EXCEEDINGEXPECTATIONS
2013ANNUALREPORT

Farmers Insurance Group
Federal Credit Union

EXCEEDINGEXPECTATIONS
2013ANNUAL**REPORT**

TABLE OF CONTENTS

Financial Highlights **2010-2013**

$80,863,746
2013

$77,118,494
2012

$72,500,581
2011

$64,077,271
2010

Retained Earnings

$3,745,252
2013

$4,617,913
2012

$8,423,310
2011

$4,089,775
2010

Net Income

$517,060,869
2013

$481,127,580
2012

$472,678,960
2011

$467,889,524
2010

Total Net Loans

$543,175,430
2013

$527,632,525
2012

$503,717,346
2011

$513,535,643
2010

Member Shares

Letter from the **Chairman of the Board**

I am deeply honored to have assumed the position of Chairman of the Board. On behalf of the Board of Directors, I would like to thank Laszlo Heredy for the exemplary stewardship he has given us over the last 22 years, 17 of those as Chairman. With his leadership, FIGFCU has become one of the most valued employee benefits provided to the Farmers family. You have my assurance that I will continue putting the financial needs of our members first, just as Mr. Heredy did.

You, our member/owners, are the reason we continue to hold steadfast to our mission of enhancing the quality of your financial lives. Your Credit Union has delivered on that mission in 2013 by achieving gross income of $38,197,000 and a net income of $3,745,000. We continued our desired growth in net worth, ending the year with an impressive 12.8%, which translates to being one of the best capitalized credit unions in the country. This allows us to continue to invest in products and services that fulfill the financial needs of our growing membership.

As you know, your Credit Union is different from any bank in that profits are returned to our member/owners, unlike a bank that gives back to its stockholders, not its customers. Our strong earnings provided us with the opportunity to award our loyal members with cash bonuses and incentives throughout the year. In 2013, we gave back over $2.1 million through rebates on loans, lower loan rates, special discounts, cash bonuses and higher dividend rates.

As the new Chairman of the Board, I am confident that FIGFCU will continue to deliver the highest level of service every time you call, visit us online or step into one of our branches. In fact, our members rated our service levels higher than any year prior. As we build our financial services product offerings, we will continue to exceed your service expectations and provide competitive products that help sustain your financial peace of mind. We know that you have many choices in financial institutions, and we are grateful you have chosen Farmers Insurance Group Federal Credit Union as your preferred financial partner.

I would like to sincerely thank you for being an active member.

Scott Lindquist

Scott Lindquist
Chairman of the Board

Credit Union Highlights **2010-2013**

45,220
2013

43,982
2012

42,653
2011

43,441
2010

Total Members

$629,623,519
2013

$610,272,479
2012

$582,783,096
2011

$582,217,644
2010

Total Assets

90.69%
2013

88.84%
2012

85.31%
2011

Member Satisfaction Score

Letter from the **CEO**

As we near the 80th year of serving our members, I often reflect about the journey that Farmers Insurance Group Federal Credit Union (FIGFCU) has traveled with you, our member/owners. For example, we have not always enjoyed a 90% plus member service satisfaction ratio, as occurred in 2013, our all-time record. Neither have we always been able to declare great monetary *Return of Value* programs as we did in both 2012 and 2013.

Not much less than 30 years ago, FIGFCU was less than $65 million in total assets, but more alarmingly, had only about $3 million in total capital (financial reserves). At December 31 of 2013, as shown in this Annual Report, we were at $630 million and almost $92 million in total capital, with about $81 million in net worth. That $10 million differential is the balance of our Allowance for Loan Loss account, the amount that we have already expensed in prior accounting periods for future loan losses. Management believes that the "allowance" account balance is conservatively stated, as we expect circa $4 million in net charge-offs, just as we experienced in each of the last three years.

