

DOMINION ENERGY CREDIT UNION

FINANCIAL REPORT

December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Supervisory Committee
of Dominion Energy Credit Union
Richmond, Virginia

We have audited the accompanying financial statements of Dominion Energy Credit Union, which comprise the statements of financial condition as of December 31, 2017 and 2016, and the related statements of income and comprehensive income (loss), changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dominion Energy Credit Union as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
March 8, 2018

DOMINION ENERGY CREDIT UNION

STATEMENTS OF FINANCIAL CONDITION

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 1,417,304	\$ 7,139,930
Certificates of deposit	600,000	600,000
Investments available-for-sale (Note 2)	127,219,671	133,530,220
Other investments (Note 3)	1,052,491	1,285,099
Loans to members, net of allowance for loan losses (Note 4)	154,500,327	135,912,620
Accrued interest receivable	785,923	701,989
Leaseholds and equipment (Note 5)	1,542,240	1,008,809
NCUSIF deposit	2,425,599	2,231,156
Other assets	238,334	333,355
Total assets	<u>\$ 289,781,889</u>	<u>\$ 282,743,178</u>
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' deposit accounts (Note 6)	\$ 255,160,454	\$ 242,607,109
Lines of credit (Note 8)	182,515	7,000,000
Accrued expenses and other liabilities	1,860,364	1,647,350
Total liabilities	257,203,333	251,254,459
MEMBERS' EQUITY (Note 12)		
Regular reserve	2,229,057	2,229,057
Undivided earnings	31,674,531	29,944,706
Accumulated other comprehensive income (loss)	(1,325,032)	(685,044)
Total members' equity	<u>32,578,556</u>	<u>31,488,719</u>
Total liabilities and members' equity	<u>\$ 289,781,889</u>	<u>\$ 282,743,178</u>

The Notes to Financial Statements are an integral part of these statements.

DOMINION ENERGY CREDIT UNION

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (LOSS)
Years Ended December 31, 2017 and 2016

	2017	2016
INTEREST INCOME		
Loans receivable	\$ 6,638,774	\$ 5,780,270
Investments	1,806,608	1,623,221
Total interest income	8,445,382	7,403,491
INTEREST EXPENSE		
Dividends on members' shares and savings accounts	1,737,313	1,324,670
Interest expense	20,956	22,424
Total interest expense	1,758,269	1,347,094
Net interest income	6,687,113	6,056,397
PROVISION FOR LOAN LOSSES (Note 4)	330,000	352,000
Net interest income after provision for loan losses	6,357,113	5,704,397
NON-INTEREST INCOME		
Fees and charges	2,131,945	2,112,854
Gain on sale of mortgages	3,367	2,595
Gain on sale of investments	-	102,152
Total non-interest income	2,135,312	2,217,601
NON-INTEREST EXPENSES		
Compensation and benefits (Note 7)	3,032,671	2,778,790
Office and operating expenses	3,729,929	3,578,348
Total non-interest expense	6,762,600	6,357,138
Net income	1,729,825	1,564,860
OTHER COMPREHENSIVE INCOME		
Unrealized loss on investments available-for-sale	(639,988)	(184,616)
Reclassification adjustment for gains included in net income	-	(102,152)
Other comprehensive income (loss)	(639,988)	(286,768)
Total comprehensive income	\$ 1,089,837	\$ 1,278,092

The Notes to Financial Statements are an integral part of these statements.

DOMINION ENERGY CREDIT UNION

STATEMENTS OF CHANGES IN MEMBERS' EQUITY
Years Ended December 31, 2017 and 2016

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, December 31, 2015	\$ 2,229,057	\$ 28,379,846	\$ (398,276)	\$ 30,210,627
Net income	-	1,564,860	-	1,564,860
Other comprehensive loss	-	-	(286,768)	(286,768)
BALANCE, December 31, 2016	2,229,057	29,944,706	(685,044)	31,488,719
Net income	-	1,729,825	-	1,729,825
Other comprehensive loss	-	-	(639,988)	(639,988)
BALANCE, December 31, 2017	<u>\$ 2,229,057</u>	<u>\$ 31,674,531</u>	<u>\$ (1,325,032)</u>	<u>\$ 32,578,556</u>

The Notes to Financial Statements are an integral part of these statements.

