pressing concern for the credit union system.

Our [Office of Small Credit Union Initiatives](#) provides training and consulting services to new, low-income designated credit unions, minority credit unions, and credit unions with less than \$100 million in assets to ensure these credit unions are aware of, and prepared to address, critical risks and related threats. This office also administers the Community Development Revolving Loan Fund. Created by Congress, this fund provides grants and low-interest loans to credit unions serving low-income communities. In 2016, NCUA awarded more than \$2.5 million in technical assistance and urgent needs grants to 319 low-income designated credit unions. Recipients of these funds used them to:

- **Capacity and growth:** NCUA awarded 116 grants, totaling \$1,495,163, to credit unions expanding financial access to underserved communities through digital products, lending programs and other growth strategies.
- **Cybersecurity:** NCUA awarded 112 grants, totaling \$752,529, to help credit unions better protect member information and other sensitive data.
- **Student internships:** NCUA awarded 33 grants, totaling \$125,795, for credit unions to provide students with professional work experiences.
- **Staff training:** NCUA awarded 48 grants, totaling \$125,700, for credit unions to train staff in areas like lending, collections and governance.
- **Urgent needs:** NCUA awarded ten of these grants, totaling \$74,966, for credit unions affected by an emergency or a serious disruption in their normal operations.

We also approved five loan applications for more than \$1.3 million in funding. Credit unions used these low-interest loans to expand member services, fund loan demand, open new locations and provide affordable alternatives to predatory payday loans.

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	2016 Result	Status
1.4.1 Identify regional and national emerging risks requiring necessary actions								
Publish NCUA <i>Quarterly U.S. Map Reviews</i> on the NCUA website which assist with identifying regional and national risks	4	4	4	4	4	4	4	✓
1.4.2 Issue industry guidance related to emerging cyber-security risks and related threats— <i>Agency Priority Goal</i>								
Train all examiners on the FFIEC's Cybersecurity Assessment Tool and implement into examination procedures	--	--	--	--	Tool Released	Third Quarter 2016	Achieved	✓
1.4.3 Provide training in emerging technologies, especially for field and management staff								
Review and assess training needs to ensure information on emerging technologies is current for IT subject matter experts and all examination staff, annually	Achieved	Achieved	Achieved	Achieved	Achieved	Fourth Quarter 2016	Achieved	✓
1.4.4 Assist small and low-income credit unions to secure the proper technology and resources to ensure regulatory compliance and avoid any potential negative threats								
Award 35 percent of Community Development Revolving Loan Fund funds to first-time applicants	--	41%	51%	60%	72%	Greater than or Equal to 35%	40%	✓
Produce five new training modules and 12 webinars for the credit union industry, targeting small credit unions	--	--	19	22	18	17	19	✓

Strategic Objective 1.5 – Increase ability to manage risk through an effective examination and supervision program that minimizes loss to the Share Insurance Fund

NCUA minimizes losses to the Share Insurance Fund by managing risks in the credit union system. With the continuing changes in the credit union system, NCUA has shifted its focus on the size, scale and scope of its examination and supervision programs. Our Office of National Examinations and Supervision is responsible for the oversight of the largest and most complex credit unions. In addition, we use a streamlined examination program for credit unions with assets up to \$50 million that are financially and operationally sound. These initiatives, combined with the use of specialized examination staff, increase the agency's ability to manage risks in its insured institutions.

In working to protect the credit union system and the Share Insurance Fund from losses, NCUA employs a number of supervisory and enforcement actions depending on the severity of the situation. Some of these tools include preliminary warning letters, letters of understanding and agreement, cease-and-desist orders, orders of prohibition and civil monetary penalties.

The number of enforcement actions has steadily declined over the last several years as the economy improved and federally insured credit unions addressed risks identified by our field staff. The number of outstanding enforcement actions for federally insured credit unions decreased, from 359 at the end of 2015 to 303 at the end of 2016.

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	2016 Result	Status
1.5.1 Maintain yearly Share Insurance Fund losses as a percentage of total insured shares								
Maintain Share Insurance Fund losses at less than 0.03 percent of total insured shares, annually	0.007%	0.024%	0.008%	0.005%	0.002%	Less than 0.03%	0.001%	✓
1.5.2 Minimize total assets in CAMEL Code 4 and 5 rated credit unions								
Declining trend in the total assets of CAMEL Code 4 and 5s, year-over-year	-32.3%	-35.3%	-27.4%	-16.3%	-23.9%	Less than 0%	10.28%	✗

Discussion. Performance goal 1.5.2 did not meet its target in 2016. Strategies and activities were executed, but primarily due to the emergence of problems with credit concentrations with several large credit unions associated with a specific industry, we fell short of the target. The concentrations and emergence of continued credit-quality problems caused total assets of CAMEL 4 and 5 credit unions to increase even though we saw a 10 percent decline in the number of CAMEL 4 and 5 credit unions—the number of troubled credit unions decreased from 213 in 2015 to 192 in 2016.

NCUA will continue to emphasize the identification of concentrations and will address excessive risk concentrations using our supervisory and enforcement tools.

Strategic Goal 2: Promote Consumer Protection and Financial Literacy

Strategic Goal 2 seeks to ensure a regulatory framework exists to provide consumers appropriate and timely financial disclosures, sufficient protections against unscrupulous products or services, and financial literacy education programs to help consumers make informed financial decisions.

The Office of Consumer Financial Protection and Access is responsible for overseeing our fair lending, consumer financial protection, chartering, and field-of-membership programs and policies. This office also focuses on providing information directly to consumers on the agency's consumer website, MyCreditUnion.gov.

We use six strategic objectives, 12 performance goals (including an agency priority goal—2.3.1), and 14 indicators to support this strategic goal. NCUA performed well, meeting our target for 13 performance indicators. An explanation is provided for each indicator that did not meet its target.

Strategic Objective 2.1 – Establish a framework of well-balanced regulations and policy statements

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

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	2016 Result	Status
2.1.1 Collaborate and consult with other federal regulators on consumer financial protection issues and potential regulations								
Participate in all FFIEC Taskforce on Consumer Compliance meetings	92%	92%	83%	100%	100%	Achieve	100%	✓
2.1.2 Solicit information on potential abusive or deceptive practices through various outreach efforts								
Request information from regions on potential abusive or deceptive practices, semi-annually	--	--	--	2	2	2	2	✓

Strategic Objective 2.2 – Ensure federally insured credit unions comply with rules and regulations established to protect consumers

NCUA's fair lending examination program is designed to ensure credit unions comply with the rules and regulations established to protect consumers. In 2016, our Division of Consumer Compliance Policy and Outreach spent 3,269 hours examining 24 credit unions for compliance with fair lending laws and regulations. Agency staff spent an additional 1,217 hours performing 50 offsite supervision contacts to review credit unions' loan policies and, if necessary, provide recommendations to bring them into compliance with fair lending laws.

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	2016 Result	Status
2.2.1 Complete the risk-based fair lending exam procedures and exam scoping steps to measure credit union compliance with consumer financial protection regulations								
Complete 25 fair lending examinations, annually	19	11	25	25	25	Greater than or Equal to 25	24	✘
Complete 40 offsite fair lending supervision contacts, annually	--	--	45	50	50	Greater than or Equal to 40	50	✔
2.2.2 Ensure quality control reviews of fair lending examination reports highlight potential consumer compliance issues and follow-up for needed corrective actions								
Complete quality control reviews on all fair lending examinations conducted between the fourth quarter of 2015 and the third quarter of 2016	Achieved	Achieved	Achieved	Achieved	Achieved	Fourth Quarter 2016	Achieved	✔
2.2.3 Increase guidance to the credit union industry to help reduce the number of compliance violations								
Conduct webinar with the credit union industry, as part of 3.4.2, on financial consumer protection law changes	--	--	--	1	1	1	1	✔

Discussion. Performance goal 2.2.1 includes one measure where 2016 results were slightly below target. Strategies and activities were executed, but more time was needed to fully satisfy the measure. Our Office of Consumer Financial Protection and Access successfully completed 24 fair lending examinations, one short of the 2016 target. Due to a credit union's operational challenges, the last exam was deferred until 2017. This examination was completed in the first quarter of 2017.

Strategic Objective 2.3 – Develop and promote financial literacy education programs to empower consumers to make informed financial decisions

NCUA's Office of Consumer Financial Protection and Access is focused on empowering consumers to make informed financial decisions by developing and promoting financial literacy education. Staff from the office participate on the Financial Literacy Education Commission. The office also responds to inquiries from credit unions, credit union members and consumers involving consumer financial protection and share insurance matters. Additionally, it handles consumer complaints filed against credit unions.

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	2016 Result	Status
2.3.1 Monitor issues or trends in consumer complaints to develop effective financial literacy education programs and initiatives— <i>Agency Priority Goal</i>								
Conduct quarterly reviews of top 10-consumer complaints to ensure existing and planned education programs align with complaint trends	--	--	--	--	--	4	4	✓
2.3.2 Partner with outside resources to effectively market the availability of financial literacy programs								
Coordinate with other Financial Literacy Education Commission agencies and non-profits on consumer-focused outreach activities.	--	--	--	--	--	4 Joint Activities	4	✓

Strategic Objective 2.4 – Promote access to federally insured financial services for consumers of all backgrounds and income levels

NCUA works to expand access to affordable financial services. In 2016, the agency also modernized our field-of-membership rules to make more Americans eligible for credit union membership. We also approved 21 community-charter conversions, the expansion of 29 existing community charters and 23 expansions into underserved areas in 2016 as part of chartering and field-of-membership responsibilities.

NCUA also promotes access to financial services through its consumer education-focused website, MyCreditUnion.gov. This site, available in both English and [Spanish](#), is a one-stop resource for personal finance information for individuals of all ages.

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	2016 Result	Status
2.4.1 Notify credit unions of their eligibility for low-income status								
Notify credit unions newly qualifying for low-income status of their eligibility, semi-annually	--	--	1	3	2	2	2	✓
Make a determination on completed field-of-membership expansion applications within an average of 60 days	--	--	--	--	42 days	60 days	30.6 days	✓
2.4.2 Continue to increase usability and contemporary information on MyCreditUnion.gov, including Pocket Cents								
Increase the number of visitors to MyCreditUnion.gov, including Pocket Cents, year-over-year	13,001	156,546	332,596	564,970	742,613	700,000	829,064	✓

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	2016 Result	Status
2.4.3 Increase availability of non-English materials on NCUA websites								
Release all consumer focused videos with Spanish subtitles	--	--	--	Achieved	Achieved	Fourth Quarter 2016	Achieved	✓

Strategic Objective 2.5 – Review marketing and business plans of community charters to ensure progress toward meeting stated goals

Community-chartered credit unions are required to develop marketing and business plans during the application process for a new or expanded community charter. NCUA reviews these business plans periodically after they are approved to ensure credit unions achieve their objectives, including providing services to consumers in the new or expanded field of membership.

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	2016 Result	Status
2.5.1 Ensure community charter penetration rates, loans, shares, and other member services are consistent with credit union submitted community-charter business plans								
Compile regional reports assessing compliance with marketing and business plans submitted to support recent community-charter actions, semi-annually	--	--	2	2	2	2	2	✓

Strategic Objective 2.6 – Educate credit unions about consumer compliance issues

NCUA informs and educates credit unions on a variety of issues through reports, Letters to Credit Unions, webinars and videos. NCUA's Offices of Small Credit Union Initiatives, Consumer Financial Protection and Access, and Examination and Insurance worked with a number of government and system stakeholders to develop timely and relevant webinars and videos for credit union system staff, boards and management. In all, 17,878 participants took part in training webinars in 2016 on topics like vendor management and due diligence, loan underwriting, community partnerships, fair lending, internal controls and cybersecurity, among others. Additionally, credit union board of directors, managers and professionals viewed NCUA's training videos 27,018 times over the year.

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	2016 Result	Status
2.6.1 Use all available delivery channels to provide information on consumer compliance related guidance and information								
Develop four consumer protection series videos in 2016, to include videos on fair lending and field of membership	--	--	--	4	4	4	4	✓

Strategic Goal 3: Further Develop a Regulatory Environment that is Transparent and Effective, with Clearly Articulated and Easily Understood Regulations

In 2016, NCUA continued to modernize our rules to create a regulatory framework that acknowledges the need for flexibility, creates new avenues for growth and strengthens the system's resiliency, while simultaneously reducing credit unions' regulatory burden where prudent and appropriate. As part of our rulemaking initiatives, the NCUA Board:

- Approved comprehensive changes to the agency's field-of-membership regulations, potentially allowing more Americans to become eligible for credit union membership. These changes updated key definitions and made more than a dozen amendments to NCUA's chartering and field-of-membership rules for federal credit unions.
- Issued a modernized member business lending rule. Under this new rule, credit unions will have greater latitude to make commercial lending decisions. The rule provides over-arching principles that will provide greater flexibility for credit unions to serve more member businesses.
- Issued a final rule to eliminate the requirement that federal credit unions must plan for and eventually reach full occupancy of acquired premises. The change provides federal credit unions and their leadership greater flexibility in acquiring and holding property.
- Issued a final rule on [Investment and Deposit Activities—Bank Notes](#). This rule permits federal credit unions to purchase bank notes with original maturities of greater than five years, but remaining maturities of less than five years. This change will result in cheaper execution prices, more flexibility and greater efficiency in finding suitable bank note offerings. The weighted-average maturity of less than five years also will maintain safety and soundness by avoiding excessive interest rate risk.
- Issued a final rule that made the process for applying for funding from the [Community Development Revolving Loan Fund more transparent](#), flexible and easier to navigate.

A full listing and description of NCUA's [recent final](#) and [proposed](#) rules is available on our website.

Four strategic objectives, eight performance goals (including one agency priority goal—3.4.1), and nine indicators support Strategic Goal 3. NCUA performed well, meeting our target for eight performance indicators. An explanation is provided for each indicator that did not meet its target.

Strategic Objective 3.1 – Reduce unnecessary obstacles to credit union competitiveness through modernized regulations

The NCUA Board continued its regulatory modernization strategy, which strives to reduce the regulatory burden on credit unions, while balancing safety and soundness of the system. A key component of this strategy is to review one-third of the agency's regulations annually, including publishing them for public comment, and updating and streamlining regulations where appropriate. We have conducted this rolling three-year review since 1987.

Throughout 2016, NCUA communicated with members of Congress and staff, particularly those members on the House Financial Services and Senate Banking Committees. Communication took the form of staff briefings, staff meetings, one-on-one meetings with NCUA's chairman, as well as written correspondence. Topics highlighted included agency legislative priorities, such as vendor authority, and regulatory initiatives, such as the member business lending rule, budget transparency and an extended exam cycle. NCUA also coordinated with the other federal financial agencies in communicating on such issues as marijuana banking and mortgage servicing assets.

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	2016 Result	Status
3.1.1 Update existing and develop new regulations through the annual regulatory review process								
Review one-third of all regulations, annually	1/3	1/3	1/3	1/3	1/3	1/3	1/3	✓
3.1.2 Coordinate with congressional committees on priority risk issues								
Send letters to the Chairmen and Ranking Members of primary committees and subcommittees of jurisdiction about NCUA's legislative priorities, and conduct follow-up meetings with key congressional staff as warranted	--	--	--	Achieved	Achieved	Fourth Quarter 2016	Achieved	✓
3.1.3 Identify industry risks necessitating new or revised regulations or industry guidance								
Hold semi-annual Risk Forum meetings to discuss risks and develop action plans to address risks identified following each meeting	--	--	--	2	2	2	2	✓

Strategic Objective 3.2 – Collaborate with other regulators to discuss strategies and goals for implementing new or revised regulations

NCUA participates on various councils and interagency groups responsible for regulating the financial system. Revised regulations and interagency guidance on current risk issues are frequently developed by task forces and working groups, and issued to all federally insured financial institutions. In 2016, NCUA continued to coordinate with state and federal regulators on a number of policy and regulatory issues as discussed in the [Cross-Agency Priority Goal](#) section of this report.

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	2016 Result	Status
3.2.1 Actively participate in financial regulators meetings to contribute to the development and implementation of industry guidance								
Participate in all interagency meetings, including Financial Stability Oversight Council, Federal Financial Institutions Examination Council task forces and subcommittees. Actively participate in the development process on all applicable guidance	--	--	--	95%	99.5%	Achieve	Achieved	✓

Strategic Objective 3.3 – Maintain a regulatory environment that safeguards member interests and stability in the credit union system

NCUA aims to create a regulatory environment that effectively balances safety and soundness with the credit union system's competitive needs to maintain viability and stability. New or revised rules and regulations are generally issued for public comment for a minimum of 30 days, though most have a 60-day comment period. NCUA evaluates and considers all comments received from stakeholders to understand the effects regulations may have on credit union operations.

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	2016 Result	Status
3.3.1 Provide sufficient comment periods when introducing new or revised regulations and consider public comments when finalizing regulations								
Provide a minimum comment period of 30 days for new and revised regulations	Achieved	Achieved	Achieved	Achieved	Achieved	Achieve	Achieved	✓

Strategic Objective 3.4 – Enhance NCUA's communication with credit unions through transparent regulations and guidance

NCUA maintains open and transparent communications with credit unions to help increase their understanding and implementation of regulations and NCUA initiatives. We offer informative webinars on current risk issues and relevant guidance. The agency also produces [YouTube videos](#) addressing NCUA Board actions, economic data and regulatory information. NCUA's monthly newsletter, [The NCUA Report](#), also highlights important regulatory actions and key issues that credit unions need to know. In October, NCUA also released a redesigned [Examiner's Guide](#).

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	2016 Result	Status
3.4.1 Develop guidance to credit unions to provide explanation of regulatory changes and best practices for implementation— <i>Agency Priority Goal</i>								
Issue appropriate guidance such as Letters to Credit Unions, supervisory letters, webinars, AIREs questionnaires or other multi-media outreach in conjunction with regulatory changes issued by the Board when warranted	--	--	--	Achieved	Achieved	Achieve	Achieved	✓
3.4.2 Increase target audience awareness of regulatory activities and their positive effects on the industry's safety and soundness								
Produce virtual events or videos for the credit union industry in 2016, to include a webinar on financial consumer protection law changes	--	5	17	33	46	32	48	✓
Increase the number of online and mobile page views of monthly <i>NCUA Report</i> newsletters by 5 percent	--	--	300,000	258,000	224,873	5% Increase	113,666	✗
3.4.3 Issue information on new and changed regulations through multiple delivery channels including the NCUA website, Twitter, Facebook, LinkedIn and YouTube								
NCUA will use social media channels to communicate each rule change as warranted	--	--	--	Achieved	Achieved	Achieve	Achieved	✓

Discussion. Performance goal 3.4.2 includes one measure with 2016 results below target. Current strategies for this measure did not have the intended result and an increased focus is needed by the agency to improve performance on this strategic objective.

In 2016, the Office of Public and Congressional Affairs worked to increase readership of the newsletter by making its associated press releases more engaging and promoting *The NCUA Report's* content on the home page carousel, in our online newsroom and on social media. In addition, Public and Congressional Affairs staff also worked with the Office of the Chief Information Officer to develop an HTML version of the newsletter to drive more traffic to the website through search engine optimization.

Although NCUA effectively improved the readability and accessibility of *The NCUA Report*, readership of the newsletter continued to diminish, with page views falling nearly 50 percent. The Office of Public and Congressional Affairs is continuing to look at potential variables affecting the outcome for this measure and will use lessons learned to refine or develop new indicators for 2017.

Strategic Goal 4: Cultivate an Environment that Fosters a Diverse, Well-trained and Motivated Staff

Strategic Goal 4 is inherently collaborative and primarily encompasses key management areas within NCUA: human capital, security, information technology resources, finance and employee engagement. This goal emphasizes staff effectiveness through hiring, training, diversity and inclusion, and career development. The goal also focuses on reliable and innovative technology, strong security programs and sufficient and effective communication with employees.

NCUA made significant progress on the six strategic objectives, 16 performance goals (including two agency priority goals — 4.3.1 and 4.6.4) and 18 indicators supporting this strategic goal. NCUA performed well, meeting our target for 14 performance indicators. An explanation is provided for each indicator that did not meet its target.

Strategic Objective 4.1 – Develop and maintain the optimal knowledge, skills, and abilities of the agency’s workforce to meet emerging needs

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

In April 2016, the National Exam Program Training provided NCUA’s field staff with a skills development program that included wide-ranging sessions on cybersecurity, member business lending, managing examinations, interest rate risk and consumer financial protection issues. In addition, attendees received training in workplace violence and security awareness, workplace diversity and recognizing everyday biases. Staff also heard from leading experts on emerging trends in cybercrime.

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	2016 Result	Status
4.1.1 Use all available delivery channels to educate staff on new and updated guidance and regulations								
Hold webinars with NCUA staff on significant regulatory changes	Achieved	Achieved	Achieved	Achieved	Achieved	Achieve	Achieved	✓
4.1.2 Deliver quality training consistent with the various staff areas of discipline								
Obtain at least a 4.4 out of 5 average rating in training class evaluations	3.5	4.2	4.1	4.5	4.4	Greater than or Equal to 4.4	4.4	✓

Strategic Objective 4.2 – Enhance staff effectiveness and efficiency through the use of technology

NCUA's Office of the Chief Information Officer is committed to delivering secure, innovative information technology services and solutions to our workforce, credit unions and state supervisory authorities. Our staff relies heavily upon technology to perform their duties and the responsibilities associated with the agency's mission. To create additional efficiencies, administrative tasks need to be streamlined through the use of modern programs and systems.

NCUA's Information Technology Prioritization Council, comprised of office and regional directors, reviews and prioritizes software initiatives and aligns IT investments with NCUA's mission, strategic goals and budget.

Finally, NCUA began a series of initiatives in late 2016 to improve the tools and processes used by the information technology service desk to improve support for NCUA's employees and our state regulatory partners.

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	2016 Result	Status
4.2.1 Develop specialized systems, tools, and models to create a more effective examination program								
Initiate acquisition and develop an actionable roadmap and plan for modernizing NCUA's Call Report systems	--	--	--	--	--	Fourth Quarter 2016	Delayed	✘
4.2.2 Deliver leading edge information technology hardware and software to maximize staff efficiency								
Modernize field-of-membership legacy application to provide enhanced customer service upgrades and inform credit union officials, through an automated process, the status of pending applications	--	--	--	--	--	Fourth Quarter 2016	Delayed	✘
4.2.3 Increase virtual, remote and telework employee efficiency through the use of current technology								
Increase virtual, remote and telework employee efficiency by implementing video teleconference technology capabilities and increasing the usage by the second quarter of 2016	--	--	--	--	--	Second Quarter 2016	Achieved	✔

Discussion. Performance goal 4.2.1 did not meet its target in 2016. Strategies and activities were executed, but more progress is needed to fully satisfy the measure. The newly formed program management office experienced challenges related to staffing the team and unexpected turnover in project management positions. In addition, given the complexity of the Call Report requirements, the team elected to expand its industry market research analysis, further define the functional requirements, and strengthen its analysis of alternatives to gain a more informed understanding of the full range of available solutions and the proven methods for implementing, operating, and maintaining these alternative solutions. This due diligence will result in a more accurate roadmap for the next generation Call Report and reduce the risks associated with acquiring these necessary technology and technical support services.

The Call Report Modernization Initiative is exploring how changes to our data collection practices can enhance the value of the data NCUA collects from credit unions for offsite monitoring and pre-examination planning, as well as reducing the reporting burden for credit unions where appropriate. In addition, modernizing NCUA's Call Report capabilities have been integrated into the Enterprise Solution Modernization initiative.

In 2016, the Data Collection and Sharing Solution Integrated Product Team developed the functional objectives, capabilities and activities required for the acquisition of a new solution to collect and share data, including the Call Report. The Enterprise Solution Modernization initiative continues to be a top priority for NCUA and an updated Business IT Strategy Roadmap shows continued progress across this initiative in 2017. In the second and third quarters of 2017, the Office of the Chief Information Officer and Business Innovation teams will:

- Conduct benchmarking activities with peer organizations that have implemented similar solutions;
- Complete the industry market research activities for viable alternative solutions;
- Further define the functional and technical requirements for the Call Report capability needs;
- Finalize the strategy and plan for acquiring the products and services for implementing the solution; and
- Define an actionable roadmap for the multi-year program.

Performance goal 4.2.2 also did not meet its target in 2016. Strategies and activities were executed, but more time is needed to fully satisfy the measure. In 2016, NCUA began developing a dashboard tool for credit unions that will allow them to monitor the status of their pending field-of-membership expansion requests. The dashboard is planned to go live in the second quarter of 2017. This implementation timeframe compliments the agency's continual quality improvements related to field-of-membership matters. NCUA will continue tracking this initiative closely through its planned completion.

Strategic Objective 4.3 – Recruit and retain a well-diversified and highly qualified workforce that reflects the relevant labor force

Improving diversity is one of NCUA's agency priority goals, and the agency incorporates the principles of diversity and inclusion as one of our core values. These principles serve as the foundation for building an environment where the talents of all individuals are fully utilized. When applied effectively, these principles create a workplace where employees not only succeed, but are provided the opportunity to reach their fullest potential.

Developing a well-diversified and highly qualified workforce begins during recruitment. NCUA is committed to filling vacancies in a timely fashion with the best-qualified applicants available.

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	2016 Result	Status
4.3.1 Increase the number of women and minority staff at all levels particularly in the management ranks— <i>Agency Priority Goal</i>								
Maintain NCUA's position in the top five mid-sized agencies for the Support for Diversity Indicator	--	4 th	4 th	5 th	6 th	Top 5	7 th	✘
Maintain NCUA's position in the top six mid-sized agencies for the Office of Personnel Management's new Inclusion Quotient. The new Inclusion Quotient identifies behaviors that help create an inclusive environment	6 th	6 th	6 th	4 th	6 th	Top 6	4 th	✓
4.3.2 Partner with organizations to increase the diversity of NCUA staff, particularly management								
Establish at least one new diversity-related recruitment outreach relationship with a professional organization or educational entity to broaden NCUA's exposure to applicants from all segments of society	--	--	1	1	1	1	1	✓
4.3.3 Fill vacancies timely with the best-qualified applicants available								
Fill vacancies within an average of 70 days from vacancy announcement closing date	--	--	--	76 days	62 days	70 days	59 days	✓

Discussion. Performance goal 4.3.1 contains one indicator that finished slightly below target. NCUA did not finish in the top five mid-sized agencies for the Support for Diversity Indicator in the Federal Employee Viewpoint Survey that was administered in May 2016. Slight declines in the score for survey questions 45 (My supervisor is committed to a workforce representative of all segments of society) and 55 (Supervisors work well with employees of different backgrounds) primarily contributed to the agency’s decline in the overall rankings. Our score dropped 0.7 points, from 68 in 2015 to 67.3 in 2016. As a result, we dropped from sixth to seventh place among mid-sized agencies.

However, we noted an increase in positive responses for question 34 (Policies and programs promote diversity in the workplace, for example, recruiting minorities and women, training in awareness of diversity issues, mentoring).

Throughout 2016, we continued to improve our diversity and inclusion through delivering diversity training to all staff, training on unconscious bias to field staff and supervisors and revising the agency’s [Diversity and Inclusion](#) and [Equal Employment Opportunity](#) policies.