The credit union industry enjoys bottom line income without taxation. Why? Because Congress continues to believe it is great public policy not to tax the income of bank alternative, member-owned cooperatives that are already returning substantially better monetary values to our member/owners than banks. This is proven in sophisticated econometric studies every single year by both the Credit Union National Association (CUNA) and the National Association of Federal Credit Unions (NAFCU) in separate economists' studies. Credit unions' owners are our customers. That is simply not the case for banks.

But, in addition to the standard superior pricing, service and stability we offer members, we also have declared our *Return of Value* programs for the last two years running, and we want to do the same again in 2014. These programs put another $2.1 million back in our members' hands. We are in business first to make loans. It is our core business to take and manage risk prudently. We do that every time we make a loan to a member or participate on larger commercial real estate loans with other credit unions. Don't get me wrong, having and running a credit union successfully requires both net savers and net borrowers. But borrowers are the principal source of our gross revenue, so that is why I place great emphasis on the making of prudent loans. With that, we are then able to turn around and reward our savers with very competitive yields.

Thank you for your business. We will be serving you, our member/owners, for years to come!

Mark Herter

Mark Herter
Chief Executive Officer

Board of Directors

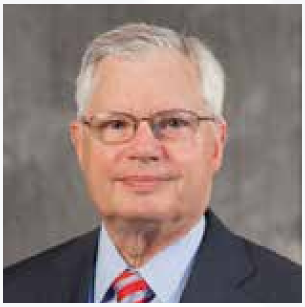
Scott Lindquist, Chairman
Executive Vice President
and Chief Financial Officer

Michael Ashe
Agent. Las Vegas, NV

Kenneth Carroll
Retired

Frank Ceglar
Retired

Marilyn Huntamer
Agent. San Diego, CA



Ed McMahan
District Manager. Phoenix, AZ

Andy Reser
Senior Vice President, Head of Agency
Management

Jim Snikeris
Vice President, Austin

Rudy Trevino
Chief Compliance Officer, FGI

Management Team

Mark Herter
Chief Executive Officer

Laura Campbell
President

Harland Bengs
Chief Financial Officer

Kathy Chicas
Vice President, Operations

Brian Leonard
Chief Lending Officer

Yusef Mustafa
Chief Information Officer

SUPERVISORY COMMITTEE

(Not Pictured)