DOMINION ENERGY CREDIT UNION

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	2017	2016
OPERATING ACTIVITIES		
Net income	\$ 1,729,825	\$ 1,564,860
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	441,446	351,968
Provision for loan losses	330,000	352,000
Realized gain on sale of investments	-	(102,152)
Amortization of investment discounts and premiums, net	290,139	370,864
Accretion of deferred loan fees and costs, net	(3,725)	983
(Increase) decrease in:		
Accrued interest receivable	(83,934)	(30,125)
Other assets	95,021	(35,898)
Increase in accrued expenses and other liabilities	167,213	169,969
Net cash provided by operating activities	2,965,985	2,642,469
INVESTING ACTIVITIES		
Purchases of investments available-for-sale	(45,619,578)	(21,085,193)
Proceeds from investments available-for-sale	51,000,000	23,822,600
Increase in other investments	232,608	(127,487)
Increase in loans to members, net	(18,913,982)	(19,446,841)
Purchases of leaseholds and equipment	(929,076)	(288,501)
Increase in NCUSIF deposit	(194,443)	(34,731)
Net cash used in investing activities	(14,424,471)	(17,160,153)
FINANCING ACTIVITIES		
Increase in members' shares, net	12,553,345	12,949,118
Line of credit advances (payments), net	(6,817,485)	2,000,000
Net cash provided by financing activities	5,735,860	14,949,118
Net (decrease) increase in cash and cash equivalents	(5,722,626)	431,434
CASH AND CASH EQUIVALENTS		
Beginning	7,139,930	6,708,496
Ending	\$ 1,417,304	\$ 7,139,930
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest and dividends paid	\$ 1,759,811	\$ 1,347,508
Equipment financed by accounts payable	\$ 154,819	\$ 109,018

The Notes to Financial Statements are an integral part of these statements.

DOMINION ENERGY CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 1. Nature of Business and Organization and Significant Accounting Policies

Dominion Energy Credit Union (the “Credit Union”) is headquartered in Richmond, Virginia and was organized and chartered in 1940 for the purpose of promoting thrift among its members and creating a source of credit for provident and productive purposes. The Credit Union accepts members’ deposits, originates and services consumer and real estate loans, and provides other member services. Participation in the Credit Union is limited to those individuals who qualify for membership as defined in its charter and bylaws.

Cash and Cash Equivalents

For purposes of the Statements of Financial Condition and the Statements of Cash Flows, cash and cash equivalents consist of cash on hand, demand deposits in other financial institutions (including cash items in process of collection), and certificates of deposit with original maturities of three months or less. Interest bearing cash equivalent balances at December 31, 2017 and 2016 totaled \$918,458 and \$6,656,623. Cash and cash equivalents restricted for compensating balances at December 31, 2017 and 2016 were \$168,500 and \$140,900, respectively.

Certificates of Deposit

The Credit Union’s certificates of deposit consist of non-negotiable certificates and are reported at face amounts which are not materially different than fair value.

Investments

Debt and mutual fund securities are classified as available-for-sale and are carried at fair value. Unrealized gains and losses on available-for-sale securities are excluded from earnings and reported in other comprehensive income. Amortization of premiums and accretion of discounts is performed using methods approximating the interest method. Gains and losses on dispositions of securities are computed using the specific identification method.

Other Investments

Investments that are required to be maintained in order for the Credit Union to participate in the services of credit union service organizations, corporate credit unions, and the Federal Home Loan Bank of Atlanta are recorded as other investments. No market value exists for these investments. These investments are carried at cost.

The Credit Union’s access to a corporate credit union requires that a membership share deposit be maintained for full participation as a member credit union. The membership shares in the corporate credit union are uninsured and require a three-year notice before withdrawal.

(Continued)

DOMINION ENERGY CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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

Loans Receivable

Loans receivable are stated at the amount of unpaid principal, net of deferred loan origination fees, and allowance for loan losses. Interest on loans is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding. Loan origination fees are deferred, and are recognized as an adjustment to interest income over the estimated life of the loans to which they relate.

Loans Held For Sale

Mortgage loans held for sale, where the Credit Union has a positive intent to sell these loans, are initially recorded at the principal amount outstanding. Generally these loans are sold within fifteen days of the mortgage loan commitment. The Credit Union evaluates the fair value of these loans prior to the respective year ends. If the difference in the principal amount and the fair value amount of these loans are deemed material by the Credit Union, the loans are adjusted to the lower of the principal amount outstanding or market value. As of December 31, 2017 and 2016, there were no mortgages held for sale.

Real estate loans totaling \$336,700 were originated for sale and sold during 2017, with gross gains of \$3,367 realized. Real estate loans totaling \$259,500 were originated for sale and sold during 2016, with gross gains of \$2,595 realized.

Troubled Debt Restructurings

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

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the loan balance cannot be collected. Subsequent recoveries, if any, are credited to the allowance.

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DOMINION ENERGY CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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

Allowance for Loan Losses (Continued)

The Credit Union generally fully or partially charges down to the fair value of collateral securing the loan, if any, when (1) the loan is past due more than 365 days; (2) the member has filed bankruptcy and the loss becomes evident owing to a lack of assets; or (3) management judges the loan to be uncollectible.