In 2016, and for the past four years, we have ranked as a “Best of the Best” place to work for minorities and women in the annual rankings published by DiversityComm, Inc., a human resources research and consulting firm specializing in workplace diversity. We also received the Outstanding Public Sector Award from the Hispanic Association of College and Universities for providing more than 50 internships to college students since 2012.

Through these efforts and others, we have seen improvements in the diversity and quality of candidates hired. Of the 79 employees hired in 2016, 66 percent identified as a minority, a female or a female minority. Twenty percent of the agency’s new hires in 2016 were veterans, and 13 percent of new hires were disabled veterans.

Strategic Objective 4.4 – Maintain an effective plan of succession to ensure continuity of leadership throughout all levels of the organization

NCUA must be prepared as staff retire or leave their positions. Succession planning helps the agency determine the knowledge, skills and abilities necessary to fill critical positions. As part of our succession planning, we cultivate talent by providing training, mentoring, detail assignments and other leadership development opportunities.

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	2016 Result	Status
4.4.1 Capture valuable institutional knowledge of retiring senior executives								
Implement exit strategy software to capture valuable information and knowledge from departing employees	--	--	--	--	--	Second Quarter 2016	Achieved Fourth Quarter	✓
4.4.2 Enhance leadership training programs to provide continued education for all levels of staff								
Conduct post-program reviews of management and executive development programs in coordination with oversight committees and participant supervisors at the conclusion of each program	--	--	--	--	Achieved	Fourth Quarter 2016	Achieved	✓

Discussion. In 2016, NCUA successfully implemented an exit strategy software tool to capture valuable information from departing employees. This performance goal 4.4.1-related project, experienced an increase in its scope to include improved configurations, capabilities and communications. These enhancements resulted in moderate schedule delays, but the goal was achieved in the year.

Strategic Objective 4.5 – Improve NCUA’s internal communication, both horizontally and vertically

NCUA’s leaders understand the importance of keeping all staff informed of major issues, both internal and external. The agency communicates with staff by offering webinars and teleconferences and through email. Regulatory and policy briefings are provided to staff before they are released externally, and the weekly employee newsletter, *Inside NCUA Weekly*, keeps staff apprised of agency actions and changes.

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	2016 Result	Status
4.5.1 Provide clear and timely communication between all levels of staff								
Publish <i>Inside NCUA Weekly</i> communication emails	47	52	52	51	52	52	52	✓
4.5.2 Coordinate agency communications to maintain consistent strategic messaging								
Conduct, and implement results of Plain Writing Act reviews of the top 50 most viewed pages on NCUA.gov	--	--	--	--	--	Fourth Quarter 2016	Delayed	✗

Discussion. Performance goal 4.5.2 includes one indicator that did not meet its target. Strategies and activities were executed, but more progress is needed to fully satisfy the measure.

In 2016, the Office of Public and Congressional Affairs expanded this initiative to review the 100 most viewed pages (up from the initial 50 most viewed pages). This increased scope lengthened the timelines for the contracted reviews and prevented completion within the target timeframe of the end of 2016. NCUA received the Plain Writing Act review report in December 2016 and the office will incorporate the recommended changes incrementally through a phased implementation in 2017.

Strategic Objective 4.6 – Enhance NCUA’s position as one of the best places in the government to work

NCUA has the goal of being an employer of choice, and the agency has remained a top performer in terms of employee satisfaction at federal agencies in the [Partnership for Public Service’s 2016 “Best Places to Work” report](#). NCUA’s overall employee satisfaction score was 71.9 in 2016, up from 71.7 in 2015. The agency’s rank among mid-sized federal agencies—those with between 1,000 and 14,999 employees—was ninth out of 27. NCUA’s rankings improved in nearly every category, including employee empowerment, innovation, training and development and work-life balance. The report also found that NCUA, compared to 27 other mid-sized agencies, ranked:

- Second among veterans;
- Third among Hispanics and African-Americans; and
- Fourth among women, men, and employees with disabilities.

Performance Indicators	2011	2012	2013	2014	2015	2016 Target	2016 Result	Status
4.6.1 Solicit staff input on areas requiring attention								
Strive to maintain NCUA's Federal Employee Viewpoint Survey Employee Engagement Index at 72 percent	68%	73%	70%	72%	72%	Greater than or Equal to 72%	73%	✓
4.6.2 Strive to balance comparability with the other financial regulatory agencies in the areas of pay and benefits with organizational needs								
Fully implement the negotiated Collective Bargaining Agreement pay system	Achieved	--	--	Negotiations Commenced	CBA Signed	Fourth Quarter 2016	Achieved	✓
4.6.3 Streamline operation policies and practices to reduce administrative burden for all staff								
Reduce or eliminate at least two administrative management requirements	Achieved	Achieved	Achieved	Achieved	Achieved	Fourth Quarter 2016	Achieved	✓
4.6.4 Strengthen the security program in the areas of personnel, facilities, continuity of operation and secure communications — <i>Agency Priority Goal</i>								
Maintain a favorable response rate of 70 percent or above for NCUA's Federal Employee Viewpoint Survey Question 36: "My organization has prepared employees for potential security threats."	69%	71%	60%	63%	76%	Greater than or Equal to 70%	82%	✓
Migrate NCUA's technology infrastructure from the legacy data center to a modern, completely redundant and secure data center facility	--	--	--	--	--	Second Quarter 2016	Achieved	✓

VALIDATION AND VERIFICATION OF PERFORMANCE DATA

The agency's 2016 performance results are based on reliable and valid data that are complete as of the end of the fiscal year. The Office of Chief Financial Officer reviews all performance data for completeness and accuracy, assesses the effectiveness of programs and evaluates how risks and opportunities affect achievement of our strategic goals and objectives.

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

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

In 2017, NCUA has budgeted for improvements to its data management system including the development of business intelligence tools. Combined with an enterprise data-integrity program, data storage will be expanded and analysis and reporting strengthened.

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



FINANCIALS SECTION

MESSAGE FROM THE CHIEF FINANCIAL OFFICER



I am pleased to present the National Credit Union Administration's 2016 financial statements for NCUA's four permanent funds:

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

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

We continue to be responsible stewards of agency funds and remain dedicated to sound financial management practices. In 2016, we replaced NCUA's legacy system for budget formulation and in January 2017, we implemented a new, modern procurement system offered by our financial services provider. These technology investments support our efforts to reduce manual processes and improve data quality and reporting.

Looking forward, we are committed to sustaining progress in the financial statement audits, strengthening internal controls, continuing to be good stewards of resources entrusted to NCUA and modernizing NCUA's procurement practices. We will continue to build out a robust internal controls program that will allow us to identify and mitigate financial, operational and compliance risks early. We will also continue to mature our enterprise risk management program to provide agency leadership with a portfolio view of risk to inform decision-making and effectively allocate resources to achieve NCUA's mission.

I would like to express my sincere thanks and appreciation to the NCUA professionals whose consistent efforts to plan, execute and account for the agency's resources provides the foundation for our strong stewardship.

Sincerely,

A handwritten signature in black ink that reads "Rendell L. Jones".

Rendell L. Jones
Chief Financial Officer
February 14, 2017

MESSAGE FROM THE OFFICE OF INSPECTOR GENERAL

February 15, 2017

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

Dear Acting Chairman McWatters and Board Member Metsger:

I am pleased to transmit KPMG LLP's (KPMG) report on its financial statement audit of the National Credit Union Administration's (NCUA) financial statements, which includes the Share Insurance Fund, the Operating Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund, as of and for the years ending December 31, 2016 and 2015. The NCUA prepared financial statements in accordance with the Office of Management and Budget (OMB) Circular No. A-136 Revised, *Financial Reporting Requirements*, and subjected them to audit.

Under a contract monitored by NCUA OIG, KPMG, an independent certified public accounting firm, performed an audit of NCUA's financial statements as of December 31, 2016. The contract required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States, Office of Management and Budget audit guidance, and the *Government Accountability Office/President's Council on Integrity and Efficiency Financial Audit Manual*.

KPMG's audit report for 2016 includes: (1) an opinion on the financial statements, (2) conclusions on internal control over financial reporting, and (3) a section addressing compliance and other matters. In its audit of NCUA, KPMG found:

- The financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles;
- There were no material weaknesses in internal controls;¹
- There were no significant deficiencies related to internal controls;² and
- No instances of reportable noncompliance with laws and regulations it tested or other matters that are required to be reported under Government Auditing Standards or OMB guidance.

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

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

To ensure the quality of the audit work performed, we reviewed KPMG’s approach and planning of the audit, evaluated the qualifications and independence of the auditors, monitored the progress of the audit at key points, and reviewed and accepted KPMG’s reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on NCUA’s financial statements or conclusions about the effectiveness of internal control or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditor’s reports dated February 14, 2017, and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.

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

Management and Performance Challenges

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

Organizational Structure

Created by Congress, NCUA is an independent federal agency with the unique role of insuring deposits at all federal and most state-chartered credit unions, protecting the members who own credit unions, and regulating federally chartered credit unions. A three member politically appointed Board oversees NCUA’s operations by setting policy, approving budgets, and adopting rules. As of December 31, 2016, over 106 million members have \$1.0 trillion in insured deposits at 5,785 federally insured credit unions. These credit unions have \$1.3 trillion in assets.

Agency Mission and Vision

Throughout 2017, NCUA will implement initiatives to continue meeting its mission to “provide, through regulation and supervision, a safe and sound credit union system which promotes confidence in the national system of cooperative credit,” and its vision to ensure that “NCUA will protect consumer rights and member deposits.”

Agency Challenges

In 2017, NCUA will face several risks that continue to threaten the safety and soundness of the credit union system, as well as several emerging risks that the agency must confront. As I noted last year, cybersecurity, interest rate risk (IRR), and the growing performance disparities between large and small credit unions remain significant agency challenges where NCUA must continue to build on the positive steps already taken in its supervisory efforts. Similarly, four emerging risks – continuing pressure on

the Share Insurance Fund equity ratio, managing concentration risk, changing demographics, and increasing competition and continuing consolidation – will also provide unique challenges to the agency that could potentially affect the safety and soundness of the credit union system and the Share Insurance Fund if not adequately managed.

Cybersecurity — As I noted last year, cyber threats continue to pose significant dangers to the stability and soundness of the credit union industry and are expected to increase in frequency and severity as worldwide interconnectedness grows and as criminals, hackers, and terrorists become more sophisticated. Further, because consumers continue to interact with financial institutions through online and mobile transactions, the risk of hacking and fraud will continue to grow. Cybersecurity, therefore, remains a pressing concern for all financial institutions, including credit unions. With credit unions and other small financial institutions increasingly targeted, credit unions must continue to enhance the security of their systems and NCUA must continue to strengthen the resiliency of the entire credit union system and the agency.

Interest Rate Risk — As I also noted last year, a rising interest rate environment may prove challenging for those credit unions that hold either high concentrations of long-term assets funded with short-term liabilities, or have rate-sensitive deposits and fixed-rate assets. With rates now rising, NCUA and credit unions will need to continue to work to manage this risk in 2017 and beyond. Efforts undertaken by NCUA in 2016 to mitigate interest rate risk were to update its guidance, develop a new interest rate risk workbook for field examiners, as well as the development of a new test to evaluate a credit union's interest rate risk profile. Despite these positive steps taken by NCUA, the management and boards of credit unions of all sizes must be prepared for the challenges posed by a rising interest rate environment,

Managing Concentration Risk — It is no secret that credit unions having a diversified loan portfolio can avoid concentration risk whereas credit unions that specialize in a particular loan product are prone to a greater risk of loss. Over time, a number of credit unions have made the business decision to focus on a certain type of loan product. Although some specialized products are stable and profitable, recent changes in technology and consumer preferences have led to market disruption in others, causing the underlying assets supporting these types of loans to decrease in value. As a result, some of these credit unions have experienced financial stress, which NCUA is carefully monitoring through the examination process.

The credit union system's billion-dollar exposure to specialized loan products, while manageable, could still result in some individual credit unions that offer specialized loan products to fail. NCUA will continue to closely monitor and supervise these credit unions and the members' accounts at these credit unions remain protected and insured by the Share Insurance Fund up to the limits provided in law.

Growing Performance Disparities between Large and Small Credit Unions — Although credit unions overall performed well in 2016, a trend I noted last year – the lack of asset growth in credit unions with assets less than \$10 million and the overall decline in membership, continued. Much of the system's growth in 2016 continued to be attributed mainly to the largest institutions. Credit unions with assets of less than \$10 million have seen less loan and net worth growth than credit unions with more assets. In

addition, membership continued to decline in 2016 at credit unions with less than \$10 million in assets, and membership growth at credit unions with less than \$500 million in assets continued to lag behind credit unions with more than \$500 million in assets. To try and stop this trend, NCUA must continue to provide these credit unions with technical assistance and training, new opportunities for growth through reduced regulatory burdens, a flexible examination program for well-run, low-risk credit unions, and enhanced chartering and field-of-membership options.

Changing Demographics — I noted last year that NCUA and credit unions face the challenge of an aging demographic where the average age of adult credit union members is 46.7, yet the peak borrowing age is 25 to 44 years old according to the Credit Union National Association's 2015–2016 National Member and Nonmember Survey. By this measure, the average credit union member is already past his or her prime borrowing years. As the U.S. population ages and more Americans retire, credit unions may see shifts in growth trends and changing demand for certain products and services. New and diverse populations may also want different products and services.

NCUA should continue to help credit unions take action to attract younger members to address these concerns. NCUA has taken or plans to take actions that will allow for continued growth, including for example, recent updates to the agency's field-of-membership rule to increase consumer access to credit unions, which will provide new opportunities for credit union financial and membership growth. In addition, NCUA can continue to strengthen and support the agency's Minority Depository Institutions Preservation Program, as well as continuing to provide technical assistance and grants through the Community Development Revolving Loan Fund to help low-income credit unions expand the products and services they offer and respond to the needs of more diverse populations.

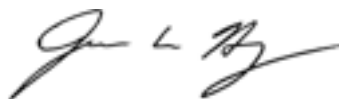
Increasing Competition and Continuing Consolidation — The number of banks and credit unions has fallen at a steady rate for nearly three decades. Contributing to this decline is consumer demand for more services, which has led to mergers, reducing the number of depository institutions. In addition, new marketplace competitors providing prepaid cards and alternative lending products, such peer-to-peer lending or small business financing, encroaches into areas that credit unions have traditionally operated. Finally, consumers are increasingly using electronic and mobile devices for their financial needs, meaning that credit unions that lack the resources to acquire new technology and develop new products and services to meet these needs face enormous challenges.

These trends mean that credit unions could face increased competition. In recent years, consolidation has primarily occurred among credit unions with \$50 million or less in assets. However, in the future it is possible that increased competition could result in more mergers of larger credit unions merging for strategic reasons, as opposed to the current trend of smaller credit unions merging into larger ones to provide greater access to financial services for their membership.

To ensure their viability, NCUA can continue to provide consulting services to credit unions with less than \$100 million in assets, minority depository institutions, low-income credit unions, and new credit unions through the Office of Small Credit Union Initiatives. Such consulting services would assist credit unions in marketing, new product development, budgeting and strategic planning. As consolidation

leads to larger credit unions, NCUA should also consider whether to make further adjustments to its examination and supervision program to protect the Share Insurance Fund.

Respectfully,



James W. Hagen
Inspector General

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

NATIONAL CREDIT UNION SHARE INSURANCE FUND

**FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015, AND
INDEPENDENT AUDITORS' REPORT**

Overview

I. Mission and Organizational Structure

NCUSIF Mission

The National Credit Union Administration (NCUA) administers the National Credit Union Share Insurance Fund (NCUSIF or Fund).¹ Congress created the NCUSIF in 1970 to insure members' shares (deposits) in credit unions. The NCUSIF is backed by the full faith and credit of the United States. As of December 2016, the NCUSIF insures an estimated \$1.0 trillion in member shares in over 5,785 credit unions.

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

The NCUSIF also provides funding when the NCUA Board determines that some form of assistance to troubled credit unions will result in the long-term least resolution cost. Examples of assistance include but are not limited to the following:

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

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

Organizational Structure

NCUA's Executive Director is responsible for overseeing the agency's examination and supervision program. The Director of the Office of Examination and Insurance (E&I) is responsible for formulating standards and procedures for examination and supervision of federally insured credit unions. The E&I Director is also the President of the NCUSIF and is responsible for managing the risks to the NCUSIF. Regional offices and the Office of National Examinations and Supervision are responsible for conducting examinations in federally insured credit unions. Other NCUA offices provide operational and administrative services to the NCUSIF. The Asset Management and Assistance Center (AMAC) is responsible for conducting credit union liquidations. AMAC establishes an Asset Management Estate (AME) to collect the obligations due to the liquidated credit union, monetizes assets and distributes amounts to claimants, including the NCUSIF, according to their respective regulatory payout priorities.

¹ The NCUSIF is one of five funds established in the U.S. Treasury and administered by the NCUA Board. The four permanent funds include the NCUSIF, the Operating Fund, the Central Liquidity Facility (CLF) and the Community Development Revolving Loan Fund. In addition, the NCUA Board administers the Temporary Corporate Credit Union Stabilization Fund (TCCUSF) that was established in 2009 to accrue the losses of corporate credit unions during the credit crisis and to recover such losses over time. All five funds report under separate financial statements.

II. Performance Goals, Objectives and Results

Consistent with the *NCUA Strategic Plan 2014 through 2017*, which emphasizes ensuring a “sustainable credit union system,” the agency prepared the *NCUA 2016-2017 Annual Performance Plan*. Performance goals include maintaining strong levels of credit union system-wide net worth and corporate credit union leverage ratios, maintaining yearly NCUSIF losses for current year failures as a percentage of insured shares at less than 0.03%, and minimizing total assets in CAMEL² Code 4 or 5 rated credit unions. For 2016, the NCUSIF losses for the current year failures ratio was 0.001%, as compared to 0.002% for 2015. Total assets in CAMEL Code 4/5 credit unions increased to \$9.7 billion at the 2016 year-end, as compared to \$8.6 billion at the 2015 year-end.

In measuring the performance of the NCUSIF for 2016 and 2015, the following additional measures should be considered.

2016 and 2015 Performance Measures		
	December 31, 2016	December 31, 2015
Equity Ratio	1.24%	1.26%
Insurance and Guarantee Program Liabilities (Contingent Liability)	\$196.6 million	\$164.9 million
Net Position	\$12.7 billion	\$12.2 billion
Insured Shares	\$1.0 trillion	\$961.3 billion
Credit Union Involuntary Liquidations and Assisted Mergers	14	16
Assets in CAMEL 3, 4 and 5 rated Credit Unions	\$98.2 billion	\$98.3 billion

The equity ratio and contingent liability are significant financial performance measures in assessing the ongoing operations of the NCUSIF. The equity ratio serves as a mechanism to balance funding from capitalization deposits and premium assessments in response to changes in insured share growth, insurance losses, interest income from U.S. Treasury security investments, as well as other revenues and expenses.

Equity Ratio and Normal Operating Level

The financial performance of the NCUSIF can be measured by comparing the equity ratio to the Normal Operating Level (NOL). The equity ratio is calculated as the ratio of the contributed one percent (1.00%) deposit plus cumulative results of operations, excluding net cumulative unrealized gains and losses on investments, to the aggregate amount of the insured shares in all insured credit unions. The NOL is the desired equity level for the NCUSIF. The NCUA Board sets the NOL between 1.20% and 1.50%. The NCUA Board set the current NOL at 1.30%.

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

² CAMEL is the acronym for Capital, the quality of Assets, the capability of Management, the quality and level of Earnings, and the asset Liability management.

Temporary Corporate Credit Union Stabilization Fund (TCCUSF) does not have an outstanding borrowing from the U.S. Treasury, the distribution is paid to insured credit unions.

As of December 31, 2016, the equity ratio was 1.24%, which is below the NOL. As a result, no distribution was payable to insured credit unions for 2016. For 2015, the NCUSIF ended the year with an equity ratio of 1.26%, which resulted in no distribution to the TCCUSF. In 2016 and 2015, the NCUA Board did not assess a premium charge to insured credit unions for the NCUSIF. We expect that the NCUSIF will receive additional capitalization deposits of approximately \$300.1 million from insured credit unions in early 2017 when NCUA invoices for its biannual contributed capital adjustment. The additional capitalization deposits will result in a projected equity ratio of approximately 1.27%.

Insurance Losses (Contingent Liabilities)

Through its supervision process, NCUA applies a supervisory rating system to assess each insured credit union's relative health in the adequacy of Capital, the quality of Assets, the capability of Management, the quality and level of Earnings, and the asset Liability management (CAMEL), applying a rating to the credit union ranging from "1" (strongest) to "5" (weakest). The CAMEL rating system is a tool to measure risk and allocate resources for supervisory purposes.

The NCUSIF's year-end contingent liability is derived by using an internal econometric model that applies estimated probability of failure and loss rates that take into account the historical loss history, CAMEL ratings, credit union level financial ratios, and other conditions. In addition, specific analysis is performed on those insured credit unions where failure is imminent and where additional information is available to make a reasonable estimate of losses. The NCUSIF ended 2016 with Insurance and Guarantee Program Liabilities of \$196.6 million to cover potential losses as compared with \$164.9 million for the previous year-end, an increase of \$31.7 million.

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

Due to uncertain economic risks and the possibility of variances from historical data, actual losses could differ materially from the contingent liabilities recorded by the NCUSIF.

NCUA's recent supervisory actions resulted in the conservatorship of a federally insured credit union on February 10, 2017. Estimated losses related to this conserved credit union are determined as part of the general reserve methodology and are contained within the Insurance and Guarantee Program Liabilities in the Balance Sheets. Actual losses could vary and may be materially different from the estimated losses recognized as of December 31, 2016.

The credit union industry remained stable overall during 2016 as reflected by the slight reduction of assets in CAMEL 3, 4 and 5 rated credit unions as compared to 2015. Assets in CAMEL 3, 4 and 5 rated credit unions decreased to \$98.2 billion at the end of 2016, versus \$98.3 billion at the end of 2015. The aggregate net worth ratio remained stable during the year, ending at 10.9%, versus 10.9% at December 31, 2015. This ratio has increased since 2011.

Performance measures are designed to enable management and our stakeholders to assess programs and financial performance and to use this information to make improvements. Performance measures

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

III. Financial Statement Analysis

The NCUSIF ended 2016 with an increase in Total Assets and its Total Net Position, and with an increase in Insurance and Guarantee Program Liabilities from the prior year. Net Cost of Operations increased to \$214.7 million, primarily as a result in increases in the Reserve Expense within the Provision for Insurance Losses. These changes are explained in further detail below.

Summarized Financial Information (in thousands)		
	December 31, 2016	December 31, 2015
Total Assets	\$ 12,869,748	\$ 12,328,652
Investments, Net	12,724,719	12,079,490
Notes Receivable, Net	-	108,568
Receivables from Asset Management Estates, Net	58,351	65,779
Insurance and Guarantee Program Liabilities	196,617	164,857
Contributed Capital	9,987,363	9,353,113
Net Position	12,666,793	12,156,161
Operating Expenses	209,260	197,752
Provision for Insurance Losses, Reserve Expense (Reduction)	44,432	(250)
Provision for Insurance Losses, AME Receivable Bad Debt Expense (Reduction)	(36,562)	(35,161)
Total Net Cost of Operations	214,667	157,154
Cumulative Results of Operations	2,679,430	2,803,048
Interest Revenue – Investments	227,172	218,526

Balance Sheet Highlights

Total Assets increased by \$541.1 million in 2016. The increase came primarily from net collections of capital deposits of \$634.3 million and Interest Revenue – Investments of \$227.2 million, partially offset by Total Net Cost of Operations of \$214.7 million and net unrealized losses on Investments of \$136.1 million.

Balances of Investments increased by \$645.2 million during 2016, primarily driven by investing net additions to Contributed Capital. During 2016, U.S. Treasury yields increased, especially in the last quarter of 2016. The increase in market interest rate yields resulted in an overall decrease in the market value of U.S. Treasury securities.

Notes Receivable, Net declined \$108.6 million and Receivables from Asset Management Estates, Net declined \$7.4 million. All outstanding Public Notes Receivable were repaid in full during 2016. Receivables from Asset Management Estates, Net include the collection of principal on outstanding loans,

mortgages and other debt instruments. Also, Receivables from Asset Management Estates, Net include various transactions that are explained in Note 7 to the financial statements.

Insurance and Guarantee Program Liabilities, referred to as contingent liabilities, were \$196.6 million and \$164.9 million as of December 31, 2016 and 2015, respectively. The increase is due to the increase in the general reserve of \$38.8 million, partially off-set by a decrease in the specific reserve of \$7.1 million. Specific reserves are identified for those credit unions where failure is imminent and where additional information is available to make a reasonable estimate of losses. The general reserve reflects overall risk of loss due to potential credit union failures for the credit union industry.

Contributed Capital increased by \$634.3 million during 2016 due to the growth of insured shares in credit unions. Each insured credit union deposits one percent (1.00%) of its insured shares as Contributed Capital. In 2016, credit union insured shares grew by 7.0%.

Net Position increased \$510.6 million during 2016. Increases include interest revenue on Investments of \$227.2 million and net additions of Contributed Capital of \$634.3 million. Decreases include Net Cost of Operations of \$214.7 million and net unrealized losses on Investments of \$136.1 million.

Statements of Net Cost Highlights

Total Net Cost of Operations was \$214.7 million for 2016, as compared to \$157.2 million for 2015. The increase in Net Cost of Operations is attributable to the increase in Operating Expenses of \$11.5 million, and an increase in the overall Provision for Insurance Losses of \$43.3 million. As explained in Note 10, Operating Expenses include expenses from the NCUA Operating Fund based on an allocation factor (Overhead Transfer Rate) that increased from 71.8% to 73.1% for 2016. Also, the Provision for Insurance Losses is an expense of \$7.9 million for 2016 and an expense reduction of \$35.4 million for 2015, respectively; the net change between years is an increase of \$43.3 million. Within the Provision for Insurance Loss for 2016, the Reserve Expense increased \$44.4 million, reflecting the overall risk of losses due to potential credit union failures for the credit union industry, while the AME Receivable Bad Debt Expense was a \$36.5 million expense reduction, reflecting recoveries and increases in net realizable values of assets managed.

Statements of Changes in Net Position Highlights

Cumulative results of operations decreased by \$123.6 million in 2016. This decrease was primarily driven by net unrealized losses on Investments of \$136.1 million and Net Cost of Operations of \$214.7 million, primarily offset by Interest Revenue of \$227.2 million. Interest Revenue was the primary source of funds to partially offset expenses and obligations.

Statements of Budgetary Resources Highlights

Activity impacting budget totals of the overall Federal Government is recorded in the NCUSIF's Statements of Budgetary Resources. The NCUSIF's net outlays were negative, meaning that the NCUSIF had net cash inflows of \$799.9 million and \$579.4 million for 2016 and 2015, respectively. This increase is primarily the result of the growth of credit union insured shares and the corresponding 1.00% contributed capital deposit adjustment received.

Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the NCUSIF. While the statements have been prepared from the books and records of the

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

Liquidity Risk and Capital Resources

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

2016 and 2015 Fund Balance with Treasury and Investments		
	December 31, 2016	December 31, 2015
Fund Balance with Treasury	\$ 4.4 million	\$ 2.4 million
U.S. Treasury Securities		
Overnight	152.0 million	141.2 million
Available-for-Sale	12,572.8 million	11,938.3 million

During 2016, the FBWT account was primarily increased by maturing investments in U.S. Treasury securities and Interest Revenue collected. The FBWT account was decreased by purchases of U.S. Treasury securities and amounts expended for the purposes of the share insurance program.

The NCUSIF has multiple other sources of funding including:

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

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

Contributed Capital

Each insured credit union must deposit and maintain in the NCUSIF 1.00% of its insured shares. For the years ended December 31, 2016 and 2015, the NCUSIF's contributed capital from insured credit unions increased by \$634.3 million and \$409.0 million, respectively. Total insured shares were estimated at \$1.0 trillion and \$961.3 billion as of December 31, 2016 and 2015, respectively.

As noted above, NCUA estimated the total insured shares to be approximately \$1.0 trillion as of December 31, 2016, subject to certified reporting of insured share amounts. We expect that the NCUSIF will receive additional capitalization deposits of approximately \$300.1 million from insured credit unions in early 2017 when NCUA invoices for its biannual contributed capital adjustment. The additional capitalization deposits will result in a projected equity ratio of approximately 1.27%.

Cumulative Results of Operations

The NCUSIF ended 2016 and 2015 with a total of \$2.7 billion and \$2.8 billion in cumulative results of operations, respectively. Interest Revenue from Investments is currently the primary source of funds for operations.

Assessments

The NCUA Board may also assess premium charges to all insured credit unions, as provided by the FCU Act. During the years ended December 31, 2016 and 2015, the NCUA Board did not assess any premium charges to insured credit unions for the NCUSIF.

Borrowing Authority from the U.S. Treasury

The NCUSIF has \$6.0 billion in maximum statutory borrowing authority, shared with the TCCUSF, from the U.S. Treasury. As of December 31, 2016 and 2015, the TCCUSF had \$0 and \$1.7 billion in borrowings outstanding from the U.S. Treasury, respectively; the NCUSIF had no borrowings outstanding. As a result, the NCUSIF had \$6.0 billion and \$4.3 billion, respectively, in available borrowing authority shared with the TCCUSF. The estimated losses and liquidity needs of the TCCUSF are based on NCUA's expectations and assumptions about the resolution of failed corporate credit unions, including the disposition and recovery value of their assets. Actual losses of the TCCUSF, including the TCCUSF's funding needs, could differ from those estimates. Any additional borrowing for the TCCUSF reduces funds available for the NCUSIF from this source.

Borrowing Authority from the CLF

The NCUSIF also has the ability to borrow from the CLF as provided in the FCU Act. At December 31, 2016 and 2015, the NCUSIF did not have any outstanding borrowing from the CLF. The CLF is authorized by statute to borrow, from any source, an amount not to exceed twelve times its subscribed capital stock and surplus. The CLF had statutory borrowing authority of \$6.1 billion as of December 31, 2016. NCUA maintains a note purchase agreement with Federal Financing Bank (FFB) on behalf of CLF with a maximum principal amount of \$2.0 billion. Under the terms of its agreement, CLF borrows from FFB as needed. Under terms prescribed by the note purchase agreement, CLF executes promissory notes in amounts as necessary and renews them annually. Advances under the current promissory note can be made no later than March 31, 2017.

IV. Systems, Controls, and Legal Compliance

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

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

Improper Payments Elimination and Recovery Act, Public Law 111-204, as amended, we have determined that the NCUSIF's programs are not susceptible to a high risk of significant improper payments.

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



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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Share Insurance Fund (NCUSIF), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of net cost, changes in net position, and statements of budgetary resources for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Share Insurance Fund as of December 31, 2016 and 2015, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2016, we considered the NCUSIF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NCUSIF's internal control. Accordingly, we do not express an opinion on the effectiveness of the NCUSIF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the NCUSIF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 15-02.



Purpose of the Other Reporting Required by Government Auditing Standards

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

KPMG LLP

February 14, 2017

NATIONAL CREDIT UNION SHARE INSURANCE FUND**BALANCE SHEETS****As of December 31, 2016 and 2015****(Dollars in thousands)**

	<u>2016</u>	<u>2015</u>
ASSETS		
INTRAGOVERNMENTAL		
Fund Balance with Treasury (Note 2)	\$ 4,410	\$ 2,411
Investments, Net - U.S. Treasury Securities (Note 3)	12,724,719	12,079,490
Accounts Receivable - Other	-	106
Accrued Interest Receivable (Note 3)	71,525	59,867
Note Receivable - Note due from the National Credit Union Administration Operating Fund (Note 5)	9,051	10,392
Total Intragovernmental Assets	<u>12,809,705</u>	<u>12,152,266</u>
PUBLIC		
Notes Receivable, Net (Note 5)	-	108,568
Accounts Receivable - Due from Insured Credit Unions, Net (Note 4)	-	2
Accrued Interest Receivable - Notes (Note 5)	-	253
General Property, Plant and Equipment, Net (Note 6)	1,192	1,784
Other - Receivables from Asset Management Estates (AMEs), Net (Note 7)	58,351	65,779
Other Assets	500	-
Total Public Assets	<u>60,043</u>	<u>176,386</u>
TOTAL ASSETS	<u>\$ 12,869,748</u>	<u>\$ 12,328,652</u>
LIABILITIES		
INTRAGOVERNMENTAL		
Accounts Payable - Due to the National Credit Union Administration Operating Fund (Note 10)	\$ 4,059	\$ 3,944
Total Intragovernmental Liabilities	4,059	3,944
PUBLIC		
Accounts Payable	2,118	3,372
Other - Insurance and Guarantee Program Liabilities (Note 8)	196,617	164,857
Other Liabilities	161	318
Total Public Liabilities	<u>198,896</u>	<u>168,547</u>
TOTAL LIABILITIES	<u>202,955</u>	<u>172,491</u>
Commitments and Contingencies (Note 8)		
NET POSITION		
Contributed Capital (Note 13)	9,987,363	9,353,113
Cumulative Result of Operations	2,679,430	2,803,048
Total Net Position	<u>12,666,793</u>	<u>12,156,161</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 12,869,748</u>	<u>\$ 12,328,652</u>

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

NATIONAL CREDIT UNION SHARE INSURANCE FUND**STATEMENTS OF NET COST****For the Years Ended December 31, 2016 and 2015****(Dollars in thousands)**

	<u>2016</u>	<u>2015</u>
GROSS COSTS		
Operating Expenses	\$ 209,260	\$197,752
Provision for Insurance Losses		
Reserve Expense (Reduction) (Note 8)	44,432	(250)
AME Receivable Bad Debt Expense (Reduction) (Note 7)	<u>(36,562)</u>	<u>(35,161)</u>
Total Gross Costs	<u>217,130</u>	<u>162,341</u>
LESS EARNED REVENUES		
Interest Revenue on Note Receivable from the National Credit Union Administration Operating Fund (Note 5)	(179)	(206)
Interest Revenue on Notes (Note 5)	(2,070)	(3,527)
Insurance and Guarantee Premium Revenue and Other Revenue	<u>(214)</u>	<u>(1,454)</u>
Total Earned Revenues	<u>(2,463)</u>	<u>(5,187)</u>
TOTAL NET COST OF OPERATIONS	<u>\$ 214,667</u>	<u>\$ 157,154</u>

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

NATIONAL CREDIT UNION SHARE INSURANCE FUND**STATEMENTS OF CHANGES IN NET POSITION****For the Years Ended December 31, 2016 and 2015****(Dollars in thousands)**

	<u>2016</u>	<u>2015</u>
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	\$ 2,803,048	\$ 2,831,256
BUDGETARY FINANCING SOURCES		
Non-Exchange Revenue		
Interest Revenue - Investments	227,172	218,526
OTHER FINANCING SOURCES		
Non-Exchange Revenue		
Net Unrealized Gain/(Loss) - Investments (Note 3)	(136,123)	(89,580)
Total Financing Sources	91,049	128,946
Net Cost of Operations	(214,667)	(157,154)
Net Change	(123,618)	(28,208)
CUMULATIVE RESULTS OF OPERATIONS	<u>2,679,430</u>	<u>2,803,048</u>
CONTRIBUTED CAPITAL (Note 13)		
Beginning Balances	9,353,113	8,944,099
Change in Contributed Capital	634,250	409,014
CONTRIBUTED CAPITAL	<u>9,987,363</u>	<u>9,353,113</u>
NET POSITION	<u>\$ 12,666,793</u>	<u>\$ 12,156,161</u>

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

NATIONAL CREDIT UNION SHARE INSURANCE FUND**STATEMENTS OF BUDGETARY RESOURCES**
For the Years Ended December 31, 2016 and 2015
(Dollars in thousands)

	2016	2015
BUDGETARY RESOURCES (Notes 12 and 15)		
Unobligated balance, brought forward, January 1	\$ 11,910,709	\$ 11,333,233
Spending authority from offsetting collections (mandatory)		
Collected	1,075,138	882,031
Change in receivables from federal sources	11,552	273
TOTAL BUDGETARY RESOURCES	\$ 12,997,399	\$ 12,215,537
STATUS OF BUDGETARY RESOURCES		
New obligations and upward adjustments (total)	\$ 274,249	\$ 304,828
Unobligated balance, end of year:		
Exempt from apportionment	12,723,150	11,910,709
Total unobligated balance, end of year	12,723,150	11,910,709
TOTAL STATUS OF BUDGETARY RESOURCES	\$ 12,997,399	\$ 12,215,537
CHANGE IN OBLIGATED BALANCE		
Unpaid Obligations:		
Unpaid obligations, brought forward, January 1	\$ 10,266	\$ 8,054
New obligations and upward adjustments	274,249	304,828
Outlays (gross)	(275,254)	(302,616)
Unpaid obligations, end of year	\$ 9,261	\$ 10,266
Uncollected payments:		
Uncollected customer payments from federal sources, brought forward, January 1	\$ (59,973)	\$ (59,700)
Change in uncollected customer payments from Federal sources	(11,552)	(273)
Uncollected customer payments from Federal sources, end of year	\$ (71,525)	\$ (59,973)
Obligated balance, start of year (net)	\$ (49,707)	\$ (51,646)
Obligated balance, end of year (net)	\$ (62,264)	\$ (49,707)
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget authority, gross (mandatory)	\$ 1,086,690	\$ 882,304
Actual offsetting collections (mandatory)	(1,075,138)	(882,031)
Change in uncollected customer payments from Federal sources (mandatory)	(11,552)	(273)
BUDGET AUTHORITY, NET (MANDATORY)	\$ -	\$ -
Outlays, gross (mandatory)	\$ 275,254	\$ 302,616
Actual offsetting collections (mandatory)	(1,075,138)	(882,031)
Outlays, net (discretionary and mandatory)	(799,884)	(579,415)
AGENCY OUTLAYS, NET (MANDATORY)	\$ (799,884)	\$ (579,415)

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

NATIONAL CREDIT UNION SHARE INSURANCE FUND

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

Assistance from the NCUSIF may be in the form of a waiver of statutory reserve requirements, liquidity assistance in the form of a guaranteed line of credit pursuant to Section 208 of the FCU Act, cash assistance in the form of a subordinated note pursuant to Section 208 of the FCU Act, or other such form. In some cases, a merger partner for the credit union may be sought. Mergers between financially troubled credit unions and stronger credit unions may also require NCUSIF assistance. Merger assistance may be in the form of cash assistance, purchase of certain assets by the NCUSIF, and/or guarantees of the values of certain assets (e.g., primarily loans). When a credit union is no longer able to continue operating and the merger and assistance alternatives are not practical, the NCUSIF or the appropriate state supervisory authority may liquidate the credit union. In the event of a credit union liquidation, the NCUSIF pays members' shares up to the maximum insured amount and monetizes the credit union's assets.

Fiduciary Responsibilities

Fiduciary activities are the collection or receipt, management, protection, accounting, investment, or disposition by the Federal Government of cash or other assets, in which non-federal individuals or entities have an ownership interest that the Federal Government must uphold. NCUA's Asset Management and Assistance Center (AMAC) conducts liquidations and performs management and recovery of assets for failed credit unions. Assets and liabilities of liquidated credit unions reside in Asset Management Estates (AMEs). These assets and liabilities are held in part, for the primary benefit of non-federal parties and therefore are considered fiduciary in accordance with Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 31, *Accounting for Fiduciary Activities*. Fiduciary assets are not assets of the Federal Government and therefore are not recognized on the Balance Sheet. Additionally, NCUA entity assets are non-fiduciary.

Sources of Funding

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

In addition, the NCUSIF has borrowing authority, shared with the Temporary Corporate Credit Union Stabilization Fund (TCCUSF), from the U.S. Treasury and the ability to borrow from NCUA's Central Liquidity Facility (CLF).

Basis of Presentation

The NCUSIF's financial statements have been prepared from its accounting records in accordance with the FASAB's SFFAS. The American Institute of Certified Public Accountants recognizes FASAB as the official accounting standards-setting body of the Federal Government. The format of the financial statements and notes is in accordance with the form and content guidance provided in Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, revised October 7, 2016.

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

Basis of Accounting

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

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

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) for the Federal Government requires management to make estimates and assumptions that affect the following:

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

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

Fund Balance with Treasury

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

Investments

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

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

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

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

Accounts Receivable

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

Capitalization Deposits from Insured Credit Unions

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

Premium Assessments from Insured Credit Unions

The NCUA Board has the statutory authority according to the FCU Act Section 202, *Administration of the Insurance Fund*, to assess insured credit unions for a premium charge. The NCUA Board may assess each insured credit union a premium charge for insurance in an amount stated as a percentage of insured shares outstanding as of the most recently ended reporting period if the NCUSIF's equity ratio, as defined, is less than 1.30%. When the equity ratio falls below 1.20%, the Board must assess a premium to restore the equity ratio. When the NCUA Board projects that the equity ratio will, within six months, fall below 1.20%, the NCUA Board must establish and implement a restoration plan within 90 days, which meets the statutory requirements and any further conditions that the NCUA Board determines appropriate. In order to meet statutory requirements, the plan must provide that the equity ratio will meet or exceed the minimum amount specified of 1.20% before the end of the 8-year period beginning upon the implementation of the plan (or such longer period as the NCUA Board may determine to be necessary due to extraordinary circumstances).

The NCUA Board did not assess premiums for 2016 and 2015.

Allowance for Doubtful Accounts

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

Accrued Interest Receivable

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

Public – Notes Receivable, Net

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

General Property, Plant and Equipment, Net

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

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

Other - Receivables from Asset Management Estates, Net

Receivables from AMEs, Net include claims to recover payments made by the NCUSIF to satisfy obligations to insured shareholders and to recoup administrative expenses paid on behalf of AMEs. A related allowance for loss represents the difference between the funds disbursed and obligations incurred and the expected repayment, when recognized, from the AMEs pursuant to the liquidation payment priorities set forth in 12 C.F.R. § 709.5(b). Assets held by the AMEs are the main source of repayment of the NCUSIF's receivables from the AMEs. The recoveries from these AME assets are paid to the NCUSIF as AME assets are monetized and to the extent a receivable is due for share payout obligations and administrative expenses.

The allowance for loss on receivables from AMEs is based on expected asset recovery rates, and come from several sources including:

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

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

Distribution Payable

In accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, the NCUSIF records a non-exchange liability, per Section 202(c)(3) of the FCU Act, *Distributions from Fund Required*, for unpaid amounts due as of the reporting date, as discussed herein.

Per Section 202(c)(3) of the FCU Act, *Distributions from Fund Required*, the NCUA Board shall effect a pro rata distribution to insured credit unions after each calendar year, if:

- (i) any loans to the NCUSIF from the Federal Government, and any interest on those loans, have been repaid;
- (ii) the NCUSIF's equity ratio exceeds the normal operating level; and
- (iii) the NCUSIF's available assets ratio exceeds 1.00%.

The amount of share distribution should equal the maximum possible amount that does not reduce the NCUSIF's equity ratio below the Board set normal operating level of 1.30%, and does not reduce the NCUSIF's available assets ratio below 1.00%.

At the end of any calendar year in which the TCCUSF or the NCUSIF has an outstanding advance from the U.S. Treasury, the NCUSIF is prohibited from making the distribution to insured credit unions described under Section 202 of the FCU Act. Where the TCCUSF has an outstanding advance from the U.S. Treasury, Section 217(e) of the FCU Act requires the NCUSIF to make a distribution to the TCCUSF of the maximum amount possible that does not reduce the NCUSIF's equity ratio below the Board set normal operating level of 1.30% and does not reduce the NCUSIF's available assets ratio below 1.00%.

Capital Leases

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

Insurance and Guarantee Program Liabilities

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

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

The NCUSIF records a contingent liability for probable losses relating to insured credit unions. Through NCUA's supervision process, NCUA applies a supervisory rating system to assess each credit union's relative health in the adequacy of Capital, the quality of Assets, the capability of Management, the quality and level of Earnings, and the asset Liability management (CAMEL), applying a rating ranging from "1" (strongest) to "5" (weakest). The year-end contingent liability is derived by using an internal econometric model that applies estimated probability of failure and loss rates that take into account the historical loss history, CAMEL ratings, credit union level financial ratios, and other conditions. In addition, credit union specific analysis is performed on those credit unions where failure is imminent and where additional information is available to make a reasonable estimate of losses. In such cases, specific reserves are established.

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

Net Position and Contributed Capital

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

Revenue Recognition

Exchange Revenue

Exchange revenues arise and are recognized when a Federal Government entity provides goods and services to the public or to another Federal Government entity for a price. Exchange revenue primarily consists of premium assessments, the purpose of which is to recover the losses of the credit union system.

Non-Exchange Revenue

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

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

Tax-Exempt Status

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

Reclassification

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

2. FUND BALANCE WITH TREASURY

FBWT balances and status at December 31, 2016 and 2015, consisted of the following (in thousands):

	<u>2016</u>	<u>2015</u>
Total Fund Balance with Treasury: Revolving Funds	\$ 4,410	\$ 2,411
Status of Fund Balance with Treasury:		
Unobligated Balance - Available	\$ 12,723,150	\$ 11,910,709
Obligated Balances Not Yet Disbursed	9,261	10,266
Non-Budgetary Investment Accounts	(12,656,476)	(11,858,591)
Non-FBWT Budgetary Accounts	(71,525)	(59,973)
Total	<u>\$ 4,410</u>	<u>\$ 2,411</u>

As a revolving fund, the FBWT is used for continuing business-like activities. The NCUSIF collects premiums and capitalization deposits, which in turn are invested in U.S. Treasury securities. The proceeds are primarily held to cover insurance losses and are also used for merger assistance, liquidations, and other administrative expenses, without requirement for annual appropriations. FBWT contains monies available for future obligations as well as monies obligated for current activities. Non-budgetary Investment accounts, which consist of U.S. Treasury investments, reduce the status of fund balance. Non-FBWT Budgetary Accounts consist of budgetary receivables and nonexpenditure transfers.

As of December 31, 2016 and 2015, there were no unreconciled differences between U.S. Treasury records and balances reported on the NCUSIF's general ledger.

3. INVESTMENTS

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

As of December 31, 2016 and 2015, the carrying amount, gross unrealized holding gains, gross unrealized holding losses, and fair value of U.S. Treasury securities were as follows (in thousands):

	<u>Cost</u>	<u>Amortized (Premium) Discount</u>	<u>Interest Receivable</u>	<u>Investments, Net (Par)</u>	<u>Net Unrealized Gain (Loss)</u>	<u>Carrying/ Fair Value</u>
As of December 31, 2016:						
U.S. Treasury Securities						
Available-for-Sale	\$ 12,789,828	\$ (141,673)	\$ 71,525	\$ 12,600,000	\$ (75,389)	\$ 12,572,766
Held to Maturity	151,953	-	-	151,953	-	151,953
Total	<u>\$ 12,941,781</u>	<u>\$ (141,673)</u>	<u>\$ 71,525</u>	<u>\$ 12,751,953</u>	<u>\$ (75,389)</u>	<u>\$ 12,724,719</u>
As of December 31, 2015:						
U.S. Treasury Securities						
Available-for-Sale	\$ 12,040,813	\$ (163,233)	\$ 59,867	\$ 11,800,000	\$ 60,733	\$ 11,938,313
Held to Maturity	141,177	-	-	141,177	-	141,177
Total	<u>\$ 12,181,990</u>	<u>\$ (163,233)</u>	<u>\$ 59,867</u>	<u>\$ 11,941,177</u>	<u>\$ 60,733</u>	<u>\$ 12,079,490</u>

Maturities of U.S. Treasury securities as of December 31, 2016 and 2015 were as follows (in thousands):

	<u>2016 Fair Value</u>	<u>2015 Fair Value</u>
Held to Maturity (Overnights)	\$ 151,953	\$ 141,177
Available-for-Sale:		
Due in one year or less	1,407,547	2,070,703
Due after one year through five years	4,991,625	4,087,657
Due after five years through ten years	6,173,594	5,779,953
	<u>\$ 12,724,719</u>	<u>\$ 12,079,490</u>

There were no realized gains or losses for the years ended December 31, 2016 and 2015.

The following table includes gross unrealized losses on investment securities, for which an other-than-temporary impairment has not been recognized, in addition to the fair values of those securities, aggregated by investment classification and length of time the investments have been in a loss position, at December 31, 2016 and 2015 (in thousands):

	<u>Losses Less than 12 months</u>		<u>Losses 12 months or more</u>		<u>Total</u>	
	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>
As of December 31, 2016:						
Available-for-Sale:						
U.S. Treasury Securities	<u>\$ (168,270)</u>	<u>\$ 7,633,360</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (168,270)</u>	<u>\$ 7,633,360</u>
As of December 31, 2015:						
Available-for-Sale:						
U.S. Treasury Securities	<u>\$ (58,077)</u>	<u>\$ 4,484,500</u>	<u>\$ (15,025)</u>	<u>\$ 959,781</u>	<u>\$ (73,102)</u>	<u>\$ 5,444,281</u>

4. ACCOUNTS RECEIVABLE

Public – Accounts Receivable

Accounts Receivable Due from Insured Credit Unions

As of December 31, 2016 and 2015, accounts receivable due from insured credit unions were \$0 and \$2.0 thousand, respectively. As none of these amounts were deemed uncollectible, the allowance for doubtful accounts on public accounts receivable as of December 31, 2016 and 2015 was \$0.

5. NOTES RECEIVABLE

Intragovernmental – Notes Receivable

Note Due from the NCUA Operating Fund

In 1992, the NCUSIF lent \$42.0 million to the NCUA Operating Fund, pursuant to a 30-year note secured by the NCUA premises in Alexandria, Virginia. Interest income recognized was approximately \$179.0 thousand and \$206.0 thousand for the years ended December 31, 2016 and 2015, respectively. The note receivable balance as of December 31, 2016 and 2015 was approximately \$9.1 million and \$10.4 million, respectively.

The variable rate on the note is equal to the NCUSIF's prior-month yield on investments. The average interest rate for the years ended December 31, 2016 and 2015 was 1.84% and 1.87%, respectively. The interest rate as of December 31, 2016 and 2015 was 1.83% and 1.90%, respectively.

As of December 31, 2016, the above note requires principal repayments as follows (in thousands):

<u>Years Ending December 31</u>	<u>Secured Term Note</u>
2017	\$ 1,341
2018	1,341
2019	1,341
2020	1,341
2021	1,341
Thereafter	<u>2,346</u>
Total	<u>\$ 9,051</u>

Public – Notes Receivable

As of December 31, 2016 and 2015, the NCUSIF did not have any outstanding capital notes due from insured credit unions.

The NCUSIF had an outstanding collateralized senior note due from an insured credit union for \$0 and \$108.6 million as of December 31, 2016 and 2015, respectively. The outstanding senior collateralized note was repaid in full during 2016. There was no related allowance for loss as of December 31, 2016 and 2015. Accrued interest on the note was due on a monthly basis. Interest on this note was fixed over the remaining life of the senior note.

As of December 31, 2016 and 2015, the accrued interest receivable for the note totaled \$0 and \$252.8 thousand, respectively.

6. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

The components of General Property, Plant and Equipment as of December 31, 2016 and 2015 were as follows (in thousands):

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
As of December 31, 2016:			
Assets under Capital Lease	\$ 471	\$ (290)	\$ 181
Internal-Use Software	<u>2,017</u>	<u>(1,006)</u>	<u>1,011</u>
Total General Property, Plant and Equipment	<u>\$ 2,488</u>	<u>\$ (1,296)</u>	<u>\$ 1,192</u>
As of December 31, 2015:			
Assets under Capital Lease	\$ 473	\$ (145)	\$ 328
Internal-Use Software	561	(561)	-
Internal-Use Software under Development	<u>1,456</u>	<u>-</u>	<u>1,456</u>
Total General Property, Plant and Equipment	<u>\$ 2,490</u>	<u>\$ (706)</u>	<u>\$ 1,784</u>

Assets under capital lease are depreciable over 39 months, which corresponds with the life of the underlying capital lease. Internal use software has a useful life of 3 years per NCUA capitalization policy.

As of December 31, 2016 and 2015, the NCUSIF included \$0 and \$97.9 thousand, respectively, in internal labor costs attributable to internal use software during its software development stage. NCUSIF reimburses the Operating Fund for these internal labor costs since these costs are incurred by the Operating Fund.

7. OTHER – RECEIVABLES FROM ASSET MANAGEMENT ESTATES

As of December 31, 2016 and 2015, the receivable from AMEs was \$926.2 million and \$988.0 million, and the related allowance for loss was \$867.8 million and \$922.2 million, for a net receivable from AMEs of \$58.4 million and \$65.8 million, respectively (in thousands).

	<u>2016</u>	<u>2015</u>
Gross Receivable from AME	<u>\$ 926,171</u>	<u>\$ 987,963</u>
Allowance for Loss, beginning balance	922,184	952,979
AME Receivable Bad Debt Expense (Reduction)	(36,562)	(35,161)
Increase in Allowance	10,708	11,776
Write-off of Cancelled Charters	(27,939)	(7,410)
Other	<u>(571)</u>	<u>-</u>
Allowance for Loss, ending balance	<u>867,820</u>	<u>922,184</u>
Receivable from AME, Net	<u>\$ 58,351</u>	<u>\$ 65,779</u>

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

8. OTHER LIABILITIES – INSURANCE AND GUARANTEE PROGRAM LIABILITIES

NCUA identifies insured credit unions experiencing financial difficulty through NCUA's supervisory and examination process. On both a general and specific case basis, management determines the estimated losses from these credit unions. NCUA also evaluates overall economic trends and monitors potential system-wide risk factors, such as increasing levels of consumer debt, bankruptcies, and delinquencies. NCUA applies the CAMEL rating system to assess an insured credit union's financial condition and operations. The CAMEL rating system is a tool to measure risk and allocate resources for supervisory purposes. NCUA periodically reviews the CAMEL rating system to respond to continuing economic and regulatory changes in the credit union industry. The general reserve at year-end is derived by using an internal econometric model that applies estimated probability of failure and loss rates that take into account the historical loss history, CAMEL ratings, credit union level financial ratios, and other conditions. The anticipated losses are net of estimated recoveries from the disposition of the assets of failed credit unions. The total reserves for both identified and anticipated losses resulting from insured credit union failures were \$196.6 million and \$164.9 million as of December 31, 2016 and 2015, respectively.