Lewis Williams, Chairman

ZFUS Director of IT Finance

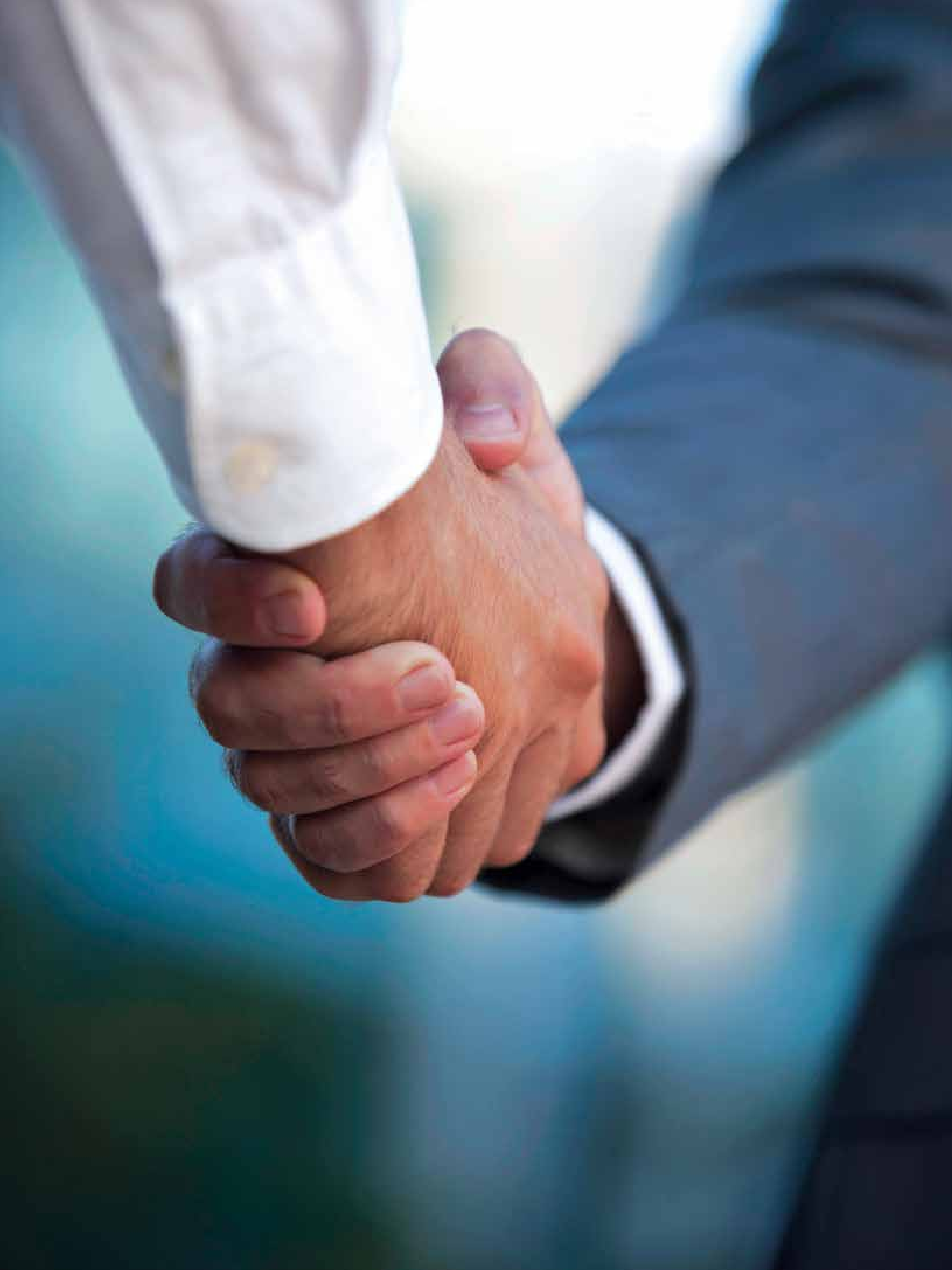
Karen Jenkins

Head of Distribution Compliance

Katherine P. Cody

Head of Distribution, Finance, Analytics and Operations, Farmers Insurance

Beth Rodgers
Chief Marketing Officer



EXCEEDINGEXPECTATIONS

Your Credit Union continues to offer competitive products and services, such as lower rates compared to many banks and exclusive agent loans. No other financial institution, has the ability to offer a branch where you work or knows your agency needs like Farmers Insurance Group Federal Credit Union does. We are working hard each and every day to serve you, our member/owners.

Your Credit Union earned a net income of $3,745,000, bringing our year-end gross to $38,197,000. This puts us in a strong position to continue to invest in new ways to service our members.