The Credit Union's allowance for loan losses is that amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the loan portfolio. Such evaluations consider prior loss experience and the levels of nonperforming loans. In this process, segment loss rates are developed based on an analysis of the historical charge-off experience for the most recent eight calendar quarters. The loss rates are then applied to the portfolio segments. Management performs this evaluation quarterly. Due to the nature of uncertainties related to any estimation process, management's estimate of loan losses inherent in the portfolio and the related allowance for loan losses may change in the near-term.

The Credit Union groups loans into segments according to loan type. This is the level at which the Credit Union develops the allowance for loan losses. The degree of risk varies by loan segment, but for all loans is dependent upon the capacity of the borrower to repay the loan. The segments are as follows:

Unsecured Loans: Unsecured loans generally do not require collateral.

Visa Loans: Credit card loans generally do not require collateral.

Vehicle Loans: Vehicle loans are generally secured by new and used automobiles. The degree of risk for vehicle loans also depends on the loan amount in relation to the collateral value (LTV). The higher the LTV, the higher degree of risk is assumed.

Real Estate Loans: Real estate loans include first trust mortgage loans, home equity mortgage loans, and second trust mortgage loans. The degree of risk for real estate loans also depends on the loan amount in relation to the collateral value (LTV). The higher the LTV, the higher degree of risk is assumed. Private mortgage insurance (PMI) reduces the degree of LTV risk. Home equity mortgage loans and second trust mortgage loans represent greater risk than first trust mortgage loans because these loans are in the second position and they do not generally require PMI.

Other Loans: Other loans include share and certificate secured loans and recreational vehicle loans. Share and certificate loans represent a lower degree of risk to the Credit Union as the loans are generally secured by the borrower's deposit account at the Credit Union. The degree of risk for recreational vehicle loans also depends on the loan amount in relation to the collateral value (LTV). The higher the LTV, the higher degree of risk is assumed.

Other loans also include Troubled Debt Restructuring Loans (TDR). These loans are generally unsecured and do not have collateral.

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DOMINION ENERGY CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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

Leaseholds and Equipment

Leaseholds and equipment are stated at cost, less accumulated amortization and depreciation. Depreciation is calculated and recorded using the straight-line method over the estimated useful lives of the various assets.

NCUSIF Deposit and Premiums

The deposit in the NCUSIF is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured deposits. The deposit would be refunded to the Credit Union if: (1) the insurance coverage is terminated; (2) the Credit Union converts to insurance coverage from another source; or (3) the operations of the fund are transferred from the NCUA Board.

Members' Deposit Accounts

Members' deposit accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' deposit accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on members' deposit accounts are set by the Credit Union's Asset Liability Management Committee, based on an evaluation of current and future market conditions.

Members' Equity

The Credit Union is required by regulation to maintain a statutory reserve (regular reserve), which represents a regulatory restriction of members' equity, and which is not available for the payment of interest on deposit accounts. Other appropriated members' equity amounts may be established or transferred at the discretion of the Board of Directors.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income, which includes unrealized gains and losses on investments available-for-sale.

Income Taxes

The Credit Union is exempt by statute from federal and state income taxes except for net taxable income from certain products and services such as nonmember ATM transactions, credit life, and disability income. These services have been deemed by the Internal Revenue Service to be unrelated to the Credit Union's exempt purpose, and thus subject to income taxes under the Unrelated Business Income Tax (UBIT) regulations. The Credit Union expects any tax payable as of December 31, 2017 to be immaterial.

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DOMINION ENERGY CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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

Off-balance Sheet Credit-related Financial Instruments

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

Advertising Costs

The Credit Union charges advertising costs to expense as incurred. Advertising expense was approximately \$286,000 and \$264,000 for 2017 and 2016, respectively.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and in the accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan loss and the valuation of securities.

Subsequent Events

The Credit Union has evaluated subsequent events through March 8, 2018, the date on which the financial statements were available to be issued, and management is not aware of any subsequent event which requires recognition or disclosure in these financial statements.