In exercising its supervisory function, the NCUSIF will occasionally extend guarantees of assets (primarily loans) to third-party purchasers or existing insured credit unions in order to facilitate mergers. The NCUSIF would be obligated upon borrower nonperformance. There were no guarantees outstanding during 2016 or as of December 31, 2016. There were no guarantees outstanding during 2015 or as of December 31, 2015.

In addition, the NCUSIF may grant a guaranteed line-of-credit to a third-party lender, such as a corporate credit union or bank, if a particular insured credit union were to have a current or immediate liquidity concern and the third-party lender refuses to extend credit without a guarantee. The NCUSIF would thereby be obligated if the insured credit union failed to perform. Total line-of-credit guarantees of credit unions as of December 31, 2016 and 2015 were approximately \$1.7 million and \$35.0 million, respectively. The insured credit unions borrowed \$0 from the third-party lender under these lines-of-credit guarantees as of December 31, 2016 and 2015. As of December 31, 2016 and 2015, the NCUSIF reserved \$40.0 thousand and \$707.5 thousand, respectively, for these guaranteed lines-of-credit. The guarantees expire in April 2017 and March 2016, respectively.

On rare occasions, the NCUSIF may provide indemnifications as part of a merger assistance or purchase and assumption agreement to acquiring credit unions. Such indemnifications make the NCUSIF contingently liable based on the outcome of any legal actions. There were no such indemnification contingencies as of December 31, 2016 and 2015, respectively.

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

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 164,857	\$ 178,318
Reserve Expense (Reduction)	44,432	(250)
Insurance losses claims paid	(27,882)	(39,990)
Net Estimated Recovery/Claim on AMEs	<u>15,210</u>	<u>26,779</u>
Ending balance	<u>\$ 196,617</u>	<u>\$ 164,857</u>

The Insurance and Guarantee Program Liabilities at December 31, 2016 and December 31, 2015 were comprised of the following:

- Specific reserves were \$2.9 million and \$10.0 million, respectively. Specific reserves are identified for those credit unions where failure is imminent and where additional information is available to make a reasonable estimate of losses.
- General reserves were \$193.7 million and \$154.9 million, respectively.

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

9. OTHER LIABILITIES

(a) Capital Lease Liability

NCUSIF leases laptops for state credit union examiners under a capital lease agreement that will run through 2018. Amounts presented in the table below include \$1.9 thousand in imputed interest.

The future minimum lease payments to be paid over the remaining life as of December 31, 2016, are as follows (in thousands):

<u>Years Ending December 31</u>	<u>Minimum Lease Payments</u>
2017	\$ 163
2018	-
Total	<u>\$ 163</u>

(b) Distribution Payable

As of December 31, 2016 and 2015, the NCUSIF-calculated equity ratio of 1.24% and 1.26%, respectively, was below its normal operating level of 1.30%; therefore, the NCUSIF did not record or make a distribution. As of December 31, 2016 and 2015, the NCUSIF's available assets ratio was 1.22% and 1.24%, respectively. The equity ratio and available assets ratio calculations are discussed in Note 13.

10. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Program costs and revenues are separated between intragovernmental and public to facilitate government-wide financial reporting. Intragovernmental revenue and costs arise from transactions with other federal entities. Public revenue and costs arise from transactions with domestic and foreign persons and organizations outside of the Federal Government. Intragovernmental costs and exchange revenue as of December 31, 2016 and 2015 were as follows (in thousands):

<u>Intragovernmental Costs and Exchange Revenue</u>	<u>2016</u>	<u>2015</u>
Intragovernmental Costs	\$ 203,026	\$ 192,301
Public Costs/(Cost Reduction)	14,104	(29,961)
Total	<u>217,130</u>	<u>162,340</u>
Intragovernmental Exchange Revenue	(179)	(206)
Public Exchange Revenue	(2,284)	(4,980)
Total	<u>(2,463)</u>	<u>(5,186)</u>
Net Cost	<u>\$ 214,667</u>	<u>\$ 157,154</u>

Certain administrative services are provided to the NCUSIF by the NCUA Operating Fund. The NCUSIF is charged by the NCUA Operating Fund for these services based upon an annual allocation factor derived from a study of actual usage. In 2016 and 2015, the allocation to the NCUSIF was 73.1% and 71.8% of NCUA Operating Fund expenses, respectively. The cost of the services allocated to the NCUSIF, which totaled approximately \$203.0 million and \$192.3 million for the years ended December 31, 2016 and 2015, respectively, is reflected as an expense in the Statements of Net Cost and above in Intragovernmental Costs. These transactions are settled monthly. As of December 31, 2016 and 2015, amounts due to the NCUA Operating Fund for allocated administrative expenses were \$4.1 million and \$3.9 million, respectively. The following table provides a breakdown of the administrative services provided to the NCUSIF by the NCUA Operating Fund (in thousands):

<u>Administrative Services Reimbursed to the NCUA Operating Fund</u>	<u>2016</u>	<u>2015</u>
Employee Salaries	\$ 109,225	\$ 103,348
Employee Benefits	42,174	38,917
Employee Travel	19,252	19,567
Contracted Services	18,479	17,484
Administrative Costs	6,122	5,120
Depreciation and Amortization	3,591	4,611
Rent, Communications, and Utilities	<u>4,183</u>	<u>3,254</u>
Total Services Provided by the NCUA Operating Fund	<u>\$ 203,026</u>	<u>\$ 192,301</u>

11. AVAILABLE BORROWING AUTHORITY, END OF PERIOD

The NCUSIF shares \$6.0 billion in borrowing authority from the U.S. Treasury with the TCCUSF. As of December 31, 2016 and 2015, the TCCUSF had \$0 and \$1.7 billion in borrowing outstanding from the U.S. Treasury, respectively. As a result, as of December 31, 2016 and 2015, the NCUSIF had \$6.0 billion and \$4.3 billion, respectively, in available borrowing authority shared with the TCCUSF.

Under the FCU Act, the NCUSIF also has the ability to borrow from the CLF. The NCUSIF is authorized to borrow from the CLF up to the amount of the CLF's unused borrowing authority. As of December 31, 2016 and 2015, the CLF had statutory borrowing authority of \$6.1 billion and \$5.6 billion, respectively. As of December 31, 2016 and 2015, the CLF had a note purchase agreement with the Federal Financing Bank with a maximum principal of \$2.0 billion and \$2.0 billion, respectively, all of which was unused. Advances made under the current promissory note can be made no later than March 31, 2017.

At December 31, 2016 and 2015, the NCUSIF had \$8.0 billion and \$6.3 billion, respectively, in total available borrowing capacity.

12. DISCLOSURES RELATED TO THE STATEMENTS OF BUDGETARY RESOURCES

The Statements of Budgetary Resources discloses total budgetary resources available to the NCUSIF, and the status of resources as of December 31, 2016 and 2015. Activity impacting budget totals of the overall Federal Government budget is recorded in the NCUSIF's Statements of Budgetary Resources budgetary accounts. As of December 31, 2016 and 2015, the NCUSIF's resources in budgetary accounts were \$13.0 billion and \$12.2 billion, and undelivered orders were \$2.9 million and \$2.6 million, respectively. All liabilities are covered by budgetary resources, excluding the Insurance and Guarantee Program Liabilities because they are contingent liabilities and do not require budgetary resources until the liabilities are no longer contingent. All obligations incurred by the NCUSIF are reimbursable. The NCUSIF is exempt from OMB apportionment control.

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

13. CONTRIBUTED CAPITAL

The *Credit Union Membership Access Act of 1998*, Public Law 105–219 (CUMAA), mandated changes to the NCUSIF’s capitalization provisions effective January 1, 2000. Under Section 202(c) of the FCU Act, each insured credit union must pay to and maintain with the NCUSIF a deposit in an amount equaling 1.00% of the credit union’s insured shares. The CUMAA added provisions mandating that the amount of each insured credit union’s deposit is adjusted as follows, in accordance with procedures determined by the NCUA Board, to reflect changes in the credit union’s insured shares: (i) annually, in the case of an insured credit union with total assets of not more than \$50.0 million; and (ii) semi-annually, in the case of an insured credit union with total assets of \$50.0 million or more. The annual and semi-annual adjustments are based on insured member share deposits outstanding as of December 31 of the preceding year and June 30 of the current year, respectively. The 1.00% contribution is returned to the insured credit union in the event that its insurance coverage is terminated, or is obtained from another source, or the operations of the NCUSIF are transferred from the NCUA Board. As of December 31, 2016 and 2015, contributed capital owed to the NCUSIF totaled \$0 thousand and \$2.0 thousand, respectively. As of December 31, 2016 and 2015, contributed capital due to insured credit unions was \$1.9 million and \$490.4 thousand, respectively.

Beginning in 2000, the CUMAA mandated that distributions to insured credit unions are determined from specific ratios, which are based upon year-end reports of insured shares. Accordingly, distributions associated with insured shares at year-end are declared and paid in the subsequent year. This was updated with the passage of the *Helping Families Save Their Homes Act of 2009*, Public Law 111-22, which states that at the end of any calendar year in which the TCCUSF has an outstanding advance from the U.S. Treasury, the NCUSIF is prohibited from making the distribution to insured credit unions as described above. In lieu of the distribution, the NCUSIF shall make a distribution to the TCCUSF for the maximum amount possible that does not reduce the NCUSIF’s equity ratio below the normal operating level and does not reduce the current available assets ratio below 1.00%.

Pursuant to the FCU Act, the NCUSIF-calculated equity ratio of 1.24% and 1.26% as of December 31, 2016 and 2015, respectively, was below the normal operating level of 1.30%; therefore, the NCUSIF did not estimate or record a distribution as of December 31, 2016 and 2015. Total contributed capital as of December 31, 2016 and 2015 was \$10.0 billion and \$9.4 billion, respectively.

The NCUSIF equity ratio is calculated as the ratio of contributed capital plus cumulative results of operations excluding net cumulative unrealized gains and losses on investments, to the aggregate amount of the insured shares in all insured credit unions.

The NCUSIF’s available assets ratio as of December 31, 2016 and 2015 was 1.22% and 1.24%, based on total estimated insured shares as of December 31, 2016 and 2015 of \$1.0 trillion and \$961.3 billion, respectively. The NCUSIF available assets ratio, as defined by the FCU Act, is calculated as the ratio of (A) the amount determined by subtracting (i) direct liabilities of the NCUSIF (including the distribution payable to the TCCUSF) and contingent liabilities for which no provision for losses has been made, from (ii) the sum of cash and the market value of unencumbered investments authorized under Section 203(c) of the FCU Act, to (B) the aggregate amount of the insured shares in all insured credit unions.

14. FIDUCIARY ACTIVITIES

Fiduciary activities are the collection or receipt, management, protection, accounting, investment, and disposition by an AME of cash and other assets, in which non-federal individuals or entities have an ownership interest. Fiduciary assets are not assets of the Federal Government. Fiduciary activities are not recognized on the basic financial statements, but are reported on schedules in the notes to the financial statements in accordance with SFFAS No. 31, *Accounting for Fiduciary Activities*. The NCUA Board, as liquidating agent of the AMEs, disburses obligations owed by and collects money due to the liquidating credit unions through AMAC. Following is the Schedule of Fiduciary Activity as of December 31, 2016 and 2015 (in thousands):

Schedule of Fiduciary Activity	2016	2015
Fiduciary Net Liabilities, beginning of year	\$ (929,060)	\$ (958,508)
Net Realized Losses upon Liquidation	(6,346)	(13,391)
Revenues		
Interest on Loans	6,411	9,104
Other Fiduciary Revenues	424	895
Expenses		
Professional & Outside Services Expenses	(4,650)	(4,840)
Compensation and Benefits	(1,409)	(1,611)
Other Expenses	(1,295)	(1,385)
Net Change in Recovery Value of Assets and Liabilities		
Net Gain/(Loss) on Loans	32,891	28,734
Net Gain/(Loss) on Real Estate Owned	(1,349)	(1,770)
Other, Net Gain/(Loss)	5,173	6,304
Decrease in Fiduciary Net Liabilities	29,850	22,040
Write off of Fiduciary Liabilities for Canceled Charters	27,939	7,408
Fiduciary Net Liabilities, end of year	\$ (871,271)	\$ (929,060)

Comparing 2016 activity in the schedule of fiduciary activity with 2015, fiduciary net liabilities improved by \$57.8 million overall, including a decrease in fiduciary net liabilities of \$29.9 million and cancelled charters write-offs of \$27.9 million. For 2016, the primary drivers were an improvement in net realized losses upon liquidation, improvement in the recovery value of assets and liabilities, and cancelled charters. The net realized losses upon liquidation decreased by \$6.3 million due, in part, to lower average cost of failure per credit union for liquidations in 2016. The net change in recovery value of assets and liabilities line-items decreased by \$29.9 million due to rising net realizable values of assets managed. Charter cancellation write-offs decreased by \$27.9 million, corresponding with more credit union charter cancellations in 2016 than the previous year.

Revenues consist of cash collected during the liquidation of assets held within the AME. Gains and losses include the revaluation of assets based upon expected asset recovery rates, as well as the disposition of assets and adjustments to liabilities, which contribute to the change in fiduciary net assets/liabilities. Following is the Schedule of Fiduciary Net Assets/Liabilities as of December 31, 2016 and 2015 (in thousands):

<u>Schedule of Fiduciary Net Assets/Liabilities</u>	<u>2016</u>	<u>2015</u>
Fiduciary Assets		
Loans	\$ 61,392	\$ 72,383
Real Estate Owned	10,231	9,155
Other Fiduciary Assets	4,061	10,134
Total Fiduciary Assets	<u>75,684</u>	<u>91,672</u>
Fiduciary Liabilities		
Insured Shares	1,373	8,411
Accrued Liquidation Expenses	15,220	17,660
Unsecured Claims	409	3,111
Uninsured Shares	3,782	3,587
Due to NCUSIF (Note 7)	926,171	987,963
Total Fiduciary Liabilities	<u>946,955</u>	<u>1,020,732</u>
Total Fiduciary Net Assets/(Liabilities)	<u>\$ (871,271)</u>	<u>\$ (929,060)</u>

15. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

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

Reconciliation of Net Cost of Operations to Budget	2016	2015
Resources Provided to Finance Activities:		
Budgetary Resources Obligated		
New Obligations and Upward Adjustments (Total)	\$ 274,249	\$ 304,828
Less: Spending Authority from Offsetting Collections and Change in Receivables from Federal Sources	(1,086,690)	(882,304)
Net Obligations	<u>(812,441)</u>	<u>(577,476)</u>
Other Resources:		
Net Unrealized (Gain)/Loss	136,123	89,580
Total Resources Provided to Finance Activities	<u>(676,318)</u>	<u>(487,896)</u>
Resources Provided to Fund Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods and Services Not Yet Received	(790)	1,522
Costs Capitalized on the Balance Sheet	822,486	558,549
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	60,483	120,102
Total Resources Provided to Fund Items Not Part of the Net Cost of Operations	<u>882,179</u>	<u>680,173</u>
Resources Generated to Finance the Net Cost of Operations	<u>205,861</u>	<u>192,277</u>
Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period		
Provision for Insurance Losses		
Reserve Expense (Reduction)	44,432	(250)
AME Receivable Bad Debt Expense (Reduction)	(36,562)	(35,161)
Increase in Exchange Revenue	253	143
Components not Requiring or Generating Resources		
Depreciation Expense	590	145
Other Expenses	93	-
Total Components of Net Cost of Operations That Do Not Require or Generate Resources During the Reporting Period	<u>8,806</u>	<u>(35,123)</u>
Net Cost of Operations	<u>\$ 214,667</u>	<u>\$ 157,154</u>

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

16. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2017, which is the date the financial statements were available to be issued. The following event, subsequent to the finalization of the December 31, 2016 financial statements, warrants identification.

NCUA's recent supervisory actions resulted in the conservatorship of a federally insured credit union on February 10, 2017. Estimated losses related to this conserved credit union are contained within the NCUSIF reserve of insurance losses, referred to as the Other - Insurance and Guarantee Program Liabilities in the Balance Sheets, and are estimated as part of the yearend general reserve methodology. The conservatorship is a distinct and subsequent action from the determination of year-end general reserves. Actual losses could vary and may be materially different from the estimated losses recognized as of December 31, 2016.

Management determined that there were no other significant items to be disclosed as of December 31, 2016

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Risk Assumed Information

Insurance and Guarantee Program Liabilities

As of December 31, 2016 and 2015, the aggregate outstanding insured shares of the insured credit unions were estimated at \$1.0 trillion and \$961.3 billion, respectively. This amount represents the maximum potential future guarantee payments that the NCUSIF could be required to make under the share insurance program, without consideration of any possible recoveries. Additionally, to the extent the TCCUSF's obligations exceed the funds available in the TCCUSF, the NCUSIF will provide the necessary funds. These amounts bear no direct relationship to the NCUSIF's anticipated losses.

As discussed previously herein, NCUA identifies credit unions at risk of failure through the supervisory and examination process, and estimates losses based upon economic trends and credit unions' financial condition and operations. NCUA also evaluates overall economic trends and monitors potential credit union system-wide risk factors, such as increasing levels of consumer debt, bankruptcies, and delinquencies. NCUA applies the CAMEL rating system to assess a credit union's financial condition and operations. The CAMEL rating system is a tool to measure risk and allocate resources for supervisory purposes. NCUA periodically reviews the CAMEL rating system to respond to continuing economic and regulatory changes in the credit union industry. The aggregate amount of reserves recognized for credit unions at risk of failure was \$196.6 million and \$164.9 million as of December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, the general reserves were \$193.7 million and \$154.9 million, respectively. At December 31, 2016 and 2015, the specific reserves resulting from insured credit unions' expected failures were \$2.9 million and \$10.0 million, respectively.

The NCUSIF's contingent liability increased by \$31.7 million from 2015 to 2016, reflecting the overall risk of losses due to potential credit unions failures for the credit union industry, and decreased by \$13.4 million from 2014 to 2015. The credit union industry remained stable during 2016 as reflected by the reduction in the assets in CAMEL 3, 4 and 5 rated credit unions as compared to 2015. Assets in CAMEL 3, 4 and 5 rated credit unions dropped slightly to \$98.2 billion at the end of 2016, versus \$98.3 billion at the end of 2015. The aggregate net worth ratio remained stable during the year, ending at 10.9%, versus 10.9% at December 31, 2015. The ratio has shown overall improvement since 2011.

Fees and Premiums

During 2016 and 2015, the NCUA Board did not assess premiums to insured credit unions from the NCUSIF.

Sensitivity, Risks and Uncertainties of the Assumptions

During 2013, NCUA implemented the use of the econometric reserve model to improve the precision of the loss forecast. As discussed previously herein, the NCUA estimates the anticipated losses resulting from insured credit union failures by evaluating imminent failures and using an internal econometric model that applies estimated probability of failure and loss rates that take into account the historical loss history, CAMEL ratings, credit union level financial ratios, and other conditions. The effectiveness of the reserving methodology is evaluated by applying analytical techniques to review variances between projected losses and actual losses and adjustments are made accordingly. Actual losses will largely depend on future economic and market conditions and could differ materially from the anticipated losses recorded by the NCUSIF as of December 31, 2016.

The development of assumptions for certain key input variables of our estimation model is a highly subjective process that involves significant judgment and will change over time. Future values are difficult to estimate, especially over longer timeframes. Key assumptions in the modeling include probability of failure and loss rates. The probability of failure is developed based on actual failures and historical migration trends in the CAMEL ratings, and incorporates macroeconomic data such as the consumer price index and geographic housing prices, as well as individual credit union factors such as delinquencies and charge-offs. The loss rate is partly subjective and is developed based on historical loss experience from actual failures, and incorporates the NCUA's expectations and assumptions about anticipated recoveries. The assumptions developed for the estimation model are periodically evaluated by the NCUA to determine the reasonableness of those assumptions over time.

The internal model provides a range of losses. Per current policy, the minimum in the range of losses is the 75 percent confidence level forecast and the upper bound is the 90 percent confidence level forecast. The NCUSIF general reserve is sensitive to assumptions made about the loss rates under various scenarios. For example, changing the assumptions to exclude statistical outliers for calculating loss rates results in a change in the range of losses. Additionally, management's judgment is used to select a point in the range of projected losses to record probable contingent liabilities in compliance with SFFAS No. 5, which was \$193.7 million in anticipated losses recognized on the NCUSIF's balance sheet at December 31, 2016. In selecting the point in the range of the forecasts, management considers overall credit union economic trends and system-wide risk factors, such as increasing levels of consumer debt, bankruptcies and delinquencies.

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

**NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND**

**FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015, AND
INDEPENDENT AUDITORS' REPORT**



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

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Administration Operating Fund (OF), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of revenues, expenses and changes in fund balance, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Administration Operating Fund as of December 2016 and 2015, and its operations, changes in fund balance, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

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Other Reporting Required by Government Auditing Standards

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2016, we considered the OF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OF's internal control. Accordingly, we do not express an opinion on the effectiveness of the OF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the OF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 15-02.

Purpose of the Other Reporting Required by Government Auditing Standards

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

KPMG LLP

February 14, 2017

**NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND**
BALANCE SHEETS
As of December 31, 2016 and 2015
(Dollars in thousands)

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents (Note 3)	\$ 49,349	\$ 40,528
Due from National Credit Union Share Insurance Fund (Note 7)	4,059	3,944
Employee advances	5	38
Other accounts receivable, Net (Notes 7 and 10)	437	332
Prepaid expenses and other assets	1,844	1,732
Assets held for sale (Note 6)	-	377
Fixed assets — Net of accumulated depreciation of \$34,963 and \$31,083 as of December 31, 2016 and December 31, 2015, respectively (Note 4)	29,362	31,106
Intangible assets — Net of accumulated amortization of \$17,219 and \$16,279 as of December 31, 2016 and December 31, 2015, respectively (Note 5)	4,855	2,354
TOTAL ASSETS	<u>\$ 89,911</u>	<u>\$ 80,411</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable and accrued other liabilities	\$ 5,609	\$ 5,644
Obligations under capital leases (Note 8)	957	1,515
Accrued wages and benefits	10,270	7,176
Accrued annual leave	18,169	17,243
Accrued employee travel	601	646
Notes payable to National Credit Union Share Insurance Fund (Note 7)	9,051	10,392
Total liabilities	<u>44,657</u>	<u>42,616</u>
COMMITMENTS AND CONTINGENCIES (Notes 7, 8, 11 & 12)		
FUND BALANCE	<u>45,254</u>	<u>37,795</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 89,911</u>	<u>\$ 80,411</u>

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND**

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE

For the years ended December 31, 2016 and 2015

(Dollars in thousands)

	<u>2016</u>	<u>2015</u>
REVENUES		
Operating fees	\$ 80,934	\$ 78,773
Interest	181	22
Other	<u>1,071</u>	<u>1,100</u>
Total Revenues	82,186	79,895
EXPENSES, NET (Note 7)		
Employee wages and benefits	55,713	55,876
Travel	7,099	7,685
Rent, communications, and utilities	1,539	1,278
Contracted services	6,800	6,867
Depreciation and amortization	1,313	1,811
Administrative	<u>2,263</u>	<u>2,011</u>
Total Expenses, Net	<u>74,727</u>	<u>75,528</u>
EXCESS OF REVENUES OVER EXPENSES	7,459	4,367
FUND BALANCE—Beginning of year	<u>37,795</u>	<u>33,428</u>
FUND BALANCE—End of year	<u>\$ 45,254</u>	<u>\$ 37,795</u>

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND**
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2016 and 2015
(Dollars in thousands)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenues over expenses	\$ 7,459	\$ 4,367
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization (Note 4 and 5)	4,905	5,533
Provision for loss on disposal of employee residences held for sale	27	114
Loss on fixed asset and intangible asset retirements	9	1,184
(Increase) decrease in assets:		
Due from National Credit Union Share Insurance Fund	(115)	(435)
Employee advances	33	24
Other accounts receivable, net	(105)	(10)
Prepaid expenses and other assets	(112)	413
(Decrease) increase in liabilities:		
Accounts payable	(35)	(216)
Accrued wages and benefits	3,094	(5,697)
Accrued annual leave	926	1,774
Accrued employee travel	(45)	155
Net Cash Provided by Operating Activities	<u>16,041</u>	<u>7,206</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets and intangible assets	(5,473)	(5,702)
Proceeds from sale of employee residences held for sale	350	596
Purchases of employee residences held for sale	-	(443)
Net Cash Used in Investing Activities	<u>(5,123)</u>	<u>(5,549)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of notes payable to National Credit Union Share Insurance Fund	(1,341)	(1,341)
Principal payments under capital lease obligations	(756)	(728)
Net Cash Used in Financing Activities	<u>(2,097)</u>	<u>(2,069)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,821	(412)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>40,528</u>	<u>40,940</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 49,349</u>	<u>\$ 40,528</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Acquisition of equipment under capital lease	<u>\$ 198</u>	<u>\$ 2,030</u>
CASH PAYMENTS FOR INTEREST	<u>\$ 179</u>	<u>\$ 206</u>

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

1. ORGANIZATION AND PURPOSE

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

The Fund supports these related parties by providing office space, information technology services, and supplies, as well as paying employees’ salaries and benefits. Certain types of support are reimbursed to the Fund by NCUSIF, TCCUSF, and CLF, while support of the CDRLF is not reimbursed. Expenses included on the Statement of Revenues, Expenses, and Changes in Fund Balance are shown net of reimbursements from related parties. This may result in credit balances if expense activity for the Operating Fund is less than the reimbursements from related parties.

Additional related parties are described in Note 7.

Cash Equivalents – Cash equivalents are highly liquid investments with original maturities of three months or less. The Federal Credit Union Act permits the Fund to invest in United States Government securities or securities with both principal and interest guaranteed by the United States Government. All investments in 2016 and 2015 were cash equivalents and are stated at cost, which approximates fair value.

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

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

For impairments, the Fund's policy is to identify assets that are no longer in service, obsolete, or need to be written down, and perform an impairment analysis based on FASB Accounting Standards Codification (ASC) 360-10-35, *Property, Plant, and Equipment*, requirements. Subsequent adjustments to individual asset values are made to correspond with any identified changes in useful lives.

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

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

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

Accounts Payable and Accrued Other Liabilities – The Fund incurs administrative expenses and liabilities for programs pertaining to related parties that are controlled by the NCUA Board. Accruals are made as expenses are incurred. Accrued other liabilities include contingent liabilities, as described in Note 11.

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

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

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

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

Leases – Operating leases are entered into for the acquisition of office space and equipment as part of administering NCUA's program. The cost of operating leases is recognized on the straight-line method over the life of the lease and includes, if applicable, any reductions resulting from incentives such as rent holidays. The same method is used to recognize income from operating leases. The Fund also has capital leases which are recorded at the lower of the present value of the future minimum lease payments or the fair market value of the leased asset. Certain office space for which NCUA is a lessee is subject to escalations in rent, as described in Note 8.