(Continued)

DOMINION ENERGY CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 2. Investments Available-for-Sale

A summary of the amortized cost, gross unrealized gains and losses, and fair values of available-for-sale securities is summarized as follows:

December 31, 2017

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	\$ 26,969,182	\$ -	\$ (190,882)	\$ 26,778,300
U.S. government corporation and agency securities	101,575,521	-	(1,134,150)	100,441,371
Total available-for-sale securities	<u>\$ 128,544,703</u>	<u>\$ -</u>	<u>\$ (1,325,032)</u>	<u>\$ 127,219,671</u>

December 31, 2016

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	\$ 21,099,724	\$ 14,318	\$ (50,832)	\$ 21,063,210
U.S. government corporation and agency securities	113,115,540	105,687	(754,217)	112,467,010
Total available-for-sale securities	<u>\$ 134,215,264</u>	<u>\$ 120,005</u>	<u>\$ (805,049)</u>	<u>\$ 133,530,220</u>

The amortized cost and fair value of available-for-sale securities as of December 31, 2017 by contractual maturity is summarized as follows:

	Amortized Cost	Fair Value
Due within one year	\$ 41,022,653	\$ 40,911,530
Due after one year through five years	87,522,050	86,308,141
	<u>\$ 128,544,703</u>	<u>\$ 127,219,671</u>

DOMINION ENERGY CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 2. Investments Available-for-Sale (Continued)

Information pertaining to available-for-sale securities with gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is summarized as follows:

December 31, 2017

	Less than 12 Months		12 Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and U.S. government corporation and agency securities	\$ 67,856,150	\$ 632,341	\$ 59,363,521	\$ 692,691

December 31, 2016

	Less than 12 Months		12 Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and U.S. government corporation and agency securities	\$ 23,440,950	\$ 615,830	\$ 62,906,620	\$ 189,219

Credit Union management evaluates investments for other-than-temporary impairment on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

No investments were considered by management to have experienced other-than-temporary impairment as of December 31, 2017 and 2016.

No investments were sold in 2017 with realized gains or losses. Investments totaling \$6,078,900 were sold during 2016, with gross gains of \$102,152 realized on those sales.

Note 3. Other Investments

Other investments carried at cost are summarized as follows:

	2017	2016
Corporate credit union membership shares	\$ 250,000	\$ 250,000
FHLB stock and DIA Investment	297,100	537,200
Investments in credit union service organizations	505,391	497,899
	\$ 1,052,491	\$ 1,285,099

(Continued)

DOMINION ENERGY CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 4. Loans Receivable

Loans receivable are summarized as follows:

	2017	2016
Unsecured	\$ 5,341,310	\$ 4,614,436
VISA	15,225,131	15,154,122
Vehicle	58,434,513	52,927,194
Real estate	74,330,331	61,901,683
Other	1,899,467	1,992,384
	155,230,752	136,589,819
Allowance for loan losses	(694,539)	(637,588)
Deferred loan fees	(35,886)	(39,611)
Loans receivable, net	\$ 154,500,327	\$ 135,912,620

Changes in the allowance for loan losses by loan segment and loans receivable evaluated for impairment is summarized below:

	December 31, 2017					
	Unsecured	VISA	Vehicle	Real Estate	Other	Total
<u>Allowance for loan losses:</u>						
Balance, beginning of year	\$ 61,603	\$ 117,870	\$ 273,420	\$ 150,312	\$ 34,383	\$ 637,588
Loans charged-off	(104,985)	(201,652)	(213,289)	-	(41,913)	(561,839)
Recoveries of loans charged-off	25,219	77,112	142,041	17,539	26,879	288,790
Provision for loan losses	78,203	81,682	132,295	554	37,266	330,000
Balance, end of year	\$ 60,040	\$ 75,012	\$ 334,467	\$ 168,405	\$ 56,615	\$ 694,539
Loans individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ 10,938	\$ 10,938
Loans collectively evaluated for impairment	60,040	75,012	334,467	168,405	45,677	683,601
Balance, end of year	\$ 60,040	\$ 75,012	\$ 334,467	\$ 168,405	\$ 56,615	\$ 694,539
<u>Loans receivable:</u>						
Loans individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ 54,429	\$ 54,429
Loans collectively evaluated for impairment	5,341,310	15,225,131	58,434,513	74,330,331	1,845,038	155,176,323
Ending balance	\$ 5,341,310	\$ 15,225,131	\$ 58,434,513	\$ 74,330,331	\$ 1,899,467	\$ 155,230,752

As of December 31, 2017, management has identified \$54,429 as TDR loans and these are included in the loan segment "Other." Management believes a specific allowance is needed for these loans, and such allowance was estimated to be \$10,938.