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

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

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

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

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

3. CASH AND CASH EQUIVALENTS

The Fund's cash and cash equivalents as of December 31, 2016 and 2015 are as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Deposits with U.S. Treasury	\$ 5,803	\$ 67
U.S. Treasury Overnight Investments	43,546	40,461
Total	<u>\$ 49,349</u>	<u>\$ 40,528</u>

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

4. FIXED ASSETS

Fixed assets, including furniture and equipment, are comprised of the following as of December 31, 2016 and 2015 (in thousands):

	<u>2016</u>	<u>2015</u>
Office building and land	\$ 51,148	\$ 50,512
Furniture and equipment	9,851	8,898
Leasehold improvements	406	407
Equipment under capital leases	<u>2,499</u>	<u>2,309</u>
Total assets in-use	63,904	62,126
Less accumulated depreciation	<u>(34,963)</u>	<u>(31,083)</u>
Assets in-use, net	28,941	31,043
Construction in progress	<u>421</u>	<u>63</u>
Fixed assets, net	<u>\$ 29,362</u>	<u>\$ 31,106</u>

Depreciation expense for the years ended December 31, 2016 and 2015 totaled \$3.9 and \$4.1 million, respectively, before allocation to the NCUSIF as described in Note 7.

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

5. INTANGIBLE ASSETS

Intangible assets are comprised of the following as of December 31, 2016 and 2015 (in thousands):

	<u>2016</u>	<u>2015</u>
Internal-use software	\$ 18,220	\$ 17,888
Less accumulated amortization	<u>(17,219)</u>	<u>(16,279)</u>
Total internal-use software, net	<u>1,001</u>	<u>1,609</u>
Internal-use software under development	3,854	1,751
Less impairment loss	<u>-</u>	<u>(1,006)</u>
Total software under development, net	<u>3,854</u>	<u>745</u>
Intangible assets, net	<u>\$ 4,855</u>	<u>\$ 2,354</u>

Internal-use software is computer software that is either acquired externally or developed internally. Amortization expense for the years ended December 31, 2016 and 2015 totaled \$940.6 thousand and \$1.4 million, respectively, before allocation to the NCUSIF as described in Note 7.

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

A net impairment loss of \$1.0 million was recognized for the year ended December 31, 2015, on internal-use software under development. Management determined that the internal-use software under development would not be completed and placed in service because it did not meet the required use specifications. Therefore, the software was fully impaired with a fair value of \$0. The amount of the loss is reported in administrative expenses on the Statements of Revenues, Expenses, and Changes in Fund Balance.

6. ASSETS HELD FOR SALE

The net balance of real estate available for sale as of December 31, 2016 and 2015 was \$0 and \$377.0 thousand, respectively, and includes impairment charges and costs to sell of \$0 and \$66.5 thousand as of December 31, 2016 and 2015, respectively. Real estate available for sale purchased by the Fund is from employees enrolled in the agency's home purchase program who are unable to sell their homes in a specified time period. It is the agency's intent to dispose of these properties as quickly as possible. Sales of homes are generally expected to occur within one year, pending market forces. Ongoing costs to maintain properties are expensed as incurred.

7. RELATED PARTY TRANSACTIONS

(a) Transactions with NCUSIF

Certain administrative services are provided by the Fund to NCUSIF. The Fund charges NCUSIF for these services based upon an annual allocation factor derived from a study of actual usage. In 2016 and 2015, the allocation to NCUSIF was 73.1% and 71.8% of all expenses, respectively. The cost of the services allocated to NCUSIF, which totaled \$203.0 and \$192.3 million for 2016 and 2015, respectively, is reflected as a reduction of the expenses shown in the accompanying financial statements. These transactions are settled monthly.

In addition to the allocation described above, the Fund also charges NCUSIF for certain developmental costs related to development of internal-use intangible assets requiring the use of Operating Fund labor. As of December 31, 2016 and 2015, these amounts were \$0 and \$97.9 thousand, respectively.

As of December 31, 2016 and 2015, amounts due from NCUSIF totaled \$4.1 and \$3.9 million, respectively.

In 1992, the Fund entered into a commitment to borrow up to \$42.0 million in a 30-year secured term note with NCUSIF. The monies were drawn as needed to fund the costs of constructing a building in 1993. Interest costs incurred were \$179.0 and \$206.0 thousand for 2016 and 2015, respectively. The notes payable balances as of December 31, 2016 and 2015 were \$9.1 and \$10.4 million, respectively. The current portion of the long-term debt is \$1.3 million as of December 31, 2016. The variable rate on the note is equal to NCUSIF's prior-month yield on investments. The average interest rates during 2016 and 2015 were 1.84% and 1.87%, respectively. The interest rates as of December 31, 2016 and 2015 were 1.83% and 1.90%, respectively.

The secured term note requires principal repayments as of December 31, 2016, as follows (in thousands):

Years ending December 31	Secured Term Note
2017	\$ 1,341
2018	1,341
2019	1,341
2020	1,341
2021	1,341
Thereafter	2,346
Total	<u>\$ 9,051</u>

(b) Transactions with CLF

Certain administrative services are provided by the Fund to CLF. The Fund pays CLF's employee salaries and related benefits, as well as CLF's portion of building and operating costs. Reimbursements of these expenses are determined by applying a ratio of CLF full-time equivalent employees to the NCUA total, with settlement and payment occurring quarterly. All other CLF reimbursement expenses are paid annually. The costs of the services provided to CLF were \$540.0 and \$521.3 thousand for the years ending December 31, 2016 and 2015, respectively, and are reflected as a reduction of the expenses shown in the accompanying financial statements.

Other accounts receivable include \$144.6 and \$127.2 thousand of amounts due from the CLF as of December 31, 2016 and 2015, respectively.

(c) Support of CDRLF

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

For the years ending December 31, 2016 and 2015, unreimbursed administrative support to CDRLF is estimated at (in thousands):

	<u>2016</u>	<u>2015</u>
Personnel	\$ 499	\$ 321
Other	84	53
Total	<u>\$ 583</u>	<u>\$ 374</u>

(d) Support of TCCUSF

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

For the years ending December 31, 2016 and 2015, unreimbursed administrative support to TCCUSF is estimated at (in thousands):

	<u>2016</u>	<u>2015</u>
Personnel	\$ 945	\$ 1,204
Other	26	39
Total	<u>\$ 971</u>	<u>\$ 1,243</u>

In addition, the Fund initially paid for and was reimbursed \$990.9 thousand and \$1.1 million for the salaries and related benefits of TCCUSF employees for the years ending December 31, 2016 and 2015, respectively. These reimbursements are reflected as a reduction of the corresponding expenses in the accompanying financial statements.

Other accounts receivable include \$123.3 and \$0 thousand of amounts due from the TCCUSF as of December 31, 2016 and 2015, respectively.

(e) Federal Financial Institutions Examination Council (FFIEC)

NCUA is one of the five Federal agencies that fund FFIEC operations. Under FFIEC's charter, NCUA's Chairman is appointed as a Member. FFIEC was established on March 10, 1979, as a formal inter-agency body empowered to prescribe uniform principles, standards, and report forms for the Federal examination of financial institutions by NCUA, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Consumer Financial Protection Bureau, and the State Liaison Committee. FFIEC was also established to make recommendations to promote uniformity in the supervision of financial institutions. Additionally, FFIEC provides training to staff employed by Member agencies; the Member agencies are charged for these trainings based on use. For the years ended December 31, 2016 and 2015, FFIEC assessments totaled \$817.5 thousand and \$1.2 million, respectively. NCUA's 2017 budgeted assessments from FFIEC total \$982.9 thousand.

NCUA also contributes to the costs associated with certain cross-agency data collection applications, including applications related to the Home Mortgage Disclosure Act. For the year ended December 31,

2016, FFIEC assessments to support these systems totaled \$750.0 thousand. NCUA's 2017 budgeted assessments from FFIEC to support these systems total \$850.0 thousand.

(f) Real Estate Available for Sale

The Fund purchases homes from employees enrolled in the agency's home purchase program who are unable to sell their homes in a specified time period, as mentioned in Note 6.

8. LEASE COMMITMENTS

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

Operating Leases – The Fund leases a portion of NCUA's office space under lease agreements that will continue through 2020. Office rental charges amounted to approximately \$1.0 million and \$971.9 thousand, of which approximately \$738.7 and \$697.8 thousand were reimbursed by NCUSIF for 2016 and 2015, respectively.

Capital Leases – The Fund leases copiers, laptops, and mail equipment under lease agreements that run through 2021. Amounts presented in the table below include \$135.7 thousand of imputed interest.

The future minimum lease payments to be paid over the next five years as of December 31, 2016, before reimbursements, are as follows (in thousands):

Years ending December 31	Operating Leases	Capital Leases
2017	\$ 1,170	\$ 839
2018	1,195	96
2019	1,222	68
2020	1,103	66
2021	-	22
Total	<u>\$ 4,690</u>	<u>\$ 1,091</u>

Based on the NCUA Board-approved allocation methodology, NCUSIF is expected to reimburse the Fund for approximately 67.7% of the 2017 operating lease payments.

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

The future minimum lease payments to be received from this non-cancelable operating lease at December 31, 2016 are as follows (in thousands):

Years ending December 31	Scheduled Rent Payments
2017	\$ 312
2018	318
2019	324
2020	81
2021	-
Thereafter	-
Total	<u>\$ 1,035</u>

9. RETIREMENT PLANS

Eligible employees of the Fund are covered by Federal Government retirement plans—either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Both plans include components that are defined benefit plans. FERS is comprised of a Social Security Benefits Plan, a Basic Benefits Plan, and the Thrift Savings Plan. Contributions to the plans are based on a percentage of an employee's gross pay. Under the Thrift Savings Plan, employees may also elect additional contributions, the total of which were not to exceed \$18.0 thousand (\$24.0 thousand for age 50 and above) in 2016 and 2015. In addition, the Fund matched up to 5% of the employee's gross pay.

In 2016 and 2015, the Fund's contributions to the plans were approximately \$25.2 and \$23.8 million, respectively, of which approximately \$18.4 and \$17.1 million, respectively, was allocated to NCUSIF.

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

The Fund established a voluntary defined contribution 401(k) Plan (NCUA Savings Plan), effective January 1, 2012. The NCUA Collective Bargaining Agreement (CBA) sets the rates of contribution required by the Fund, and the current agreement that became effective on July 7, 2015 is in effect for five years from its effective date and shall renew automatically for additional one year terms unless otherwise renegotiated by the parties. The Fund will maintain a voluntary 401(k) plan (NCUA Savings Plan) and will contribute, with no employee matching contribution, 3% of the employee's compensation as defined in *Article 9 Compensation and Benefits* of the CBA. The Fund matched an employee's voluntary contribution up to a maximum of 2.0% and 1.5% of the employee's total pay for 2016 and 2015, respectively. The Fund's match of 2.0% remains in effect for the duration of the CBA. NCUA's contributions for 2016 and 2015 were \$6.6 and \$5.8 million, respectively. The gross operating expenses associated with the NCUA Savings Plan in 2016 and 2015 were \$64.3 and \$68.2 thousand, respectively. Costs of the NCUA Savings Plan were allocated at 73.1% and 71.8% to the NCUSIF in 2016 and 2015, respectively. Matching, vesting, and additional information is published and made available in a Summary Plan Description.

10. FAIR VALUE MEASUREMENTS

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

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

The related impairment charges for 2016 and 2015 were \$27.2 and \$113.5 thousand, respectively. Impairment charges are recorded within the Statement of Revenues, Expenses, and Changes in Fund Balance and represent non-recurring fair value measures.

The carrying amounts and established fair values of the Fund's assets held for sale as of December 31, 2016 and 2015 are as follows (in thousands):

Assets held for sale	<u>Amortized Cost Basis</u>	<u>Fair Value</u>	<u>Impairment at Year-end</u>
2016	\$ -	\$ -	\$ -
2015	\$ 377	\$ 377	\$ 66

(a) Non-recurring Fair Value Measures

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

(b) Summary Financial Instrument Fair Values

The carrying values approximate the fair values of certain financial instruments as of December 31, 2016 and 2015, were as follows (in thousands):

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 49,349	\$ 49,349	\$ 40,528	\$ 40,528
Due from NCUSIF	4,059	4,059	3,944	3,944
Employee advances	5	5	38	38
Other accounts receivable, net	437	437	332	332
Obligations under capital lease	957	957	1,515	1,515
Notes payable to NCUSIF	9,051	9,051	10,392	10,392

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

Due from NCUSIF – The carrying amounts for the due from NCUSIF financial instruments approximates fair value, as the amount is scheduled to be paid within the first quarter of fiscal year 2017.

Employee Advances – The carrying amounts for receivables from employees' financial instruments approximates fair value, as the amount is scheduled to be paid in fiscal year 2017.

Other Accounts Receivable, Net – The carrying amounts for other accounts receivable approximates fair value, as the original gross amounts together with a valuation allowance reflect the net amount that is deemed collectible. As of December 31, 2016 and 2015, the Fund's Other Accounts Receivable includes an allowance in the amount of \$8.9 and \$5.7 thousand, respectively.

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

Notes Payable to NCUSIF – The carrying amounts for notes payable to NCUSIF financial instruments approximate fair value due to its variable rate nature.

11. CONTINGENCIES

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

12. COLLECTIVE BARGAINING AGREEMENT

NCUA has a CBA with the National Treasury Employees Union (NTEU) that became effective on July 7, 2015. NTEU is the exclusive representative of approximately 78% of NCUA employees. This agreement

will remain in effect for a period of five years from its effective date and shall renew automatically for additional one year terms unless otherwise renegotiated by the parties.

13. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2017, which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

**FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015, AND
INDEPENDENT AUDITORS' REPORT**



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

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Administration Central Liquidity Facility (CLF), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of operations, changes in fund balance, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Administration Central Liquidity Facility as of December 31, 2016 and 2015, and its operations, changes in fund balance, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



Other Reporting Required by *Government Auditing Standards*

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2016, we considered the CLF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CLF's internal control. Accordingly, we do not express an opinion on the effectiveness of the CLF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CLF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 15-02.

Purpose of the Other Reporting Required by Government Auditing Standards

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

KPMG LLP

February 14, 2017

**NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY**

BALANCE SHEETS

As of December 31, 2016 and 2015

(Dollars in thousands, except share data)

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and Cash Equivalents (Notes 3 and 5)	\$ 7,048	\$ 11,486
Investments Held to Maturity (Net of \$1,117 and \$537 unamortized premium, fair value of \$264,463 and \$237,324 as of 2016 and 2015, respectively) (Notes 4 and 5)	265,682	237,503
Accrued Interest Receivable (Note 5)	1,084	710
TOTAL ASSETS	<u>\$ 273,814</u>	<u>\$ 249,699</u>
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Accounts Payable (Notes 5 and 9)	\$ 188	\$ 160
Dividends Payable (Note 5)	305	138
Stock Redemption Payable (Note 5)	302	-
Member Deposits (Notes 5 and 7)	1,552	1,320
Total Liabilities	<u>2,347</u>	<u>1,618</u>
MEMBERS' EQUITY		
Capital Stock – Required (\$50 per share par value authorized: 9,596,298 and 8,725,806 shares; issued and outstanding: 4,798,149 and 4,362,903 shares as of 2016 and 2015, respectively) (Note 6)	239,907	218,145
Retained Earnings	31,560	29,936
Total Members' Equity	<u>271,467</u>	<u>248,081</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 273,814</u>	<u>\$ 249,699</u>

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY**

**STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2016 and 2015
(Dollars in thousands)**

	<u>2016</u>	<u>2015</u>
REVENUE		
Investment Income	\$ 3,214	\$ 2,486
Total Revenue	<u>3,214</u>	<u>2,486</u>
EXPENSES (Note 9)		
Personnel Services	341	325
Personnel Benefits	133	100
Other General and Administrative Expenses	<u>78</u>	<u>73</u>
Total Operating Expenses	552	498
Interest – Member Deposits (Note 7)	<u>6</u>	<u>3</u>
Total Expenses	<u>558</u>	<u>501</u>
NET INCOME	<u>\$ 2,656</u>	<u>\$ 1,985</u>

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY**

**STATEMENTS OF MEMBERS' EQUITY
For the Years Ended December 31, 2016 and 2015
(Dollars in thousands)**

	Capital Stock		Retained Earnings	Total
	Shares	Amount		
BALANCE – December 31, 2014	4,002,787	\$ 200,139	\$ 28,477	\$ 228,616
Issuance of Required Capital Stock	380,319	19,016		19,016
Redemption of Required Capital Stock	(20,203)	(1,010)		(1,010)
Dividends Declared (Notes 6 and 7)			(526)	(526)
Net Income			1,985	1,985
BALANCE – December 31, 2015	4,362,903	\$ 218,145	\$ 29,936	\$ 248,081
Issuance of Required Capital Stock	451,677	22,584		22,584
Redemption of Required Capital Stock	(16,431)	(822)		(822)
Dividends Declared (Notes 6 and 7)			(1,032)	(1,032)
Net Income			2,656	2,656
BALANCE – December 31, 2016	4,798,149	\$ 239,907	\$ 31,560	\$ 271,467

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY**

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2016 and 2015

(Dollars in thousands)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 2,656	\$ 1,985
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Amortization of Investments	204	104
Interest - Member Deposits	6	3
Changes in Assets and Liabilities:		
Increase in Accrued Interest Receivable	(374)	(196)
Increase/(Decrease) in Accounts Payable	28	(19)
Net Cash Provided by Operating Activities	<u>2,520</u>	<u>1,877</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investments	(74,783)	(67,876)
Proceeds from Maturing Investments	46,400	24,006
Net Cash Used in Investing Activities	<u>(28,383)</u>	<u>(43,870)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of Required Capital Stock	21,577	18,966
Redemption of Required Capital Stock	(114)	(595)
Withdrawal of Member Deposits	(38)	(161)
Net Cash Provided by Financing Activities	<u>21,425</u>	<u>18,210</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,438)	(23,783)
CASH AND CASH EQUIVALENTS—Beginning of Year	11,486	35,269
CASH AND CASH EQUIVALENTS—End of Year	\$ <u>7,048</u>	\$ <u>11,486</u>

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION CENTRAL LIQUIDITY FACILITY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

1. ORGANIZATION AND PURPOSE

The National Credit Union Administration (NCUA) Central Liquidity Facility (CLF) was created by the National Credit Union Central Liquidity Facility Act (Act). CLF is designated as a mixedownership Government corporation under the Government Corporation Control Act. CLF exists within NCUA and is managed by the NCUA Board. CLF became operational on October 1, 1979.

CLF was created to improve the general financial stability of credit unions by serving as a liquidity lender to credit unions experiencing unusual or unexpected liquidity shortfalls. CLF accomplishes its purpose by lending funds, subject to certain statutory limitations, when a liquidity need arises.

CLF is subject to various Federal laws and regulations. CLF may not make loans to members for the purpose of expanding credit union loan portfolios. CLF's investments are restricted to obligations of the U.S. Government and its agencies, deposits in federally insured financial institutions, and shares and deposits in credit unions. Borrowing is limited by statute to 12 times the subscribed capital stock and surplus. See Notes 6 and 8 for further information about the capital stock and the CLF's borrowing authority.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting – CLF maintains its accounting records in accordance with the accrual basis of accounting. As such, CLF recognizes interest income on loans and investments when earned, and recognizes interest expense on borrowings when incurred. CLF recognizes expenses when incurred. In addition, CLF accrues and records dividends on capital stock monthly and pays dividends quarterly.

Cash Equivalents – Cash equivalents are highly liquid investments with original maturities of three months or less.

Investments – By statute, CLF investments are restricted to obligations of the U.S. Government and its agencies, deposits in federally insured financial institutions, and shares and deposits in credit unions. All investments are classified as held-to-maturity under FASB Accounting Standards Codification (ASC) topic 320-10-25-1, *Classification of Investment Securities*, as CLF has the intent and ability to hold these investments until maturity. Accordingly, CLF reports investments at amortized cost. Amortized cost is the face value of the securities plus the unamortized premium or less the unamortized discount.

CLF evaluates investment securities that are in an unrealized loss position for other-than-temporary impairment (OTTI). An investment security is deemed impaired if the fair value of the investment is less than its amortized cost. Amortized cost includes adjustments (if any) made to the cost basis of an investment for accretion, amortization, and previous OTTI. To determine whether impairment is other-than-temporary, CLF takes into consideration whether it has the intent to sell the security.

Premiums and discounts are amortized or accreted over the life of the related held-to-maturity investment as an adjustment to yield using the effective interest method. Such amortization and accretion is included in the “investment income” line item in the Statements of Operations.

CLF records investment transactions when they are made.

Loans and Allowance for Loan Losses – Loans, when made to members, are on a shortterm or longterm basis. Loans are recorded at the amount disbursed and bear interest at the higher of the Federal Financing Bank Advance Rate or the Federal Reserve Bank Discount Window Primary Credit Rate. By regulation, Member *Liquidity Needs* Loans are made on a fully secured basis. CLF obtains a security interest in the assets of the member equal to at least 110% of all amounts due. CLF does not currently charge additional fees for its lending activities. There was no lending activity during 2016 and 2015.

Borrowings – CLF’s borrowings are recorded when they are received, do not hold premiums or discounts, and are carried at cost. Repayments are recorded when they are made.

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

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management’s estimates.

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

Related Parties – CLF exists within NCUA and is managed by the NCUA Board. NCUA Operating Fund (OF) provides CLF with information technology, support services, and supplies; in addition, NCUA OF pays CLF’s employees’ salaries and benefits, as well as CLF’s portion of monthly building operating costs. The allocation formula to calculate these expenses is based on the number of full-time employees of the respective entities and the estimated amount of time CLF employees spend performing CLF functions.

3. CASH AND CASH EQUIVALENTS

CLF's cash and cash equivalents as of December 31, 2016 and 2015 are as follows (in thousands):

	<u>2016</u>	<u>2015</u>
U.S. Treasury Overnight Investments	\$ 5,988	\$ 11,300
Deposits with U.S. Treasury	1,060	180
SunTrust Bank	-	6
Total	<u>\$ 7,048</u>	<u>\$11,486</u>

U.S. Treasury securities had an initial term of less than three months when purchased.

4. INVESTMENTS

The carrying amount, gross unrealized holding gains, gross unrealized losses, and the fair value of held-to-maturity debt securities as of December 31, 2016 and 2015 were as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Carrying Amount, December 31,	\$ 265,682	\$ 237,503
Gross Unrealized Holding Gains	732	782
Gross Unrealized Holding Losses	(1,951)	(961)
Fair Value	<u>\$ 264,463</u>	<u>\$ 237,324</u>

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

(Dollars in thousands)	<u>2016</u>		<u>2015</u>	
	Net Carrying Amount	Fair Value	Net Carrying Amount	Fair Value
Due in one year or less	\$ 47,261	\$ 47,309	\$ 50,838	\$ 50,837
Due after one year through five years	185,852	185,219	155,949	155,853
Due after five years through ten years	32,569	31,935	30,716	30,634
Total	<u>\$ 265,682</u>	<u>\$ 264,463</u>	<u>\$ 237,503</u>	<u>\$ 237,324</u>

The following table includes gross unrealized losses on investment securities, for which OTTI has not been recognized, in addition to the fair values of those securities, aggregated by investment classification and length of time the investments have been in a loss position, at December 31, 2016 and 2015.

(Dollars in thousands)	Losses		Losses		Total	
	Less than 12 Months		More than 12 Months			
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
As of December 31, 2016						
U.S. Treasury Securities	\$ (1,951)	\$ 133,740	\$ -	\$ -	\$ (1,951)	\$ 133,740
As of December 31, 2015						
U.S. Treasury Securities	\$ (624)	\$ 103,352	\$ (337)	\$ 20,796	\$ (961)	\$ 124,148

5. FAIR VALUE MEASUREMENTS

The fair value of an instrument is the amount that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants by the measurement date. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents – The carrying amounts for cash and cash equivalents approximate fair value.

Investments held-to-maturity – CLF's investments held-to-maturity are all comprised of U.S. Treasury Securities, for which market prices can be readily obtained. The related fair value is determined using the quoted market prices at the reporting date.

Member Deposits – Funds maintained with CLF in excess of required capital amounts are recorded as member deposits. These deposits are due upon demand; therefore, carrying amounts approximate the fair value.

Other – Accrued interest receivable, accounts payable, stock redemption payable, and dividends payable are recorded at book values, which approximate the respective fair values because of the short maturity of these instruments.

The following table presents the carrying amounts and established fair values of CLF's financial instruments as of December 31, 2016 and 2015. The carrying values and approximate fair values of financial instruments are as follows:

(Dollars in thousands)	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 7,048	\$ 7,048	\$ 11,486	\$ 11,486
Investments held-to-maturity	265,682	264,463	237,503	237,324
Accrued interest receivable	1,084	1,084	710	710
Accounts payable	188	188	160	160
Dividends payable	305	305	138	138
Stock redemption payable	302	302	-	-
Member deposits	1,552	1,552	1,320	1,320

6. CAPITAL STOCK

Membership in CLF is open to all credit unions that purchase a prescribed amount of capital stock. CLF capital stock is non-voting and shares have a par value of \$50. Currently, there is one subscribed form of membership—regular members which are natural person credit unions. Natural person credit unions may borrow from CLF directly as a regular member.

In October 2013, the NCUA Board issued a final rule 12 CFR Part 741, § 741.12 “Liquidity and Contingency Funding Plans,” which requires federally insured credit unions with assets of \$250 million or more to have access to a backup federal liquidity source for emergency situations. A credit union subject to this requirement may demonstrate access to a contingent federal liquidity source by maintaining membership in the CLF, or establishing borrowing access at the Federal Reserve Discount Window.

The capital stock account represents subscriptions remitted to CLF by member credit unions. Regular members' required subscription amounts equal one-half of one percent of their paid-in and unimpaired capital and surplus, one-half of which is required to be remitted to CLF. Member credit unions are required to hold the remaining one-half in assets subject to call by the NCUA Board. These unremitted subscriptions are not reflected in CLF's financial statements. Subscriptions are adjusted annually to reflect changes in the member credit unions' paid-in and unimpaired capital and surplus. Dividends are non-cumulative, and are declared and paid on required capital stock.

A member of CLF whose capital stock account constitutes less than 5% of the total capital stock outstanding may withdraw from membership in CLF six months after notifying the NCUA Board of its intention. A member whose capital stock account constitutes 5% or more of the total capital stock outstanding may withdraw from membership in CLF two years after notifying the NCUA Board of its intention. As of December 31, 2016, CLF had one member withdrawal request pending. As of December 31, 2015, CLF had no member withdrawal request pending.

The required capital stock is redeemable upon demand by the members, subject to certain conditions as set out in the Act and NCUA regulations; however, the stock is not deemed “mandatorily redeemable” as defined in FASB ASC 480-10-25-7, *Mandatorily Redeemable Financial Instruments*; therefore capital stock is classified in permanent equity.

CLF’s capital stock accounts were composed of the following as of December 31, 2016 and 2015 (in thousands, except share data):

	2016		2015	
	Shares	Amounts	Shares	Amounts
Regular members	4,798,149	\$ 239,907	4,362,903	\$ 218,145

Dividends on capital stock are declared based on available earnings and the dividend policy set by the NCUA Board. Dividends are accrued monthly based on prior quarter-end balances and paid on the first business day after the quarter-end. The dividend rates paid on capital stock for regular members change quarterly. The dividend rates were \$0.125 per share each quarter for 2015 and were \$0.125 per share for the first quarter and \$0.25 per share for the second, third and fourth quarters of 2016.

7. MEMBER DEPOSITS

Member deposits represent amounts remitted by members over and above the amount required for membership. Interest is paid on member deposits at a rate equivalent to the dividend rate paid on required capital stock.

8. BORROWING AUTHORITY

CLF is authorized by statute to borrow, from any source, an amount not to exceed 12 times its subscribed capital stock and surplus. As of December 31, 2016 and 2015, CLF’s statutory borrowing authority was \$6.1 billion and \$5.6 billion, respectively.

As described above, the borrowing authority amounts are referenced to subscribed capital stock and surplus of the CLF. The CLF borrowing arrangement is exclusively with the Federal Financing Bank (FFB). NCUA maintains a note purchase agreement with FFB on behalf of CLF with a current maximum principal amount of \$2.0 billion. Under the terms of its agreement, CLF borrows from FFB as needed. Under terms prescribed by the note purchase agreement, CLF executes promissory notes in amounts as necessary, the aggregate amount of which may not exceed its statutory borrowing authority, and renews them annually. Advances made under the current promissory notes can be made no later than March 31, 2017.

9. RELATED PARTY TRANSACTIONS

NCUA OF pays the salaries and related benefits of CLF's employees, as well as CLF's portion of building and operating costs. Reimbursements of these expenses are determined by applying a ratio of CLF full-time equivalent employees to the NCUA total, with settlement and payment occurring quarterly. All other CLF reimbursement expenses are paid annually. The total amount charged by NCUA was approximately \$540.0 and \$521.3 thousand, respectively, for December 31, 2016 and 2015. Accounts payable includes approximately \$144.6 and \$127.2 thousand, respectively, for December 31, 2016 and 2015, due to NCUA OF for services provided.

10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2017, which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

**FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015, AND
INDEPENDENT AUDITORS' REPORT**



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

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Administration Community Development Revolving Loan Fund (CDRLF), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of operations, changes in fund balance, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Administration Community Development Revolving Loan Fund as of



December 31, 2016 and 2015, and its operations, changes in fund balance, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Reporting Required by Government Auditing Standards

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2016, we considered the CDRLF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CDRLF's internal control. Accordingly, we do not express an opinion on the effectiveness of the CDRLF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CDRLF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 15-02.

Purpose of the Other Reporting Required by Government Auditing Standards

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

KPMG LLP

February 14, 2017

**NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND**

BALANCE SHEETS

As of December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and Cash Equivalents (Notes 3 and 8)	\$ 7,424,530	\$ 8,283,455
Loans Receivable (Notes 5, 7, and 8)	10,214,722	9,364,904
Interest Receivable (Note 8)	10,212	9,495
TOTAL ASSETS	<u>\$ 17,649,464</u>	<u>\$ 17,657,854</u>
LIABILITIES AND FUND BALANCE		
Liabilities - Accrued Technical Assistance Grants (Note 8)	\$ 2,288,071	\$ 1,954,448
Fund Balance		
Fund Capital (Note 4)	13,625,820	13,954,708
Accumulated Earnings	1,735,573	1,748,698
Total Fund Balance	<u>15,361,393</u>	<u>15,703,406</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 17,649,464</u>	<u>\$ 17,657,854</u>

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND**

**STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
SUPPORT AND REVENUES		
Interest on Cash Equivalents	\$ 12,738	\$ 1,988
Interest on Loans	41,443	37,649
Total Interest Income	<u>54,181</u>	<u>39,637</u>
Appropriation Revenue		
Appropriations Expended (Note 4)	2,499,187	2,528,386
Cancelled Technical Assistance Grants (Note 6)	<u>(379,691)</u>	<u>(518,444)</u>
Total Appropriation Revenue	<u>2,119,496</u>	<u>2,009,942</u>
Total Support and Revenues	<u>2,173,677</u>	<u>2,049,579</u>
EXPENSES		
Technical Assistance Grants	2,574,153	2,602,004
Cancelled Technical Assistance Grants (Note 6)	<u>(387,351)</u>	<u>(519,248)</u>
Total Expenses	<u>2,186,802</u>	<u>2,082,756</u>
NET LOSS	<u>\$ (13,125)</u>	<u>\$ (33,177)</u>

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND**

**STATEMENTS OF CHANGES IN FUND BALANCE
For the Years Ended December 31, 2016 and 2015**

	Fund Capital			Accumulated Earnings	Total Fund Balance
	For Loans	For Technical Assistance	Total Fund Capital		
December 31, 2014	\$ 13,387,777	\$ 736,287	\$ 14,124,064	\$ 1,781,875	\$ 15,905,939
Appropriations Received (Note 4)	-	2,000,000	2,000,000	-	2,000,000
Appropriations Expended	-	(2,528,386)	(2,528,386)	-	(2,528,386)
Cancelled Appropriations - Remitted to Treasury (Note 4)	-	(159,414)	(159,414)	-	(159,414)
Cancelled Technical Assistance Grants (Note 6)	-	518,444	518,444	-	518,444
Net Loss	-	-	-	(33,177)	(33,177)
December 31, 2015	\$ 13,387,777	\$ 566,931	\$ 13,954,708	\$ 1,748,698	\$ 15,703,406
Appropriations Received (Note 4)	-	2,000,000	2,000,000	-	2,000,000
Appropriations Expended	-	(2,499,187)	(2,499,187)	-	(2,499,187)
Cancelled Appropriations - Remitted to Treasury (Note 4)	-	(209,392)	(209,392)	-	(209,392)
Cancelled Technical Assistance Grants (Note 6)	-	379,691	379,691	-	379,691
Net Loss	-	-	-	(13,125)	(13,125)
December 31, 2016	\$ 13,387,777	\$ 238,043	\$ 13,625,820	\$ 1,735,573	\$ 15,361,393

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND**

**STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (13,125)	\$ (33,177)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities		
Appropriations Expended	(2,499,187)	(2,528,386)
Cancelled Technical Assistance	379,691	518,444
Changes in Assets and Liabilities		
Increase in Interest Receivable	(717)	(4,287)
Increase in Accrued Technical Assistance	333,623	926,401
Net Cash Used in Operating Activities	<u>(1,799,715)</u>	<u>(1,121,005)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan Principal Repayments	525,182	224,782
Loan Disbursements	<u>(1,375,000)</u>	<u>(1,500,000)</u>
Net Cash Used In Investing Activities	<u>(849,818)</u>	<u>(1,275,218)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations Received 2016/2017	2,000,000	-
Appropriations Received 2015/2016	-	2,000,000
Cancelled Appropriations Remitted to Treasury 2010/2011	(209,392)	-
Cancelled Appropriations Remitted to Treasury 2009/2010	-	(159,414)
Net Cash Provided by Financing Activities	<u>1,790,608</u>	<u>1,840,586</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(858,925)	(555,637)
CASH AND CASH EQUIVALENTS — Beginning of Year	<u>8,283,455</u>	<u>8,839,092</u>
CASH AND CASH EQUIVALENTS — End of Year	<u>\$ 7,424,530</u>	<u>\$ 8,283,455</u>

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

1. ORGANIZATION AND PURPOSE

The Community Development Revolving Loan Fund (CDRLF) for credit unions was established by an act of Congress (Public Law 96-123, November 20, 1979) to stimulate economic development in low-income communities. The National Credit Union Administration (NCUA) and the Community Services Association (CSA) jointly adopted Part 705 of NCUA Rules and Regulations, governing administration of CDRLF, on February 28, 1980.

Upon the dissolution of CSA in 1983, administration of CDRLF was transferred to the Department of Health and Human Services (HHS). From 1983 through 1990, CDRLF was dormant.

The Community Development Credit Union Transfer Act (Public Law 99-609, November 6, 1986) transferred CDRLF administration back to NCUA. The NCUA Board adopted amendments to Part 705 of NCUA Rules and Regulations on September 16, 1987, and began making loans/deposits to participating credit unions in 1990.

The purpose of CDRLF is to stimulate economic activities in the communities served by low-income credit unions, which is expected to result in increased income, ownership, and employment opportunities for low-income residents, and other economic growth. The policy of NCUA is to revolve the loans to qualifying credit unions as often as practical in order to gain maximum impact on as many participating credit unions as possible.

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Cash Equivalents – Cash equivalents are highly liquid investments with original maturities of three months or less. The Federal Credit Union Act permits CDRLF to make investments in United States Government Treasury securities. All investments in 2016 and 2015 were cash equivalents and were stated at cost, which approximates fair value.

Loans Receivable and Allowance for Loan Losses – Loans are generally limited to \$300,000 per credit union, however, NCUA may make loans that exceed this amount in certain circumstances. NCUA Rules and Regulations do not provide a maximum limit on loan applications. The maximum loan term is five (5) years. For loans issued on or after May 22, 2012, interest is to be paid on a semi-annual basis beginning six months after the initial distribution of the loan and every six months thereafter until maturity. Principal is to be repaid on the maturity date of the loan. The rate of interest on loans is governed by the CDRLF Loan Interest Rate Policy. CDRLF reviews the interest rate on an annual basis. For 2016 and 2015, the interest rate was set at 0.60%.

Loans are initially recognized at their disbursed amount, and subsequently at amortized cost, net of the allowance for loan losses, if any.

A provision for loans considered to be uncollectible is charged to the income statement when such losses are probable and reasonably estimable. Provisions for significant uncollectible amounts are credited to an allowance for loan losses, while de minimis amounts are directly charged-off. Management continually evaluates the adequacy of the allowance for loan losses based upon prevailing circumstances and an assessment of collectability risk of the total loan portfolio as well as historical loss experience. On the basis of this analysis, no allowance for loan losses was necessary as of December 31, 2016 and 2015. Accrual of interest is discontinued on nonperforming loans when management believes collectability is doubtful.

Accrued Technical Assistance Grants – CDRLF issues technical assistance grants to low-income designated credit unions. CDRLF utilizes multiyear appropriated funds and income generated from the revolving fund to issue technical assistance grants. Grant income and expense is recognized when CDRLF makes a formal commitment to the recipient credit union for technical assistance grants. CDRLF performs a review of long term unspent technical assistance grant awards (e.g. outstanding awards past the period of eligibility) and then formal steps are taken to cancel identified technical assistance grants. The cancelled technical assistance grant funds are credited back to the original appropriated fund from which they are awarded.

Related Party Transactions – NCUA, through the Operating Fund (OF), provides certain general and administrative support to CDRLF, including personnel costs such as pay and benefits as well as other costs which include but are not limited to telecommunications, supplies, printing, and postage. The value of these contributed services is not charged to CDRLF.

Revenue Recognition – Appropriation revenue is recognized as the related technical assistance grant expense is recognized. Total appropriation revenues will differ from total technical assistance grant expenses because not all technical assistance grants are funded by appropriations. Interest income on cash and cash equivalents and on loans is recognized when earned.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

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

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

3. CASH AND CASH EQUIVALENTS

CDRLF's cash and cash equivalents as of December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Deposits with U.S. Treasury	\$ 3,524,530	\$ 2,983,455
U.S. Treasury Overnight Securities	3,900,000	5,300,000
	<u>\$ 7,424,530</u>	<u>\$ 8,283,455</u>

4. GOVERNMENT REGULATIONS

CDRLF is subject to various Federal laws and regulations. Assistance, which includes lending and technical assistance grants, is limited to the amount appropriated by Congress to date for CDRLF, which includes accumulated earnings. Federally-chartered and state-chartered credit unions with a low-income designation are eligible to participate in CDRLF's loan and technical assistance grant program.

Since inception, Congress has appropriated \$13,387,777 for the revolving loan component of the program, and this component is governed by Part 705 of NCUA Rules and Regulations.

During the year ended December 31, 2016, CDRLF received an appropriation for technical assistance grants in the amount of \$2,000,000 for the Federal fiscal year (FY) 2016. This is a multiyear appropriation that is available for obligation through September 30, 2017. Of this amount, \$1,873,479 was expended for the year ended December 31, 2016. An additional \$625,708, was expended from the FY 2015 appropriation.

During the year ended December 31, 2015, CDRLF received an appropriation for technical assistance grants in the amount of \$2,000,000 for FY 2015. This was a multiyear appropriation that was available for obligation through September 30, 2016. Of this amount, \$1,651,056 was expended for the year ended December 31, 2015. An additional \$877,330 was expended from the FY 2014 appropriation.

Appropriated funds in the amount of \$209,392 from the FY 2010 appropriation were remitted to the U.S. Treasury in 2016 upon cancellation. Appropriated funds in the amount of \$159,414 from the FY 2009 appropriation were remitted to the U.S. Treasury in 2015 upon cancellation.

These appropriations were designated to be used for technical assistance grants, and no amounts were designated to be used as revolving loans.

5. LOANS RECEIVABLE

Loans receivable as of December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Balance as of the Beginning of the Year	\$ 9,364,904	\$ 8,089,686
Loans Disbursed	1,375,000	1,500,000
Loan Repayments	(525,182)	(224,782)
Bad Debt Expense	<u>-</u>	<u>-</u>
Loans Receivable as of the End of the Year	<u>10,214,722</u>	<u>9,364,904</u>
Changes in the Allowance for Loan Losses Consisted of the Following:		
Balance as of the Beginning of the Year	-	-
Decrease (increase) in the Allowance	<u>-</u>	<u>-</u>
Allowance for Loan Losses as of the End of the Year	<u>-</u>	<u>-</u>
Loans Receivable, Net, as of the End of the Year	<u>\$ 10,214,722</u>	<u>\$ 9,364,904</u>

Loans outstanding as of December 31, 2016, are scheduled to be repaid during the following subsequent years:

	<u>2016</u>
2017	\$ 2,499,723
2018	309,999
2019	4,530,000
2020	1,500,000
2021	<u>1,375,000</u>
Total Loans Receivable	<u>\$ 10,214,722</u>

CDRLF has the intent and ability to hold its loans to maturity. CDRLF anticipates realizing the carrying amount in full.

6. CANCELLED TECHNICAL ASSISTANCE GRANTS

During 2016, CDRLF cancelled \$7,660 of technical assistance grants awarded from the revolving fund and \$379,691 of technical assistance grants awarded from multiyear funds. These amounts were recognized as Cancelled Technical Assistance Grants, decreasing expenses.

Cancelled technical assistance grants from the revolving fund are credited back to accumulated earnings. Cancelled technical assistance grants from previously expended multiyear funds are credited back to the original appropriated fund from which they are awarded. As a result, the \$379,691 was also recognized as Cancelled Technical Assistance Grants, decreasing revenue, and resulting in no change to net income.

For the year ended December 31, 2015, CDRLF cancelled \$804 of technical assistance grants awarded from the revolving fund and \$518,444 of technical assistance grants awarded from multiyear funds.

Cancelled technical assistance grants awarded from appropriations from FY 2011 through 2015 will be remitted to the U.S. Treasury upon cancellation of the related appropriation.

7. CONCENTRATION OF CREDIT RISK

As discussed in Note 1, CDRLF provides loans to credit unions that serve predominantly low-income communities.

NCUA Rules and Regulations Section 705.5 permit the classification of the loan in the participating credit union's accounting records as a non-member deposit. As a non-member deposit, \$250,000 per credit union is insured by the National Credit Union Share Insurance Fund (NCUSIF). The aggregate amount of uninsured loans totaled \$3,424,723 and \$3,549,723 as of December 31, 2016 and 2015, respectively. The decrease in FY 2016 is primarily due to the payoff of one loan over \$250,000.

8. FAIR VALUE MEASUREMENTS

The fair value of an instrument is the amount that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants by the measurement date. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Loans Receivable – Fair value is estimated using an income approach by separately discounting each individual loan's projected future cash flow. CDRLF believes that the discount rate reflects the pricing and is commensurate with the risk of the loans to CDRLF. Loans are valued annually on December 31.

Other – The carrying amounts for cash and cash equivalents, interest receivable, and accrued technical assistance grants approximate fair value.

The following table presents the carrying value amounts and established fair values of CDRLF's financial instruments as of December 31, 2016 and 2015.

	2016		2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and Cash Equivalents	\$ 7,424,530	\$ 7,424,530	\$ 8,283,455	\$ 8,283,455
Loans Receivable	10,214,722	10,224,809	9,364,904	9,374,039
Interest Receivable	10,212	10,212	9,495	9,495
Liabilities				
Accrued Technical Assistance Grants	2,288,071	2,288,071	1,954,448	1,954,448

9. RELATED PARTY TRANSACTIONS

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

For the years ending December 31, 2016 and 2015, NCUA, through the OF, provided the following unreimbursed administrative support to CDRLF:

	2016	2015
Employee	\$ 499,287	\$ 321,027
Other	83,445	53,364
Total	\$ 582,732	\$ 374,391

10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2017, which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.



OTHER INFORMATION

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

SUMMARY OF FINANCIAL STATEMENT AUDITS

Permanent Fund	Audit Opinion	Restatement	Material Weaknesses
Share Insurance Fund	Unmodified	No	None
Operating Fund	Unmodified	No	None
Central Liquidity Facility	Unmodified	No	None
Community Development Revolving Loan Fund	Unmodified	No	None

Note: No material weaknesses noted for all funds for the current and prior year.

SUMMARY OF MANAGEMENT ASSURANCES

Area	Statement of Assurance	Result
Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)	Unmodified	No material weaknesses noted
Effectiveness of Internal Control over Operations (FMFIA Section 2)	Unmodified	No material weaknesses noted
Conform with financial management system requirements (FMFIA Section 4)	Systems Conform	No nonconformance noted

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

The Federal Civil Penalties Inflation Adjustment Act of 1990, as amended by the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to improve effectiveness and maintain their deterrent effect.

The following are the civil monetary penalties that NCUA may impose, the authority for imposing the penalty, year enacted, latest year of adjustment and current penalty level. Additional information about these penalties and the latest adjustment is available in the [Federal Register](#).

Penalty	Statutory Authority	Year Enacted	Latest Year of Adjustment	Current Penalty Level
Inadvertent failure to submit a report or the inadvertent submission of a false or misleading report	12 U.S.C. 1782(a)(3)	1989	2017	\$3,849
Non-inadvertent failure to submit a report or the non-inadvertent submission of a false or misleading report	12 U.S.C. 1782(a)(3)	1989	2017	\$38,492
Failure to submit a report or the submission of a false or misleading report done knowingly or with reckless disregard	12 U.S.C. 1782(a)(3)	1989	2017	Lesser of \$1,924,589 or 1 percent of total credit union assets
Tier 1 civil monetary penalty for inadvertent failure to submit certified statement of insured shares and charges due to the Share Insurance Fund, or inadvertent submission of false or misleading statement	12 U.S.C. 1782(d)(2) (A)	1991	2017	\$3,519
Tier 2 civil monetary penalty for non-inadvertent failure to submit certified statement or submission of false or misleading statement	12 U.S.C. 1782(d)(2) (B)	1991	2017	\$35,186
Tier 3 civil monetary penalty for failure to submit a certified statement or the submission of a false or misleading statement done knowingly or with reckless disregard	12 U.S.C. 1782(d)(2) (C)	1991	2017	Lesser of \$1,759,309 or 1 percent of total credit union assets

Penalty	Statutory Authority	Year Enacted	Latest Year of Adjustment	Current Penalty Level
Non-compliance with insurance logo requirements	12 U.S.C. 1785(a)(3)	2006	2017	\$120
Non-compliance with NCUA security requirements	12 U.S.C. 1785(e)(3)	1970	2017	\$279
Tier 1 civil monetary penalty for violations of law, regulation, and other orders or agreements	12 U.S.C. 1786(k)(2)(A)	1989	2017	\$9,623
Tier 2 civil monetary penalty for violations of law, regulation, and other orders or agreements and for recklessly engaging in unsafe or unsound practices or breaches of fiduciary activity	12 U.S.C. 1786(k)(2)(B)	1989	2017	\$48,114
Tier 3 civil monetary penalty for knowingly committing the violations under Tier 1 or 2	12 U.S.C. 1786(k)(2)(C)	1989	2017	Natural persons: \$1,924,589; Credit unions: Lesser of \$1,924,589 or 1 percent of total credit union assets
Non-compliance with senior examiner post-employment restrictions	12 U.S.C. 1786(w)(5)(A)(ii)	2004	2017	\$316,566
Non-compliance with appraisal independence standards (first violation)	15 U.S.C. 1639e(k)	2010	2017	\$11,053
Subsequent violations of the same	15 U.S.C. 1639e(k)	2010	2017	\$22,105
Non-compliance with flood insurance requirements	42 U.S.C. 4012a(f)(5)	2012	2017	\$2,090



STATISTICAL DATA

2016 CREDIT UNION SYSTEM PERFORMANCE SUMMARY

- Total assets in federally insured credit unions rose by \$88 billion, or 7.3 percent, over the year to \$1.29 trillion in the fourth quarter of 2016.
- Total loans outstanding increased \$82 billion, or 10.4 percent, over the year to \$869.1 billion. The average outstanding loan balance in the fourth quarter of 2016 was \$14,195, up \$486, or 3.5 percent, from one year earlier. Credit union loan balances rose over the year in every major category:
 - Auto loans increased \$36.7 billion, or 14.0 percent. Used auto loans rose \$19.9 billion, or 12.3 percent, to \$181.8 billion. New auto loans rose \$16.8 billion, or 16.8 percent, to \$116.9 billion.
 - Real estate loans rose \$34.3 billion, or 8.6 percent, over the year to \$431.1 billion at the end of 2016.
 - Net member business loan balances, including unfunded commitments, increased \$8.5 billion, or 14.6 percent, to \$66.6 billion in the fourth quarter.
 - Credit card balances rose \$3.8 billion, or 7.9 percent, to \$52.7 billion.
 - Non-federally guaranteed student loans rose \$0.3 billion, or 9.0 percent, to \$3.8 billion.
- The delinquency rate at federally insured credit unions was 83 basis points in the fourth quarter of 2016, little changed from 81 basis points one year earlier. The net charge-off ratio was 55 basis points, up from 48 basis points in the fourth quarter of 2015.
- Insured shares and deposits rose \$67 billion, or 7.0 percent, over the four quarters of 2016 to \$1.0 trillion.
- The loans-to-shares ratio stood at 79.5 percent in the fourth quarter of 2016, up from 77.5 percent in the fourth quarter of 2015.
- The credit union system's net worth increased by \$9.3 billion, or 7.1 percent, over the year to \$140.8 billion. The aggregate net worth ratio—net worth as a percentage of assets—stood at 10.89 percent in the fourth quarter of 2016 compared with 10.92 percent one year earlier.
- Net income for federally insured credit unions in 2016 totaled \$9.6 billion, up \$0.9 billion, or 10.6 percent, from 2015. Interest income rose \$3.4 billion, or 8.6 percent, in 2016 to \$42.6 billion, and non-interest income increased \$1.6 billion, or 9.9 percent, to \$17.4 billion.
- The net interest margin for federally insured credit unions was \$36.0 billion in the fourth quarter of 2016, or 2.9 percent of average assets.
- The return on average assets for federally insured credit unions was 77 basis points in 2016, little changed from 75 basis points in 2015. The median return on average assets was 35 basis points, compared with 33 basis points one year earlier.

- The number of federally insured credit unions declined to 5,785 in the fourth quarter of 2016 from 6,021 in the fourth quarter of 2015. In the fourth quarter of 2016, there were 3,608 federal credit unions and 2,177 federally insured, state-chartered credit unions. The number of credit unions with a low-income designation rose to 2,491 in the fourth quarter from 2,297 one year earlier.
- Federally insured credit unions added 4.2 million members over the year, and credit union membership reached 106.9 million in the fourth quarter of 2016.
- Total investments (instruments with maturities in excess of three months) declined \$3.6 billion, or 1.3 percent, to \$269 billion.
- The delinquency rate on loans at federally insured credit unions was 83 basis points at the end of 2016, little changed from 81 basis points one year earlier. Loan performance was mixed across categories:
 - The delinquency rate on fixed real estate loans was 54 basis points in the fourth quarter, down from 64 basis points one year earlier.
 - The credit card delinquency rate was 114 basis points, up from 101 basis points in the fourth quarter of 2015.
 - For auto loans, the delinquency rate was 72 basis points in the fourth quarter of 2016 compared with 68 basis points one year earlier.
 - The delinquency rate for member business loans stood at 158 basis points, up from 109 basis points in the fourth quarter of 2015.
 - The student loan delinquency rate was 126 basis points in the fourth quarter of 2016 compared with 115 basis points one year earlier.
- The net charge-off ratio for all federally insured credit unions was 55 basis points at the end of 2016, up from 48 basis points at the end of 2015.
- Credit union shares and deposits rose by \$76.6 billion, or 7.5 percent, over the year to \$1.09 trillion in the fourth quarter of 2016. Regular shares rose \$41.7 billion, or 11.8 percent, to \$393.7 billion. Other deposits increased \$31.6 billion, or 6.1 percent, to \$545.2 billion, led by money market accounts, which rose \$17.4 billion, or 7.5 percent, and share certificate accounts, which were up \$9.4 billion, or 4.9 percent.
- Credit unions with assets greater than \$1 billion reported the strongest growth in loans (15.4 percent), membership (10.8 percent) and net worth (12.5 percent) over the year. At the end of 2016, these 272 credit unions held 61 percent of total system assets.
- Credit unions with more than \$100 million in assets, but less than \$500 million, reported loan growth of 3.9 percent over the year. At the end of 2016, these 1,050 federally insured credit unions in held \$234 billion in total assets, 18 percent of total system assets,
 - The number of credit unions with less than \$50 million in assets fell over the year. This category of credit unions reported declines in loans outstanding, membership and net worth over the year. These 3,510 credit unions accounted for 4 percent of total system assets at the end of 2016.
 - For credit unions with less than \$10 million in assets, loans declined 6.5 percent, membership fell 10.0 percent, and net worth fell 6.7 percent. Credit unions with \$10 to \$50 million in assets reported a 5.0 percent decline in loans, an 8.7 percent decline in membership and a 5.7 percent decline in net worth.