(Continued)

DOMINION ENERGY CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

Note 4. Loans Receivable (Continued)

	December 31, 2016					
	Unsecured	VISA	Vehicle	Real Estate	Other	Total
<u>Allowance for loan losses:</u>						
Balance, beginning of year	\$ 51,117	\$ 192,154	\$ 196,170	\$ 153,490	\$ 43,903	\$ 636,834
Loans charged-off	(87,276)	(122,318)	(267,472)	(17,389)	(48,732)	(543,187)
Recoveries of loans charged-off	13,891	42,417	85,283	2,171	48,179	191,941
Provision for loan losses	83,871	5,617	259,439	12,040	(8,967)	352,000
Balance, end of year	<u>\$ 61,603</u>	<u>\$ 117,870</u>	<u>\$ 273,420</u>	<u>\$ 150,312</u>	<u>\$ 34,383</u>	<u>\$ 637,588</u>
Loans individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ 4,700	\$ 4,700
Loans collectively evaluated for impairment	61,603	117,870	273,420	150,312	29,683	632,888
Balance, end of year	<u>\$ 61,603</u>	<u>\$ 117,870</u>	<u>\$ 273,420</u>	<u>\$ 150,312</u>	<u>\$ 34,383</u>	<u>\$ 637,588</u>
<u>Loans receivable:</u>						
Loans individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ 33,800	\$ 33,800
Loans collectively evaluated for impairment	4,614,436	15,154,122	52,927,194	61,901,683	1,958,584	136,556,019
Ending balance	<u>\$ 4,614,436</u>	<u>\$ 15,154,122</u>	<u>\$ 52,927,194</u>	<u>\$ 61,901,683</u>	<u>\$ 1,992,384</u>	<u>\$ 136,589,819</u>

As of December 31, 2016, management has identified \$33,800 as TDR loans and these are included in the loan segment "Other". Management believes a specific allowance is needed for these loans, and such allowance was estimated to be \$4,700.

The Credit Union assigns an internal grade to loans based upon its evaluation of recent credit scores of borrowers. A grade of high, moderate, or low is assigned to each borrower's loan. The borrower's credit scores that were used to develop the internal grades were updated on September 30, 2017 and September 30, 2016, respectively. The Credit Union's historical loss experience indicates that the likelihood of loan charge-offs (loan losses) is greater for loans graded high as compared to those graded moderate and low. However, historical performance is not necessarily indicative of future results.

Loans receivable by internally assigned risk grade are summarized below:

	December 31, 2017					
	Unsecured	VISA	Vehicle	Real Estate	Other	Total
Low	\$ 2,751,696	\$ 12,714,629	\$ 43,212,751	\$ 61,856,813	\$ 933,755	\$ 121,469,644
Moderate	1,584,519	1,893,271	9,221,039	3,613,500	441,438	16,753,767
High	1,005,095	617,231	6,000,723	8,860,018	524,274	17,007,341
	<u>\$ 5,341,310</u>	<u>\$ 15,225,131</u>	<u>\$ 58,434,513</u>	<u>\$ 74,330,331</u>	<u>\$ 1,899,467</u>	<u>\$ 155,230,752</u>

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DOMINION ENERGY CREDIT UNION

**NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

Note 4. Loans Receivable (Continued)

	December 31, 2016					
	Unsecured	VISA	Vehicle	Real Estate	Other	Total
Low	\$ 2,186,034	\$ 12,168,198	\$ 37,661,912	\$ 51,623,660	\$ 963,358	\$ 104,603,162
Moderate	1,363,030	2,025,072	8,612,740	2,887,106	422,818	15,310,766
High	1,065,372	960,852	6,652,542	7,390,917	606,208	16,675,891
	<u>\$ 4,614,436</u>	<u>\$ 15,154,122</u>	<u>\$ 52,927,194</u>	<u>\$ 61,901,683</u>	<u>\$ 1,992,384</u>	<u>\$ 136,589,819</u>

The aging of loans receivable is summarized below:

	December 31, 2017					
	Current	1-30 Days Past Due	31-60 Days Past Due	61-90 Days Past Due	91 Days or More Past Due	Total Loans
	Unsecured	\$ 5,237,149	\$ 44,508	\$ 17,769	\$ 31,343	\$ 10,541
VISA	14,919,917	172,912	72,294	2,642	57,366	15,225,131
Vehicle	57,564,702	312,411	225,036	171,342	161,022	58,434,513
Real estate	74,115,175	177,538	-	-	37,618	74,330,331
Other	1,822,663	38,732	20,490	12,239	5,343	1,899,467
	<u>\$ 153,659,606</u>	<u>\$ 746,101</u>	<u>\$ 335,589</u>	<u>\$ 217,566</u>	<u>\$ 271,890</u>	<u>\$ 155,230,752</u>

	December 31, 2016					
	Current	1-30 Days Past Due	31-60 Days Past Due	61-90 Days Past Due	91 Days or More Past Due	Total Loans
	Unsecured	\$ 4,523,646	\$ 27,771	\$ 14,588	\$ 30,031	\$ 18,400
VISA	14,784,140	171,050	89,380	18,406	91,146	15,154,122
Vehicle	51,755,782	595,641	165,382	241,850	168,539	52,927,194
Real estate	61,621,704	216,067	-	-	63,912	61,901,683
Other	1,911,250	28,698	21,409	15,199	15,828	1,992,384
	<u>\$ 134,596,522</u>	<u>\$ 1,039,227</u>	<u>\$ 290,759</u>	<u>\$ 305,486</u>	<u>\$ 357,825</u>	<u>\$ 136,589,819</u>

The Credit Union discontinues the accrual of interest on a loan when the loan becomes thirty-one days delinquent. Income is subsequently recognized only to the extent cash loan payments are received until, in management's judgment, the borrower's ability to make periodic interest and principal payments has resumed, in which case the loan is returned to an accrual status. The Credit Union considers loans as performing if they are less than 31 days delinquent.