CREDIT UNION SYSTEM PERFORMANCE FIVE-YEAR TRENDS

	Units	Same quarter as current, previous years					Most recent four quarters				Most Recent	
		2011.4	2012.4	2013.4	2014.4	2015.4	2016.1	2016.2	2016.3	2016.4	4 Quarter % change	4 Quarter change
Summary Credit Union Data												
Federally insured credit unions												
Federally insured credit unions	Number	7,094	6,819	6,554	6,273	6,021	5,954	5,887	5,844	5,785	-3.9	-236
Federal credit unions	Number	4,447	4,272	4,105	3,927	3,764	3,721	3,679	3,648	3,608	-4.1	-156
Federally insured, state-chartered credit unions	Number	2,647	2,547	2,449	2,346	2,257	2,233	2,208	2,196	2,177	-3.5	-80
Credit unions with low-income designation	Number	1,119	1,895	1,989	2,113	2,297	2,348	2,426	2,459	2,491	8.4	194
Number of members	Millions	91.8	93.9	96.3	99.2	102.7	103.7	104.8	106.2	106.9	4.1	4.2
Number of deposits	Millions	170.4	175.4	180.8	186.4	193.5	195.8	197.7	200.5	201.9	4.3	8.4
Number of loans outstanding	Millions	45.8	47.6	50.4	54.0	57.4	57.8	59.1	59.9	61.2	6.6	3.8
Total assets	\$ Billions	961.7	1,021.8	1,062.0	1,122.1	1,204.3	1,240.6	1,254.6	1,277.3	1,292.5	7.3	88
Total assets, four-quarter growth	Percent	5.2	6.2	3.9	5.7	7.3	7.1	7.4	8.2	7.3		0.0
Total loans	\$ Billions	571.5	597.5	645.1	712.3	787.0	799.5	823.4	847.1	869.1	10.4	82
Total loans, four-quarter growth	Percent	1.2	4.6	8.0	10.4	10.5	10.7	10.5	10.1	10.4		-0.1
Average outstanding loan balance	\$	12,483	12,565	12,795	13,203	13,709	13,821	13,944	14,147	14,195	3.5	486
Total deposits	\$ Billions	827.4	877.9	910.1	950.8	1,016.0	1,050.9	1,058.9	1,077.8	1,092.6	7.5	77
Total deposits, four-quarter growth	Percent	5.2	6.1	3.7	4.5	6.9	6.8	7.3	8.6	7.5		0.7
Average deposit balance	\$	9,011	9,353	9,454	9,580	9,895	10,135	10,104	10,148	10,222	3.3	326
Insured shares and deposits	\$ Billions	793.7	838.2	865.2	901.6	960.0	991.6	998.7	1,014.6	1,027.5	7.0	67
Insured shares and deposits	Percent	5.0	5.6	3.2	4.2	6.5	6.3	6.8	8.1	7.0		0.6
Key Ratios												
Net worth ratio	Percent	10.21	10.43	10.77	10.96	10.92	10.78	10.85	10.85	10.89		-0.03
Return on average assets	Percent	0.67	0.85	0.78	0.80	0.75	0.75	0.77	0.78	0.77		0.02
Loan-to-share ratio	Percent	69.1	68.1	70.9	74.9	77.5	76.1	77.8	78.6	79.5		2.08
Net long-term assets, percent of assets	Percent	32.4	32.9	35.9	33.6	32.8	31.7	32.3	32.0	33.0		0.22
Median credit union average cost of funds	Percent	0.60	0.44	0.34	0.29	0.27	0.25	0.26	0.26	0.27		0.00
Median credit union average yield on loans	Percent	6.52	6.22	5.84	5.55	5.40	5.32	5.29	5.30	5.29		-0.10

Values rounded from underlying data.

	Units	Same quarter as current, previous years					Most recent four quarters				Most Recent	
		2011.4	2012.4	2013.4	2014.4	2015.4	2016.1	2016.2	2016.3	2016.4	4 Quarter % change	4 Quarter change
Median credit union net interest margin	Percent	3.37	3.17	3.01	2.99	2.97	2.97	2.97	2.99	3.00		0.02
Median credit union return on average assets	Percent	0.22	0.31	0.25	0.32	0.33	0.33	0.35	0.37	0.35		0.02
Lending (Year-to-Date, Annual Rate)												
Loans granted	\$ Billions	259.5	326.3	345.7	350.9	406.7	396.5	432.1	453.0	456.1	12.1	49
Real estate loans	\$ Billions	98.9	140.8	139.7	116.0	150.5	129.5	152.0	164.6	170.6	13.3	20
Real estate, fixed-rate, first mortgage	\$ Billions	67.4	107.2	99.4	68.5	98.3	82.6	99.1	109.6	115.1	17.1	17
Member-business loans	\$ Billions	13.2	15.9	18.6	18.0	20.2	20.4	21.9	22.2	23.2	15.2	3
Payday alternative loans	\$ Millions	56.1	72.6	90.2	114.6	122.8	105.7	119.7	128.6	134.7	9.7	12
Delinquent loans	\$ Billions	9.1	6.9	6.5	6.1	6.4	5.7	6.2	6.6	7.2	13.1	0.84
Total delinquency rate	Percent	1.60	1.16	1.01	0.85	0.81	0.71	0.75	0.77	0.83		0.02
Fixed real estate delinquency rate	Percent	1.76	1.21	1.00	0.77	0.64	0.49	0.55	0.54	0.54		-0.10
Credit card delinquency rate	Percent	1.15	0.97	0.93	0.94	1.01	0.95	0.93	1.05	1.14		0.14
Member-business loan delinquency rate	Percent	3.81	2.17	1.54	0.86	1.09	1.41	1.50	1.54	1.58		0.49
Net charge-offs	\$ Billions	5.2	4.3	3.5	3.4	3.6	4.1	4.1	4.3	4.6	25.4	0.92
Net charge-offs, percent of average loans	Percent	0.91	0.73	0.57	0.50	0.48	0.52	0.51	0.53	0.55		0.07
Asset Distribution												
25% of credit unions are smaller than	\$ Millions	5.5	6.0	6.4	7.0	7.5	7.8	7.9	8.0	8.1	8.3	0.62
50% of credit unions are smaller than	\$ Millions	19.2	21.1	22.7	24.4	26.8	27.7	28.1	28.7	28.9	8.0	2.13
75% of credit unions are smaller than	\$ Millions	70.1	77.7	83.7	92.0	101.4	105.5	107.7	110.1	111.0	9.4	9.53
90% of credit unions are smaller than	\$ Millions	251.2	281.1	310.4	340.6	381.8	395.8	409.8	419.3	431.0	12.9	49.24

Values rounded from underlying data.

	Same quarter as current, previous years						Most recent four quarters				Most Recent	
	Units	2011.4	2012.4	2013.4	2014.4	2015.4	2016.1	2016.2	2016.3	2016.4	4 Quarter % change	4 Quarter change
Income and Expenses (Year-to-date, Annual Rate)												
Federally insured credit unions												
Gross income	\$ Billions	50.2	50.8	50.0	51.7	55.0	57.3	58.3	59.3	60.0	9.0	4.95
Total interest income	\$ Billions	37.9	36.2	35.3	36.9	39.2	41.3	41.7	42.2	42.6	8.6	3.39
Gross interest income	\$ Billions	32.8	31.7	31.2	32.6	34.9	36.6	36.9	37.4	37.8	8.5	2.96
Less interest refunds	\$ Billions	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.1	3.3	0.00
Investment income	\$ Billions	5.2	4.5	4.2	4.4	4.4	4.7	4.8	4.8	4.8	9.3	0.41
Trading income	\$ Billions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	—	0.02
Total non-interest income	\$ Billions	12.3	14.6	14.7	14.7	15.8	16.0	16.6	17.1	17.4	9.9	1.57
Fee income	\$ Billions	6.9	7.4	7.4	7.2	7.5	7.3	7.5	7.8	8.0	6.4	0.48
Other operating income	\$ Billions	5.2	6.8	7.0	7.1	8.0	8.1	8.6	8.8	8.9	11.4	0.91
Other (including gains/losses)	\$ Billions	0.1	0.4	0.3	0.5	0.4	0.6	0.5	0.6	0.5	49.6	0.18
Total expenses (with provision for loan and lease losses)	\$ Billions	43.9	42.4	41.9	43.0	46.3	48.2	48.8	49.6	50.4	8.7	4.04
Non-interest expenses	\$ Billions	30.6	31.6	32.9	34.0	36.3	37.6	38.0	38.4	38.7	6.9	2.50
Labor expense	\$ Billions	14.5	15.5	16.3	17.1	18.4	19.3	19.4	19.5	19.7	7.0	1.29
Office expenses	\$ Billions	7.6	8.0	8.3	8.8	9.3	9.5	9.6	9.7	9.8	5.8	0.54
Loan servicing expenses	\$ Billions	2.0	2.2	2.4	2.5	2.6	2.6	2.7	2.7	2.7	5.5	0.14
Other non-interest expenses	\$ Billions	6.5	5.9	5.9	5.7	6.0	6.1	6.3	6.4	6.5	8.7	0.52
Total interest expense	\$ Billions	8.7	7.2	6.2	5.9	6.0	6.2	6.3	6.4	6.6	8.8	0.53
Interest on borrowed money	\$ Billions	0.9	0.8	0.7	0.8	0.8	0.9	0.9	0.9	0.9	12.3	0.10
Share dividends	\$ Billions	6.8	5.6	4.8	4.6	4.7	4.8	4.8	4.9	5.0	7.9	0.37
Interest on deposits	\$ Billions	0.9	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6	11.9	0.07
Provision for loan and lease losses	\$ Billions	4.7	3.6	2.7	3.1	4.1	4.4	4.5	4.7	5.1	24.8	1.01
Net income	\$ Billions	6.3	8.5	8.1	8.7	8.7	9.2	9.5	9.7	9.6	10.6	0.92
Net income, percent of average assets	Percent	0.67	0.85	0.78	0.80	0.75	0.75	0.77	0.78	0.77		0.02
Net interest margin	\$ Billions	29.2	29.0	29.1	31.0	33.2	35.1	35.4	35.8	36.0	8.6	2.85
Net interest margin, percent of average assets	Percent	3.12	2.92	2.80	2.84	2.85	2.87	2.88	2.88	2.88		
Average assets	\$ Billions	938.0	991.7	1,041.9	1,092.0	1,163.2	1,222.4	1,229.4	1,240.8	1,248.4	7.3	85.23

Values rounded from underlying data.

	Same quarter as current, previous years						Most recent four quarters				Most Recent	
	Units	2011.4	2012.4	2013.4	2014.4	2015.4	2016.1	2016.2	2016.3	2016.4	4 Quarter % change	4 Quarter change
Income and Expenses (Year-to-date, Annual Rate, Percent of Average Assets)												
Federally insured credit unions												
Gross income	Percent	5.35	5.13	4.80	4.73	4.73	4.69	4.74	4.78	4.80		0.07
Total interest income	Percent	4.04	3.65	3.39	3.38	3.37	3.38	3.39	3.40	3.41		0.04
Gross interest income	Percent	3.49	3.20	2.99	2.98	3.00	2.99	3.00	3.01	3.03		0.03
Less interest refunds	Percent	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.00		0.00
Investment income	Percent	0.56	0.46	0.40	0.41	0.38	0.39	0.39	0.38	0.38		0.01
Trading income	Percent	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00
Total non-interest income	Percent	1.31	1.48	1.41	1.35	1.36	1.31	1.35	1.38	1.39		0.03
Fee income	Percent	0.74	0.74	0.71	0.66	0.65	0.59	0.61	0.62	0.64		-0.01
Other operating income	Percent	0.56	0.69	0.67	0.65	0.68	0.66	0.70	0.71	0.71		0.03
Other (including gains/losses)	Percent	0.01	0.04	0.03	0.04	0.03	0.05	0.04	0.04	0.04		0.01
Total expenses (with provision for loan and lease losses)	Percent	4.68	4.27	4.02	3.93	3.98	3.94	3.97	3.99	4.04		0.05
Non-interest expenses	Percent	3.26	3.18	3.16	3.11	3.12	3.07	3.09	3.10	3.10		-0.01
Labor expense	Percent	1.54	1.56	1.56	1.56	1.58	1.58	1.58	1.57	1.58		0.00
Office expenses	Percent	0.81	0.81	0.80	0.81	0.80	0.78	0.78	0.78	0.79		-0.01
Loan servicing expenses	Percent	0.21	0.22	0.23	0.23	0.22	0.21	0.22	0.22	0.22		0.00
Other non-interest expenses	Percent	0.69	0.59	0.57	0.52	0.52	0.50	0.51	0.52	0.52		0.01
Total interest expense	Percent	0.93	0.73	0.59	0.54	0.52	0.51	0.51	0.52	0.53		0.01
Interest on borrowed money	Percent	0.10	0.08	0.07	0.07	0.07	0.07	0.07	0.07	0.07		0.00
Share dividends	Percent	0.73	0.57	0.46	0.42	0.40	0.39	0.39	0.40	0.40		0.00
Interest on deposits	Percent	0.10	0.08	0.06	0.05	0.05	0.05	0.05	0.05	0.05		0.00
Provision for loan and lease losses	Percent	0.50	0.36	0.26	0.28	0.35	0.36	0.37	0.38	0.41		0.06
Net income	Percent	0.67	0.85	0.78	0.80	0.75	0.75	0.77	0.78	0.77		0.02
Net interest margin	Percent	3.12	2.92	2.80	2.84	2.85	2.87	2.88	2.88	2.88		0.03

Values rounded from underlying data.

	Same quarter as current, previous years						Most recent four quarters				Most Recent	
	Units	2011.4	2012.4	2013.4	2014.4	2015.4	2016.1	2016.2	2016.3	2016.4	4 Quarter % change	4 Quarter change
Balance Sheet												
Federally insured credit unions												
Total assets	\$ Billions	961.7	1,021.8	1,062.0	1,122.1	1,204.3	1,240.6	1,254.6	1,277.3	1,292.5	7.3	88.26
Cash and equivalents (less than 3 months)	\$ Billions	95.2	100.9	87.4	85.8	94.5	113.7	101.4	109.4	97.8	3.4	3.22
Cash on hand	\$ Billions	7.9	8.3	9.0	9.7	9.9	9.9	10.1	9.3	10.1	2.6	0.25
Investments												
Total investments (more than 3 months)	\$ Billions	256.9	280.4	285.8	275.8	272.8	272.4	271.9	266.3	269.2	-1.3	-3.58
Investments less than 1 year	\$ Billions	71.2	77.8	70.5	67.3	67.7	70.2	74.0	75.0	75.6	11.8	7.95
Investments 1-3 years	\$ Billions	106.0	106.9	89.2	99.5	101.7	103.5	103.7	100.7	94.9	-6.7	-6.82
Investments 3-10 years	\$ Billions	73.8	89.3	118.9	103.3	99.0	94.3	90.3	87.0	94.7	-4.3	-4.24
Investments 3-5 years	\$ Billions	54.4	64.6	79.4	75.6	71.2	67.2	65.4	62.0	64.1	-10.0	-7.15
Investments 5-10 years	\$ Billions	19.4	24.7	39.6	27.7	27.7	27.0	24.9	25.0	30.7	10.5	2.90
Investments more than 10 years	\$ Billions	6.0	6.4	7.2	5.6	4.5	4.5	3.9	3.6	4.0	-10.6	-0.47
Total loans	\$ Billions	571.5	597.5	645.1	712.3	787.0	799.5	823.4	847.1	869.1	10.4	82.09
Real estate loans	\$ Billions	313.0	320.2	338.8	364.2	396.8	402.2	411.2	421.0	431.1	8.6	34.30
Real estate fixed-rate, first mortgage	\$ Billions	163.1	174.6	192.3	205.0	226.5	230.4	236.1	242.7	250.9	10.8	24.42
Credit cards	\$ Billions	37.4	39.5	42.6	46.0	48.8	47.9	49.1	50.2	52.7	7.9	3.85
Auto loans	\$ Billions	165.1	178.5	198.7	230.0	262.0	269.8	280.2	290.3	298.7	14.0	36.66
New autos	\$ Billions	58.3	63.3	71.3	86.4	100.1	103.0	107.3	112.2	116.9	16.8	16.78
Used autos	\$ Billions	106.8	115.2	127.4	143.7	162.0	166.8	172.9	178.1	181.8	12.3	19.88
Non-federally guaranteed student loans	\$ Billions	1.5	2.0	2.6	3.1	3.5	3.6	3.6	3.8	3.8	9.0	0.32
Other loans	\$ Billions	54.5	57.3	62.4	69.0	75.9	76.0	79.3	81.8	82.9	9.2	6.97
Member-business loans, including unfunded commitments	\$ Billions	39.2	41.7	46.0	51.8	58.1	59.8	61.7	63.9	66.6	14.6	8.50
Other assets	\$ Billions	38.1	42.9	43.7	48.2	49.9	55.1	58.0	54.5	56.5	13.1	6.53
Total liabilities and net worth	\$ Billions	961.7	1,021.8	1,062.0	1,122.1	1,204.3	1,240.6	1,254.6	1,277.3	1,292.5	7.3	88.26
Total deposits	\$ Billions	827.4	877.9	910.1	950.8	1,016.0	1,050.9	1,058.9	1,077.8	1,092.6	7.5	76.59
Share drafts	\$ Billions	100.6	111.4	119.0	131.4	150.4	155.5	154.6	151.2	153.7	2.2	3.30
Regular shares	\$ Billions	245.0	275.1	297.6	320.9	352.0	370.7	373.4	387.7	393.7	11.8	41.70
Other deposits	\$ Billions	481.8	491.4	493.5	498.5	513.6	524.8	531.0	538.9	545.2	6.1	31.58
Money market accounts	\$ Billions	189.1	203.4	212.3	219.5	231.8	238.0	240.4	244.1	249.2	7.5	17.40
Share certificate accounts	\$ Billions	204.1	197.9	191.5	188.9	190.1	193.5	195.7	197.9	199.5	4.9	9.36
IRA/Keogh accounts	\$ Billions	77.6	79.1	78.4	76.9	76.6	77.1	77.7	78.4	78.1	2.0	1.51
Non-member deposits	\$ Billions	2.2	2.3	3.0	5.1	6.7	7.2	7.8	8.5	8.7	31.2	2.08
All other shares	\$ Billions	8.7	8.7	8.2	8.2	8.5	9.0	9.2	10.0	9.7	14.5	1.23
Other liabilities	\$ Billions	36.1	37.3	37.4	48.3	56.7	55.8	59.5	60.8	59.1	4.2	2.38
Net worth	\$ Billions	98.2	106.6	114.5	123.0	131.6	133.8	136.2	138.6	140.8	7.1	9.29
Net worth, percent of assets	Percent	10.21	10.43	10.77	10.96	10.92	10.78	10.85	10.85	10.89		-0.03

Values rounded from underlying data.

	Same quarter as current, previous years						Most recent four quarters				Most Recent	
	Units	2011.4	2012.4	2013.4	2014.4	2015.4	2016.1	2016.2	2016.3	2016.4	4 Quarter % change	4 Quarter change
Balance Sheet (Percent of Assets)												
Federally insured credit unions												
Total assets	Percent	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		
Cash and equivalents (less than 3 months)	Percent	9.9	9.9	8.2	7.6	7.9	9.2	8.1	8.6	7.6		-0.29
Cash on hand	Percent	0.8	0.8	0.8	0.9	0.8	0.8	0.8	0.7	0.8		-0.04
Investments												
Total investments (more than 3 months)	Percent	26.7	27.4	26.9	24.6	22.7	22.0	21.7	20.9	20.8		-1.82
Investments less than 1 year	Percent	7.4	7.6	6.6	6.0	5.6	5.7	5.9	5.9	5.8		0.23
Investments 1-3 years	Percent	11.0	10.5	8.4	8.9	8.4	8.3	8.3	7.9	7.3		-1.10
Investments 3-10 years	Percent	7.7	8.7	11.2	9.2	8.2	7.6	7.2	6.8	7.3		-0.89
Investments 3-5 years	Percent	5.7	6.3	7.5	6.7	5.9	5.4	5.2	4.9	5.0		-0.96
Investments 5-10 years	Percent	2.0	2.4	3.7	2.5	2.3	2.2	2.0	2.0	2.4		0.07
Investments more than 10 years	Percent	0.6	0.6	0.7	0.5	0.4	0.4	0.3	0.3	0.3		-0.06
Total loans	Percent	59.4	58.5	60.7	63.5	65.4	64.4	65.6	66.3	67.2		1.89
Real estate loans	Percent	32.6	31.3	31.9	32.5	32.9	32.4	32.8	33.0	33.4		0.40
Real estate fixed-rate, first mortgage	Percent	17.0	17.1	18.1	18.3	18.8	18.6	18.8	19.0	19.4		0.60
Credit cards	Percent	3.9	3.9	4.0	4.1	4.1	3.9	3.9	3.9	4.1		0.02
Auto loans	Percent	17.2	17.5	18.7	20.5	21.8	21.7	22.3	22.7	23.1		1.35
New autos	Percent	6.1	6.2	6.7	7.7	8.3	8.3	8.5	8.8	9.0		0.73
Used autos	Percent	11.1	11.3	12.0	12.8	13.4	13.4	13.8	13.9	14.1		0.62
Non-federally guaranteed student loans	Percent	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3		0.00
Other loans	Percent	5.7	5.6	5.9	6.1	6.3	6.1	6.3	6.4	6.4		0.11
Member-business loans, including unfunded commitments	Percent	4.1	4.1	4.3	4.6	4.8	4.8	4.9	5.0	5.2		0.33
Other assets	Percent	4.0	4.2	4.1	4.3	4.1	4.4	4.6	4.3	4.4		0.22
Total liabilities and net worth	Percent	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		
Total deposits	Percent	86.0	85.9	85.7	84.7	84.4	84.7	84.4	84.4	84.5		0.16
Share drafts	Percent	10.5	10.9	11.2	11.7	12.5	12.5	12.3	11.8	11.9		-0.60
Regular shares	Percent	25.5	26.9	28.0	28.6	29.2	29.9	29.8	30.4	30.5		1.23
Other deposits	Percent	50.1	48.1	46.5	44.4	42.6	42.3	42.3	42.2	42.2		-0.47
Money market accounts	Percent	19.7	19.9	20.0	19.6	19.2	19.2	19.2	19.1	19.3		0.03
Share certificate accounts	Percent	21.2	19.4	18.0	16.8	15.8	15.6	15.6	15.5	15.4		-0.35
IRA/Keogh accounts	Percent	8.1	7.7	7.4	6.9	6.4	6.2	6.2	6.1	6.0		-0.32
Non-member deposits	Percent	0.2	0.2	0.3	0.5	0.6	0.6	0.6	0.7	0.7		0.12
All other shares	Percent	0.9	0.9	0.8	0.7	0.7	0.7	0.7	0.8	0.7		0.05
Other liabilities	Percent	3.7	3.6	3.5	4.3	4.7	4.5	4.7	4.8	4.6		-0.14
Net worth	Percent	10.21	10.43	10.77	10.96	10.92	10.78	10.85	10.85	10.89		-0.03

Values rounded from underlying data.

SUMMARY OF PERFORMANCE FOR FEDERALLY INSURED CREDIT UNIONS

	Asset Categories						Federal Credit Unions	Federally Insured State- Chartered Credit Unions	Credit Unions with Low-Income Designation in 2016Q4	Small Credit Unions (Assets less than \$100 million)
	Less than \$10 million	\$10 to \$50 million	\$50 to \$100 million	\$100 to \$500 million	\$500 million to \$1 billion	Greater than \$1 billion				
Current Quarter: 2016Q4										
Number of credit unions	1,659	1,851	724	1,050	229	272	3,608	2,177	2,491	4,234
Number of members (millions)	1.4	5.8	5.7	22.7	13.7	57.6	56.6	50.3	39.3	12.9
Total assets (\$ billions)	6.8	45.8	51.5	233.7	161.7	793.0	670.2	622.4	409.1	104.2
Total loans (\$ billions)	3.4	23.1	28.9	149.9	112.5	551.4	444.5	424.6	286.1	55.3
Total deposits (\$ billions)	5.8	39.9	45.1	203.4	138.6	659.7	559.8	532.8	350.3	90.8
Key ratios (percent)										
Return on average assets	0.05	0.25	0.38	0.52	0.60	0.95	0.78	0.76	0.73	0.30
Net worth ratio	15.14	12.33	11.51	10.92	10.97	10.71	10.97	10.80	10.83	12.11
Loan-to-share ratio	58.0	57.8	64.0	73.7	81.2	83.6	79.4	79.7	81.7	60.9
Net interest margin (median)	3.19	2.92	2.98	3.01	3.03	2.75	2.97	3.04	3.19	3.01
Net long-term asset ratio	9.5	20.0	25.7	31.4	34.4	34.6	33.5	32.4	31.0	22.2
Cost of funds/average assets (median)	0.21	0.22	0.27	0.34	0.40	0.50	0.25	0.29	0.27	0.23
Delinquency rate	1.97	1.22	1.09	0.91	0.79	0.78	0.85	0.81	0.81	1.20
Net charge-offs to average loans	0.64	0.50	0.52	0.49	0.49	0.58	0.62	0.47	0.52	0.52
Growth from a year earlier (percent)										
Shares (total deposits)	-7.3	-5.7	-0.6	2.1	-0.4	13.1	7.2	7.9	7.9	-3.4
Total loans	-6.5	-5.0	0.9	3.9	3.9	15.4	9.8	11.1	11.3	-2.1
Total assets	-7.3	-5.7	-0.6	2.1	-0.4	12.5	6.7	8.0	8.0	-3.4
Members	-10.0	-8.7	-2.8	-0.3	-3.2	10.8	4.3	3.9	4.1	-6.3
Net worth	-6.7	-5.7	-0.2	2.0	-1.4	12.5	7.1	7.1	7.2	-3.3

Values rounded from underlying data.

	Asset Categories						Federal Credit Unions	Federally Insured State-Chartered Credit Unions	Credit Unions with Low-Income Designation in 2016Q4	Small Credit Unions (Assets less than \$100 million)
	Less than \$10 million	\$10 to \$50 million	\$50 to \$100 million	\$100 to \$500 million	\$500 million to \$1 billion	Greater than \$1 billion				
Historical Data (same quarter)										
Return on average assets (percent)										
2016	0.05	0.25	0.38	0.52	0.60	0.95	0.78	0.76	0.73	0.30
2015	0.03	0.28	0.39	0.54	0.66	0.91	0.74	0.75	0.76	0.31
2014	0.03	0.26	0.45	0.59	0.79	0.97	0.77	0.83	0.82	0.33
2013	-0.18	0.21	0.41	0.58	0.75	0.98	0.75	0.82	0.79	0.27
2012	-0.03	0.27	0.47	0.67	0.82	1.07	0.85	0.86	0.86	0.34
Net worth ratio (percent)										
2016	15.14	12.33	11.51	10.92	10.97	10.71	10.97	10.80	10.83	12.11
2015	15.05	12.32	11.45	10.92	11.08	10.70	10.94	10.90	10.91	12.09
2014	14.81	12.30	11.45	10.93	11.09	10.74	11.02	10.89	10.93	12.08
2013	14.65	12.21	11.20	10.78	10.81	10.52	10.86	10.67	10.69	11.92
2012	14.63	12.06	10.92	10.53	10.59	10.04	10.50	10.35	10.35	11.73
Loan to Share Ratio (percent)										
2016	58.03	57.77	63.97	73.69	81.18	83.58	79.40	79.70	81.68	60.87
2015	57.53	57.35	63.03	72.41	77.82	81.90	77.52	77.40	79.16	60.11
2014	57.28	57.24	62.37	70.74	75.94	79.12	74.72	75.14	76.97	59.67
2013	56.03	56.30	61.13	68.30	72.91	74.06	70.80	70.99	73.43	58.57
2012	55.45	55.72	60.67	66.30	69.33	70.88	67.91	68.23	70.53	58.01

Values rounded from underlying data.

NATIONAL CREDIT UNION SHARE INSURANCE FUND TEN-YEAR TRENDS

Fiscal year	2007 ³	2008	2009	2010 ⁴	2011	2012	2013	2014	2015	2016
Income (in thousands)										
Premium	—	—	\$727,466	\$929,952	—	—	—	—	—	—
Investment income ¹	\$320,163	\$390,922	\$188,774	\$216,921	\$226,011	\$206,995	\$198,264	\$208,259	\$218,526	\$227,172
Other income	\$1,166	\$4,737	\$33,319	\$49,223	\$1,037	\$8,768	\$4,550	\$5,633	\$5,187	\$2,463
Total income ⁵	\$321,329	\$395,659	\$949,559	\$1,196,096	\$227,048	\$215,763	\$202,814	\$213,892	\$223,713	\$229,635
Expenses (in thousands)										
Operating ⁵	\$79,218	\$81,516	\$134,624	\$165,830	\$132,358	\$141,237	\$148,312	\$179,818	\$197,752	\$209,260
Insurance losses	\$186,397	\$290,354	\$625,140	\$735,562	\$(532,408)	\$(77,784)	\$(48,638)	\$(41,840)	\$(35,411)	\$7,870
Total expenses	\$265,615	\$371,870	\$759,764	\$901,392	\$(400,050)	\$63,453	\$99,674	\$137,978	\$162,341	\$217,130
Net income (in thousands) ⁵	\$55,714	\$23,789	\$189,795	\$294,704	\$627,098	\$152,309	\$103,140	\$75,914	\$61,372	\$12,505
Data Highlights										
Total equity (in millions) ²	\$7,261	\$7,677	\$8,957	\$9,670	\$10,339	\$10,912	\$11,266	\$11,625	\$12,095	\$12,742
Equity as a percentage of shares in insured credit unions	1.29%	1.26%	1.23%	1.28%	1.30%	1.30%	1.30%	1.29%	1.26%	1.24%
Share Insurance Fund loss per \$1,000 of insured shares	\$0.33	\$0.47	\$0.86	\$0.97	\$(0.67)	\$(0.09)	\$(0.06)	\$(0.05)	\$(0.02)	\$0.01
Operating Ratios										
Premium income	—	—	76.6%	77.8%	—	—	—	—	—	—
Investment income	99.6%	98.8%	19.9%	18.1%	99.5%	95.9%	97.8%	97.4%	97.5%	98.9%
Other Income	0.4%	1.2%	3.5%	4.1%	0.5%	4.1%	2.2%	2.6%	2.5%	1.1%
Operating expenses	24.7%	20.6%	14.2%	13.9%	58.3%	65.5%	73.1%	84.1%	109.1%	91.1%
Insurance losses	58.0%	73.4%	65.8%	61.5%	-234.5%	-36.1%	-24.0%	-19.6%	-92.7%	3.4%
Total expenses	82.7%	94.0%	80.0%	75.4%	-176.2%	29.4%	49.1%	64.5%	16.4%	94.5%
Net income	17.3%	6.0%	20.0%	24.6%	276.2%	70.6%	50.9%	35.5%	83.6%	5.4%
Involuntary Liquidations Commenced										
Number	7	15	16	18	15	14	13	10	11	11
Share payouts (in thousands)	\$195,325	\$648,620	\$713,112	\$701,145	\$586,852	667,814	\$125,621	\$150,111	\$138,635	\$10,163
Share payouts as a percentage of total insured shares	0.035%	0.106%	0.098%	0.093%	0.074%	0.080%	0.015%	0.017%	0.014%	0.001%
Shares in liquidated credit unions (in thousands)	\$578,880	\$916,822	\$990,931	\$870,435	\$459,403	\$728,746	\$105,378	\$140,581	\$145,829	\$8,240

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

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

³ Amounts for 2007 represent the carrying value of guarantees as determined under FIN 45, "Guarantor's Accounting and Disclosure Requirements."

⁴ The National Credit Union Share Insurance Fund adopted Federal Accounting Standards Advisory Board accounting standards beginning in 2010. For the purpose of this table, total income includes both exchange and non-exchange revenue.

⁵ 2009–2015 Total Income excludes Stabilization Fund Income, 2009–2015 Operating Expense excludes Stabilization Fund Expense, and 2009–2015 Net Income excludes Stabilization Fund Income and Expense.

Values rounded from underlying data.

December 31	2007	2008 ¹	2009	2010	2011	2012	2013	2014	2015	2016
Mergers										
Assisted	5	3	12	10	1	8	4	5	5	3
Unassisted	237	253	207	193	212	265	236	234	218	207
Section 208 (Federal Credit Union Act) Assistance to Avoid Liquidation (in Thousands)										
Capital notes and other cash advances outstanding	\$0	\$0	\$11,000,000	—	\$80,000	\$80,000	\$66,500	\$54,600	\$0	\$0
Non-cash guaranty accounts	\$233,088	\$126,340	\$7,451	\$108,046	\$199,945	\$32,132	\$5,533	\$4,720	\$0	\$0
Number of active cases	6	5	9	5	9	5	3	5	1	1
Number of Troubled, Insured Credit Unions (CAMEL 4 & 5)										
Number	211	271	351	365	409	370	307	276	220	196
Shares (millions)	\$5,300	\$16,314	\$41,587	\$38,510	\$26,285	\$16,940	\$12,133	\$10,234	\$7,662	\$8,586
Problem case shares as a percentage of insured shares	0.94%	2.33%	5.35%	4.74%	3.31%	2.0%	1.40%	1.13%	0.80%	0.83%

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

Values rounded from underlying data.



APPENDIX

BOARD OF DIRECTORS



J. Mark McWatters Acting Chairman

President Donald J. Trump designated J. Mark McWatters as the Acting Chairman of the NCUA Board on January 23, 2017.

Mr. McWatters was nominated to the

NCUA Board by then-President Barack Obama on January 7, 2014. Following Senate confirmation, he took office as an NCUA Board Member on August 26, 2014.

Prior to his joining the NCUA Board, Mr. McWatters served as the Assistant Dean for Graduate Programs and as a Professor of Practice at the Southern Methodist University Dedman School of Law, and as an Adjunct Professor at the university's Cox School of Business. He also served on the Governing Board of the Texas Department of Housing and Community

Affairs and the Advisory Committee of the Texas Emerging Technology Fund.

Previously, Mr. McWatters served as a member of the Troubled Asset Relief Program Congressional Oversight Panel and as counsel to Rep. Jeb Hensarling (R-Texas). He also practiced law as a partner with three large cross-border law firms and as counsel to an international hedge and private equity firm where he specialized in taxation, corporate finance and mergers and acquisitions. Immediately after graduating from law school, Mr. McWatters served as a judicial clerk to the Honorable Walter Ely of the U.S. Ninth Circuit Court of Appeals in Los Angeles.

Mr. McWatters is licensed to practice law in Texas and New York and as a Certified Public Accountant in Texas. He earned a J.D. degree from the University of Texas at Austin School of Law and an LL.M. degree from each of Columbia University School of Law and New York University School of Law.



Rick Metsger Board Member

Then-President Barack Obama nominated Rick Metsger to serve on the Board of the National Credit Union Administration on May 16, 2013. The U.S. Senate confirmed Mr. Metsger on August 1, 2013,

and he took the oath of office on August 23, 2013.

He served as the ninth NCUA Board Chairman from May 1, 2016, through January 22, 2017. He also served as NCUA's Vice Chairman from September 18, 2014, until April 30, 2016.

Mr. Metsger has extensive public policy and private-sector experience in the areas of financial services, consumer protection, taxation, transportation and strategic communications. He previously served as NCUA's representative on the NeighborWorks America Board of Directors.

Prior to joining the NCUA Board, Mr. Metsger owned his own strategic communications consulting firm focused on financial services, capital construction, energy and transportation issues.

Mr. Metsger previously served for 12 years in the Oregon State Senate, where he chaired the Business and Transportation Committee and served

on committees with jurisdiction in the areas of education, revenue, the judiciary, human services and consumer protection. He was a member of Oregon Senate leadership from 2009 to 2011 and was elected President Pro Tem in 2009. His Senate service included his chief sponsorship of a law to expand state-chartered credit unions' field of membership, as well as co-sponsorship of sweeping utility regulation to refund millions of dollars to consumers, legislation to combat predatory payday lending, and a bill creating the largest public transportation investment in the state's history.

Mr. Metsger also served on the State Treasury Debt Policy Advisory Commission and as a Director of Financial Beginnings, a non-profit organization providing financial education to children and young adults.

In addition to consulting and public service, Mr. Metsger has worked as a teacher and a radio and television journalist. From 1993 to 2001, he served on the board of directors of the Portland Teachers Credit Union. While in college, the credit union gave him a \$350 loan to purchase his first car. Twenty years later, he joined the credit union's board as a volunteer director.

Mr. Metsger holds a B.S. in Communications and an M.A. in Teaching from Lewis and Clark College. His term on the NCUA Board expires August 2, 2017.

SENIOR STAFF REPORTING TO THE NCUA BOARD

- Sarah Vega, Chief of Staff to Acting Chairman McWatters
- Michael Radway, Senior Policy Advisor to Board Member Metsger
- Gerard S. Poliquin, Secretary of the Board
- Mark A. Treichel, Executive Director
- Michael McKenna, General Counsel
- James Hagen, Inspector General
- Joy Lee, Ombudsman
- Vacant, Office of Public and Congressional Affairs Director
- Monica Davy, Office of Minority and Women Inclusion Director

Note: NCUA Board Chairman Debbie Matz resigned from her position on April 30, 2016. The seat is currently vacant.

NCUA'S LEADERSHIP



MONICA DAVY
Office of Minority and
Women Inclusion



MICHAEL MCKENNA
Office of General
Counsel



MARK A. TREICHEL
Office of the
Executive Director



JAMES HAGEN
Office of Inspector
General



LARRY FAZIO
Office of Examination
and Insurance



RALPH MONACO
Office of the Chief
Economist



RENDELL JONES
Office of the Chief
Financial Officer



ED DORRIS
Office of Chief
Information Officer



GAIL LASTER
Office of Consumer
Financial Protection and
Access



CHERYL EYRE
Office of Human
Resources



MARTHA NINICHUK
Office of Small Credit
Union Initiatives



JOY MILLER
Office of Continuity
and Security
Management



SCOTT HUNT
Office of National
Examinations and
Supervision



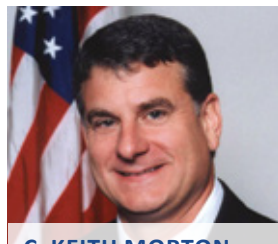
LARRY BLANKENBERGER
Region I



JANE A. WALTERS
Region II



MYRA TOEPEE
Region III



C. KEITH MORTON
Asset Management
and Assistance Center
and Region IV



CHERIE FREED
Region V

Not pictured: Joy Lee, Ombudsman. The director position for the Office of Public and Congressional Affairs is currently vacant.

OFFICE DESCRIPTIONS

The **Office of Minority and Women Inclusion** oversees issues related to diversity in the agency's management, employment and business activities. The office works to ensure equal opportunities for everyone in NCUA's workforce, programs and contracts. The Office of Minority and Women Inclusion also works to preserve minority depository institutions and assesses the diversity policies and practices of credit unions regulated by NCUA.

The **Office of Public and Congressional Affairs** handles public relations, including communications with the media and trade associations, and serves as NCUA's liaison with Capitol Hill and other government agencies, and monitoring federal legislative issues. The office also manages NCUA's social media program.

The **Office of General Counsel** addresses legal matters affecting NCUA. The duties of the office include representing the agency in litigation, executing administrative actions, interpreting the Federal Credit Union Act and NCUA rules and regulations, processing Freedom of Information Act requests and advising the Board and the agency on general legal matters. The General Counsel's office also drafts regulations designed to ensure the safety and soundness of credit unions.

The **Office of the Executive Director** is responsible for the agency's daily operations. The executive director reports directly to the NCUA Chairman. All regional directors and most central office directors report to the executive director.

The **Office of Inspector General** promotes the economy, efficiency and effectiveness of NCUA programs and operations. The office also detects and deters fraud, waste and abuse in support of NCUA's mission of monitoring and promoting safe and sound federally insured credit unions. Additionally, it conducts independent audits, investigations and other activities and keeps the NCUA Board and Congress fully informed.

The **Ombudsman** provides consumer complainants with an objective third party to resolve disputes that cannot be resolved through the NCUA Consumer Assistance Center. The Ombudsman reports to the NCUA Board and is independent from the agency's operational programs.

The **Office of Examination and Insurance** is responsible for NCUA's supervision programs that ensure the safety and soundness of federally insured credit unions. Within the Office of Examination and Insurance, the Division of Supervision oversees NCUA's examination and supervision program, including resource management and allocation, and oversees the development and maintenance of exam and supervision policy manuals. The Division of Risk Management oversees the agency's problem resolution program and manages risk to the National Credit Union Share Insurance Fund. The Division of Analytics and Surveillance manages the agency's data-gathering, surveillance and national risk assessment programs. It also supports NCUA's supervision of technology risk in credit unions. The Division of Capital and Credit Markets evaluates and develops policies and procedures related to credit union loans and investments and asset-liability management. The division also oversees the day-to-day operations of the Central Liquidity Facility. Finally, the Division of NGN Support monitors the NCUA Guaranteed Notes program.

The **Office of the Chief Economist** supports NCUA's safety and soundness goals by developing and distributing economic intelligence. The office also enhances NCUA's understanding of emerging microeconomic and macroeconomic risks by producing modeling and risk identification tools and participating in agency and interagency policy development.

The **Office of the Chief Financial Officer** oversees the agency's budget preparation and management, ongoing finance and accounting functions, facilities management and procurement. The office also handles billing and collection of credit union Share

Insurance Fund premiums and deposit adjustments, federal credit union operating fees and Temporary Corporate Credit Union Stabilization Fund assessments. NCUA's strategic planning process is also housed here.

The **Office of the Chief Information Officer** manages NCUA's automated information resources. The office's work includes collecting, validating and securely storing electronic agency information; developing, implementing and maintaining computer hardware, software, and data communications infrastructure; and ensuring related security and integrity risks are recognized and controlled. Additionally, the office manages the NCUA.gov and MyCreditUnion.gov websites.

The **Office of Consumer Financial Protection and Access** is responsible for the agency's consumer financial protection program and chartering and field-of-membership initiatives. Within the Office of Consumer Financial Protection and Access, the Division of Consumer Affairs is responsible for NCUA's consumer financial literacy efforts, consumer website MyCreditUnion.gov and NCUA's Consumer Assistance Center, which handles consumer inquiries and complaints. The Division of Consumer Compliance Policy and Outreach is responsible for consumer financial protection compliance policy and rulemaking, fair lending examinations, interagency coordination on consumer financial protection compliance matters and outreach. The Division of Consumer Access is responsible for chartering and field-of-membership matters, low-income designations, charter conversions and bylaw amendments.

The **Office of Human Resources** provides a full range of human resources functions to all NCUA employees. The office administers recruitment and merit promotion, position classification, compensation, employee records, employee and labor relations, training, employee benefits, performance appraisals, incentive awards, adverse actions and grievance programs.

The **Office of Small Credit Union Initiatives** assists the agency's risk-mitigation program and fosters credit union development, particularly the expansion

of services provided by small, minority and low-income credit unions to all eligible consumers. It provides training, customized consulting assistance and financial support through grants and loans funded by the Community Development Revolving Loan Fund. Additionally, the office facilitates credit union access to non-NCUA training and development resources.

The **Office of Continuity and Security Management** evaluates and manages security and continuity programs across NCUA and its regional offices. The office is responsible for continuity of operations, emergency planning and response, critical infrastructure and resource protection, cybersecurity and intelligence threat warning and the security of agency personnel and facilities.

The **Asset Management and Assistance Center**, conducts credit union liquidations and performs asset management and recovery. AMAC also helps NCUA's regional offices review large, complex loan portfolios and actual or potential bond claims. AMAC staff participate extensively in the operational phases of credit union conservatorships and record reconstruction.

FIELD PROGRAM OFFICES

The **Office of National Examinations and Supervision** supervises the corporate credit union system and consumer credit unions with \$10 billion or more in assets.

NCUA's **Region I** is headquartered in Albany, New York. The region covers Connecticut, Maine, Massachusetts, Michigan, New Hampshire, New York, Rhode Island, Vermont and Wisconsin.

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

NCUA's **Region III** is headquartered in Atlanta, Georgia. The region covers Alabama, Arkansas, Florida, Georgia, Indiana, Kentucky, Louisiana, Mississippi, North Carolina, Puerto Rico, South Carolina, Tennessee and the U.S. Virgin Islands.

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

NCUA's **Region V** is headquartered in Tempe, Arizona. The region covers Alaska, Arizona, California, Guam, Hawaii, Idaho, Nevada, Oregon, Utah and Washington.

KEY TERMS AND ACRONYMS

Automated Integrated Regulatory Examination System or AIRES: This is the computer program that NCUA and nearly all state supervisory authorities use to document and complete their examinations of federal and state-chartered credit unions. The program uses a series workbooks and questionnaires to guide examiners through their reviews of credit unions' financial performance, compliance with regulations and relevant laws, and potential risks.

CAMEL Rating: NCUA's composite CAMEL rating consists of an assessment of a credit union's Capital adequacy, Asset quality, Management, Earnings and Liquidity. The CAMEL rating system is designed to take into account and reflect all significant financial, operational and management factors field staff assess in their evaluation of credit unions' performance and risk profiles.

CAMEL ratings range from 1 to 5, with 1 being the best rating. Credit unions with a composite CAMEL rating of 3 exhibit some degree of supervisory concern in one or more components. CAMEL 4 credit unions generally exhibit unsafe or unsound practices, and CAMEL 5 institutions demonstrate extremely unsafe or unsound practices and conditions. NCUA collectively refers to CAMEL 4 and 5 credit unions as "troubled credit unions."

Central Liquidity Facility: This is a mixed-ownership government corporation that serves as an important source for emergency funding for credit unions and corporate credit unions that join the facility. Membership is voluntary and open to all credit unions that purchase a prescribed amount of stock. The NCUA Board has direct oversight of the fund's operations.

In situations where a credit union may be experiencing a shortage of liquidity (essentially a shortage of cash or assets that can be easily converted into cash), a credit union can borrow funds from the Central Liquidity Facility for a period not to exceed one year, though the typical period is 90 days.

Community Development Revolving Loan Fund: Congress created this fund in 1979 to stimulate economic development in low-income communities. Congress provides funding for the Revolving Loan Fund through the yearly appropriations process.

NCUA administers the fund and uses it to provide eligible low-income credit unions with technical assistance grants and low-interest loans. Credit unions use these funds to develop new products and services, train staff and weather disasters or disruptions in their operations. This support helps these credit unions continue to serve low- to moderate-income populations throughout the country.

Corporate Credit Union: These are member-owned and controlled, not-for-profit cooperative financial institutions that act as "credit unions for credit unions" and provide a number of critical financial services to credit unions, such as payment processing. Most federally insured credit unions are members of at least one corporate credit union.

Credit Union Service Organization: More commonly known as a CUSO, these are corporate entities owned by federally chartered or federally insured, state-chartered credit unions. These institutions provide a number of services to credit unions, including loan underwriting, payment services and back-office functions like human resources and payroll, among others.

Federal Credit Union Act: Signed into law in 1934, the Federal Credit Union Act establishes the legal framework for federally chartered credit unions in the U.S. The act also defines the coverage and terms of federal share insurance at all federally insured credit unions, and it outlines the structure, duties and authority of NCUA.

Field of Membership: A credit union union's field of membership defines who is eligible to join the credit union. Depending on the credit union's charter, a field of membership can include individuals who:

- Are members of an association like a civic association or religious institution;
- Are part of a community, like a county or town;
- Are employed in a particular occupation, like a firefighter or teacher;
- Are a part of an underserved area, like a rural county; or
- Who share a common bond, such as those that work at a factory and those that work for the factory's suppliers.

Low-income Designated Credit Union: The Federal Credit Union Act allows NCUA to designate a credit union as low-income if it meets certain criteria. This designation gives these credit unions a greater ability to help stimulate economic growth and provide affordable financial services in communities that have been historically underserved.

To qualify as a low-income credit union, a majority of a credit union's membership must meet certain low-income thresholds based on data from the U.S. Census Bureau.

The designation offers several benefits for credit unions that qualify, including the ability to accept non-member deposits, an exemption from the member business lending cap, eligibility for technical assistance grants and loans and for NCUA consulting services, and the ability to obtain supplemental capital from organizations, such as banks or outside investors.

Member: A person who uses a credit union is referred to as a member rather than a customer. This is because a credit union member actually owns a portion, or share, of the credit union. This differs from a bank, which is owned by its shareholders, not its customers. A credit union member also has the ability to determine the credit union's board of directors through a democratic election.

Minority Depository Institution: This term is used to describe a credit union that has a majority of its current or potential membership composed of minorities (in this case Black American, Hispanic American, Asian American, Native American or Multi-cultural) and a majority of minority members on its board of directors.

Safety and Soundness: Federal and state supervision of credit unions is designed to provide for a financially stable system that meets the financial needs of credit union members, as well as to prevent runs and panics by providing assurances that funds deposited will be protected from loss.

A credit union is considered to be safe and sound if it is being run effectively and is compliant with all applicable laws and regulations.

Temporary Corporate Credit Union Stabilization Fund: Created by Congress, the Stabilization Fund assumed the losses associated with the failure of five corporate credit unions—U.S. Central, WesCorp, Members United, Southwest and Constitution—in 2010. This fund has allowed the credit union system to absorb these losses over time. The Stabilization Fund is set to expire in 2021.

The National Credit Union Share Insurance Fund: This fund provides deposit insurance for member accounts at all credit unions that are federally insured. The Share Insurance Fund is funded by premiums paid by credit unions, which is one percent of the shares or deposits at credit unions. It is backed by the full faith and credit of the United States.

The Share Insurance Fund insures individual accounts up to \$250,000, and a member's interest in all joint accounts combined is insured up to \$250,000. The fund separately protects IRA and KEOGH retirement accounts up to \$250,000.

LIST OF ACRONYMS FOUND IN THE REPORT

AMAC	Asset Management and Assistance Center	FISCU	Federally Insured, State-chartered Credit Union
AME	Asset Management Estate	FISMA	Federal Information Security Management Act, Public Law 107-347
ASC	Accounting Standards Codification	FMFIA	Federal Managers' Financial Integrity Act of 1982, Public Law 97-255
C.F.R.	Code of Federal Regulations	GAAP	U.S. generally accepted accounting principles
CBA	NCUA's Collective Bargaining Agreement	HHS	Department of Health and Human Services
CDRLF	Community Development Revolving Loan Fund	LIBOR	Intercontinental Exchange London Interbank Offered Rate
CLF	Central Liquidity Facility	NCUA	National Credit Union Administration
CSA	Community Services Association	NCUSIF	National Credit Union Share Insurance Fund
CSRS	Civil Service Retirement System	NGN	NCUA Guaranteed Notes
CUMAA	Credit Union Membership Access Act of 1998, Public Law 105-219	NOL	Normal Operating Level
CUSO	Credit union service organization	NTEU	National Treasury Employees Union
DOL	U.S. Department of Labor	OF	Operating Fund
E&I	Office of Examination and Insurance	OIG	Office of Inspector General
EGRPRA	Economic Growth and Regulatory Paperwork Reduction Act	OMB	Office of Management and Budget
FASAB	Federal Accounting Standards Advisory Board	OPM	U.S. Office of Personnel Management
FASB	Financial Accounting Standards Board	OSCUI	Office of Small Credit Union Initiatives
FBWT	Fund Balance with Treasury	OTTI	other-than temporary impairment
FCU	Federal Credit Union	PACA	Public and Congressional Affairs
FECA	Federal Employees' Compensation Act	SBA	Small Business Administration
FERS	Federal Employees Retirement System	SFFAS	Statement of Federal Financial Accounting Standards
FFB	Federal Financing Bank	TCCUSF	Temporary Corporate Credit Union Stabilization Fund
FFIEC	Federal Financial Institutions Examination Council		

LIST OF SELECTED HYPERLINKS TO ADDITIONAL INFORMATION

- *2014–2017 Strategic Plan*
<https://www.ncua.gov/Legal/Documents/Reports/NCUAStrategicPlan2014-2017.pdf>
- *2016–2017 Annual Performance Plan*
<https://www.ncua.gov/About/Documents/Agenda%20Items/AG20151119Item2b.pdf>
- Exam Flexibility Initiative Working Group
<https://www.ncua.gov/About/Pages/open-government/exam-flexibility-initiative.aspx>
- Enterprise Solution Modernization Initiative
<https://www.ncua.gov/About/Documents/Agenda%20Items/AG20160324Item3a.pdf>
- Call Report Modernization Working Group
<https://www.ncua.gov/About/Pages/open-government/call-report-modernization.aspx>
- Press Release, Oct. 18, 2016, “NCUA to Repay Treasury in Full”
<https://www.ncua.gov/newsroom/Pages/news-2016-oct-ncua-to-repay-treasury.aspx>
- Corporate System Resolution Costs
<https://www.ncua.gov/regulation-supervision/Pages/corporate-system-resolution.aspx>
- 2016 Independent Audit of the Temporary Corporate Credit Union Stabilization Fund
<https://www.ncua.gov/About/Pages/inspector-general/audit-reports/Documents/oig-financial-statement-audits-tccusf-2016.pdf>
- Legal Recoveries from the Corporate Crisis webpage
<https://www.ncua.gov/regulation-supervision/Pages/corporate-system-resolution/legal-recoveries.aspx>
- MyCreditUnion.gov www.mycreditunion.gov
- Online *Examiner’s Guide* <https://publishedguides.ncua.gov/examiner/Pages/default.htm>
- Partnership for Public Service’s 2016 “Best Places to Work” Report
<http://bestplacestowork.org/BPTW/index.php>
- NCUA’s Budget and Supplementary Materials webpage <https://www.ncua.gov/About/Pages/budget-strategic-planning/supplementary-materials.aspx>
- *2017–2021 Strategic Plan*
<https://www.ncua.gov/About/Documents/Agenda%20Items/AG20160721Item2b.pdf>
- Office of Inspector General Report, OIG-16-08, “Independent Evaluation of the National Credit Union Administration’s Compliance with the Federal Information Security Modernization Act of 2014”
<https://www.ncua.gov/About/Pages/inspector-general/audit-reports/Documents/OIG-16-08-independent-evaluation-ncua-compliance-fisma-2014.pdf>



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Credit Union Investments:	(800) 755-5999	ocmpmail@ncua.gov
NCUA Consumer Assistance Center:	(800) 755-1030	
Report Improper or Illegal Activities:	(800) 778-4806	oigmail@ncua.gov
Share Insurance Hotline:	(877) 452-1463	ncusif@ncua.gov
Technical Support:	(800) 827-3255	csdesk@ncua.gov

Thank you for your interest in NCUA's *2016 Annual Report*. This report and prior annual reports are available on NCUA's website at <https://www.ncua.gov/NewsRoom/Pages/publications/annual-reports.aspx>.

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

NCUA's *2016 Annual Report* was produced through the energies and talents of NCUA staff, to whom we offer our most sincere thanks and acknowledgement. We would also like to acknowledge NCUA's Office of Inspector General for the professional manner in which they conducted the audit of the 2016 financial statements.

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