(Continued)

DOMINION ENERGY CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 4. Loans Receivable (Continued)

The aggregate amount of loans on which the accrual of interest has been discontinued at December 31, 2017 and 2016 was \$825,044 and \$954,039, respectively. Had interest income been recognized for these loans as of December 31, 2017 and 2016, it would have approximated \$16,086 and \$20,837, respectively.

As of December 31, 2017 and 2016, the Credit Union did not have any loans that were more than thirty-one days past due that were accruing interest.

The credit risk profile by payment activity for each segment of loans receivable is summarized below:

	December 31, 2017					
	<u>Unsecured</u>	<u>VISA</u>	<u>Vehicle</u>	<u>Real Estate</u>	<u>Other</u>	<u>Total</u>
Performing	\$ 5,371,657	\$ 15,092,830	\$ 57,877,113	\$ 74,292,713	\$ 1,861,395	\$ 154,495,708
Non-performing	59,653	132,301	557,400	37,618	38,072	825,044
	<u>\$ 5,431,310</u>	<u>\$ 15,225,131</u>	<u>\$ 58,434,513</u>	<u>\$ 74,330,331</u>	<u>\$ 1,899,467</u>	<u>\$ 155,320,752</u>

	December 31, 2016					
	<u>Unsecured</u>	<u>VISA</u>	<u>Vehicle</u>	<u>Real Estate</u>	<u>Other</u>	<u>Total</u>
Performing	\$ 4,551,417	\$ 14,955,190	\$ 52,351,424	\$ 61,837,771	\$ 1,939,948	\$ 135,635,750
Non-performing	63,019	198,932	575,770	63,912	52,436	954,069
	<u>\$ 4,614,436</u>	<u>\$ 15,154,122</u>	<u>\$ 52,927,194</u>	<u>\$ 61,901,683</u>	<u>\$ 1,992,384</u>	<u>\$ 136,589,819</u>

Note 5. Leaseholds and Equipment

Leaseholds and equipment are summarized as follows:

	<u>2017</u>	<u>2016</u>
Leasehold improvements	\$ 504,180	\$ 493,494
Furniture and equipment	3,507,364	2,576,709
	4,011,544	3,070,203
Less accumulated amortization and depreciation	<u>(2,469,304)</u>	<u>(2,061,394)</u>
	<u>\$ 1,542,240</u>	<u>\$ 1,008,809</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$441,446 and \$351,968, respectively, and is included in occupancy and office operations expenses.

(Continued)

DOMINION ENERGY CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 6. Members' Deposit Accounts

Members' deposit accounts are summarized as follows:

	<u>2017</u>	<u>2016</u>
Regular and club shares	\$ 78,272,193	\$ 75,899,977
Draft shares	23,092,843	24,603,035
Money market shares	101,890,700	89,847,802
Share certificates	<u>51,904,718</u>	<u>52,256,295</u>
	<u>\$ 255,160,454</u>	<u>\$ 242,607,109</u>

Scheduled maturities of share certificate accounts at December 31, 2017 are summarized as follows:

Years ending December 31:	
2018	\$ 27,862,949
2019	7,727,094
2020	4,727,505
2021	4,998,388
2022	<u>6,588,782</u>
	<u>\$ 51,904,718</u>

The aggregate amount of members' term deposit accounts over \$250,000 at December 31, 2017 and 2016 was \$12,330,015 and \$11,133,501, respectively.

Note 7. Employee Benefit Plans

Defined Benefit Plan

The Credit Union participates in a defined benefit retirement plan sponsored by Dominion Energy. Pension expense for the years ended December 31, 2017 and 2016 was \$316,235 and \$243,490, respectively, which is based on rates established by Dominion Energy. The Credit Union's contributions are such that the pension obligation is entirely the responsibility of Dominion Energy, which retains all risk relative to asset returns, interest rate changes, and the effects of other trends. No asset or liability has been recorded by the Credit Union for the pension obligation, and upon retirement all benefits are provided by Dominion Energy.

Defined Contribution Plan

The Credit Union participates in a defined contribution retirement plan sponsored by Dominion Energy. Pension expense for the years ended December 31, 2017 and 2016 was \$55,824 and \$53,052, respectively.

(Continued)

DOMINION ENERGY CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 7. Employee Benefit Plans (Continued)

Postretirement Health Benefit Plan

The Credit Union participates in a postretirement health benefit plan sponsored by Dominion Energy. In the fourth quarter of 2013, Dominion amended the plan to change the medical coverage for certain Medicare-eligible retirees effective April 2014. The net periodic benefit credit for 2017 and 2016 totaled \$199,565 and \$167,259, respectively. The Credit Union's arrangements for other postretirement health benefits, as with the pension plan, result in no asset or liability recorded by the Credit Union. Upon retirement, all benefits are provided by Dominion Energy.

Note 8. Lines of Credit

The Credit Union maintains a line of credit with a Corporate Credit Union totaling \$10,500,000, collateralized by the deposit account assets of the Credit Union to the extent of the borrowings outstanding. The Credit Union had an outstanding balance of \$182,515 and \$0- at December 31, 2017 and 2016.

The Credit Union is also a member of the Federal Home Loan Bank (FHLB) System which provides approved borrowing opportunities based on total assets of the Credit Union and is secured by the Credit Union's loan portfolio and \$12,000,000 in securities held in safekeeping with the FHLB. The total credit available at December 31, 2017 totaled \$74,111,250 and \$61,585,750 at December 31, 2016. Terms vary depending on the type of lending needed. The Credit Union had an outstanding balance due to the FHLB System of \$0- and \$7,000,000 at December 31, 2017 and 2016, respectively.

The Credit Union is also a member of the Federal Reserve Bank of Richmond (FRB) System which provides approved borrowing through its discount window and is secured by United States government agency securities in the amount of \$12,000,000 held in safekeeping with the FRB. The total credit available was \$11,602,149 and \$11,743,448 at December 31, 2017 and 2016, respectively. The Credit Union had no outstanding balance due to the FRB System at December 31, 2017 or 2016.

Note 9. Related Party Transactions

Loans to Credit Union officials and senior executive staff as of December 31, 2017 and 2016 amounted to \$302,922 and \$269,001, respectively, and are made on the same terms and conditions as loans made to other members.

Deposit accounts of Credit Union officials and senior executive staff as of December 31, 2017 and 2016 amounted to \$2,098,641 and \$1,349,004, respectively.

(Continued)

DOMINION ENERGY CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 10. Commitments, Concentrations, and Contingencies

Lease Commitment

Minimum annual branch operating lease commitments at December 31, 2017 are summarized as follows:

Years ending December 31:		
2018	\$	205,916
2019		205,916
2020		205,916
2021		<u>205,916</u>
	<u>\$</u>	<u>823,664</u>

Rent expense for 2017 and 2016 was \$205,479 and \$200,613, respectively.

Credit Extension Commitment

Commitments to extend credit are off-balance sheet agreements to extend credit to a member as long as there is no violation of any condition established in the lending contract. These commitments represent agreements to extend credit on home equity and credit card lines of credit that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recorded in the financial statements. The Credit Union's exposure to credit loss in the event of nonperformance by the member to the financial instrument for commitments to extend credit is represented by the commitment amount of these instruments noted below.

For each commitment to extend credit, the Credit Union evaluates the member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Credit Union upon extension of the commitment, is based on the type of commitment and management's credit evaluation of the member. Collateral, if required, varies but generally includes residential real estate for home equity commitments. The commitments for lines of credit established for credit card accounts are unsecured and require no collateral.

A summary of the Credit Union's credit commitments is as follows:

	<u>2017</u>	<u>2016</u>
Home equity	\$ 4,745,721	\$ 4,816,824
Credit card	<u>58,213,787</u>	<u>54,711,469</u>
	<u>\$ 62,959,508</u>	<u>\$ 59,528,293</u>

(Continued)

DOMINION ENERGY CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 10. Commitments, Concentrations, and Contingencies (Continued)

Mortgage Loan Sale Commitment

As of December 31, 2017 and 2016, the Credit Union did not have any commitments to sell mortgage loans.

Investment Security Concentration

At December 31, 2017, the Credit Union's investment of \$127,219,671 in government sponsored enterprise securities is concentrated as follows:

	<u>Percentage</u>	<u>Amount</u>
U.S. Treasury	21%	\$ 26,778,300
Federal Agriculture Mortgage Corporation	16	20,862,990
Federal Farm Credit Bank	9	11,890,290
Federal Home Loan Bank	30	38,176,700
Federal Home Loan Mortgage Corporation	12	14,851,320
Federal National Mortgage Association	12	14,660,071
	<u>100%</u>	<u>\$ 127,219,671</u>

At December 31, 2016, the Credit Union's investment of \$133,530,220 in government sponsored enterprise securities is concentrated as follows:

	<u>Percentage</u>	<u>Amount</u>
U.S. Treasury	16%	\$ 21,063,210
Federal Agriculture Mortgage Corporation	19	24,897,090
Federal Farm Credit Bank	10	13,963,700
Federal Home Loan Bank	37	49,941,950
Federal Home Loan Mortgage Corporation	7	9,018,390
Federal National Mortgage Association	11	14,645,880
	<u>100%</u>	<u>\$ 133,530,220</u>

U.S. government corporation and agency securities are not an obligation of, and are not guaranteed by, the U.S. government.

Geographical Concentration

The Credit Union has a significant concentration of loans to members residing and employed in the Richmond, Virginia metropolitan area. Although the Credit Union has a diversified loan portfolio, a substantial portion of its members' ability to honor their contracts is dependent upon the condition of the local economies within the Richmond, Virginia metropolitan area.

(Continued)

DOMINION ENERGY CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 10. Commitments, Concentrations, and Contingencies (Continued)

Sponsor Concentration

The Credit Union has a significant concentration of loans to members employed at Dominion Energy. Although the Credit Union has a diversified loan portfolio, a substantial portion of its members' ability to honor their contracts is dependent upon the employment stability of this company.

Note 11. Fair Value of Financial Instruments

Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The *Codification* requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability which are developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability which are developed based on the best information available in the circumstances.

In that regard, the *Codification* establishes a fair value hierarchy for valuation inputs that give the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

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

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

(Continued)

DOMINION ENERGY CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 11. Fair Value of Financial Instruments (Continued)

The following methods were used by the Credit Union in estimating fair values of financial instruments:

Investments Available-for-Sale: The fair value of available-for-sale investment securities is estimated based on quoted prices for similar assets quoted by recognized investment broker dealers. This estimate is classified as Level 2 within the valuation hierarchy.

The following table summarizes the investments available-for-sale measured at fair value on a recurring basis as of December 31, 2017 and 2016, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

December 31, 2017

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments available-for-sale	\$ 127,219,671	\$ -	\$ 127,219,671	\$ -

December 31, 2016

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments available-for-sale	\$ 133,530,220	\$ -	\$ 133,530,220	\$ -

Changes in Fair Value Hierarchy

At each reporting date, the Credit Union assesses the classification of the financial instruments measured at fair value. The assessment of the classification in the fair value hierarchy requires judgment, for example the importance of unobservable inputs used in determining the fair value. As a result, the outcome of the classification process may differ between reporting periods. There have been no changes in the classification process or valuation techniques used to measure Level 2 and Level 3 instruments during the period.

Nonrecurring Measurements

The Credit Union may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. Assets measured at fair value on a nonrecurring basis that were still held in the balance sheet at year-end include impaired loans, which are discussed in Note 4.

(Continued)

DOMINION ENERGY CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 12. Regulatory Capital Requirements

The Credit Union is subject to regulatory net worth ratio requirements administered by the NCUA. In addition, the regulators have also established Risk Based Net Worth (RBNW) requirements for complex credit unions, based on risk-weighting formulas on specific assets, liabilities, and off-balance sheet items which qualify under the regulations. Failure to meet minimum regular net worth ratio requirements, or adjusted net worth due to RBNW requirements, can initiate certain actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum ratios of net worth to assets (as defined in the regulations). The minimum regular net worth ratio to be considered well capitalized is 7% for a non-complex credit union. If a credit union's RBNW ratio exceeds 6%, it is considered complex, and the minimum regular net worth ratio requirement of 7% is changed based on the RBNW ratio requirement. As of December 31, 2017, the Credit Union's RBNW ratio was 6.44% and therefore, it was considered a complex credit union. The Credit Union's net worth ratio as of December 31, 2017 was 11.69% and it was considered to be well capitalized.

The Credit Union's actual capital amounts and ratios are presented in the following table at December 31:

	2017		2016	
	Amount	Ratio Requirement	Amount	Ratio Requirement
Risk-based net worth	\$ 18,661,954	6.44%	\$ 16,116,361	5.70%
Amount needed to be classified as "well capitalized"	\$ 18,661,954	6.44%	\$ 16,116,361	5.70%
Actual net worth	\$ 33,903,594	11.69%	\$ 32,173,766	11.71%

As of December 31, 2017, in performing its calculation of total assets, the Credit Union used the total assets at quarter-end which was \$289,831,787.

As of December 31, 2016, in performing its calculation of total assets, the Credit Union used the average assets of the current and three preceding quarter-ends which was \$274,596,304.