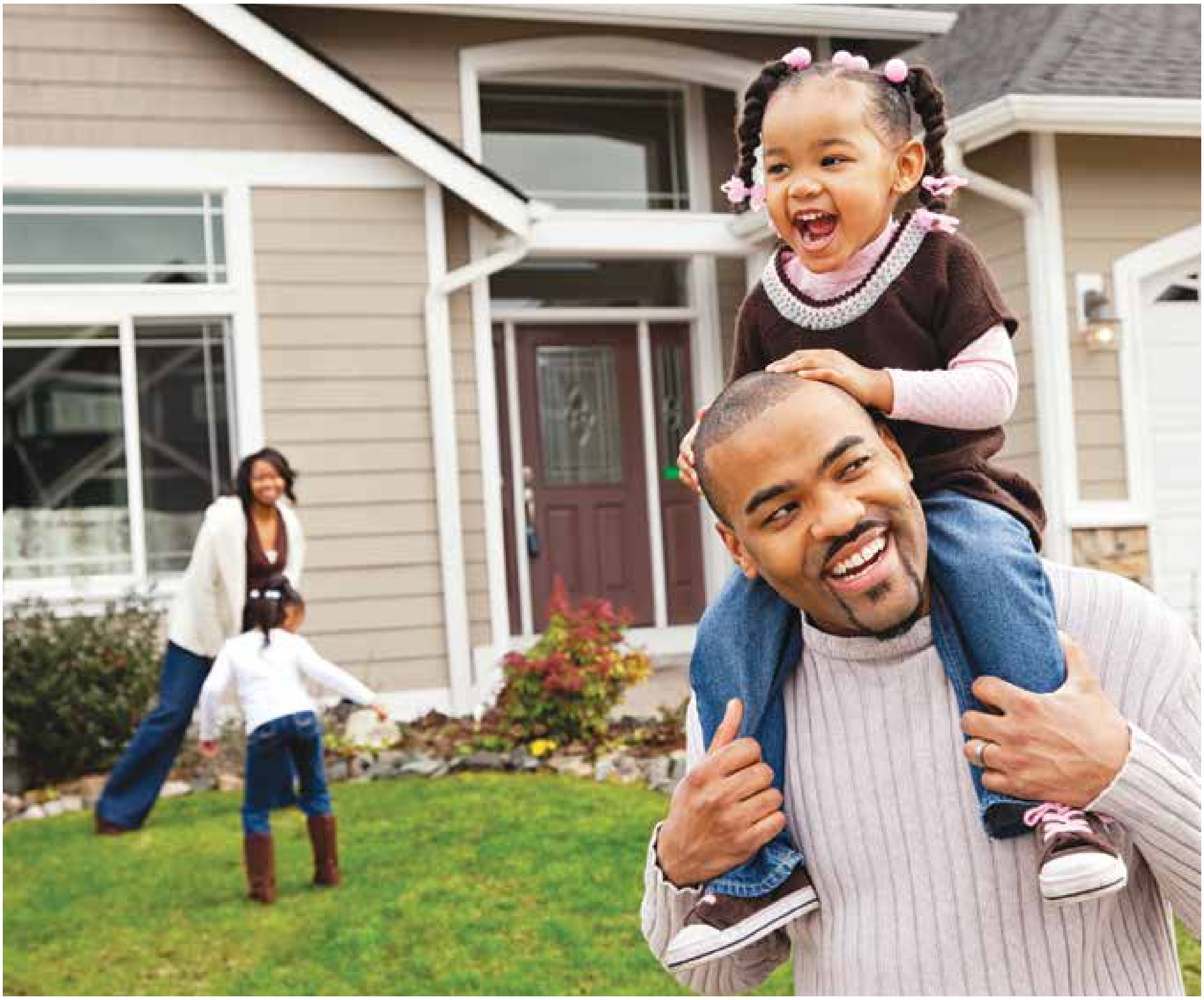
In the first half of 2013, we launched two new agent products — the *Agency Acquisition Loan*, designed to help agents purchase another book of business, and the *Agency Secured Visa® Credit Card*, giving agents another option to access funds from their contract value.

Convenient services continued to be a top priority in 2013. Not only did we continue to offer 24/7 online services — from online banking and Bill Pay, to mobile banking and Online Deposit, but we also enhanced your online banking experience by replacing CU Money Mover with *Transfer Money*, which provides the ability to transfer money between your FIGFCU accounts and other financial institutions. We offered the option to customize your debit and credit cards with the new Farmers logo. We also began offering *Western Union®* Services, to provide you with delivery channels to transfer money and make payments. And, to help you select the best auto repair shop, we expanded your member benefits to include *RepairPal*.

Additionally, we continue to offer our members the ability to conduct transactions on their accounts in a branch through the CO-OP Shared Branch Network. With over 5,000 branches coast to coast and 30,000 FREE CO-OP ATMs, your Credit Union is one of the most convenient financial institutions in the country.

"...Again, thank you all and please remember miracles come in different shapes and forms."

Lidia M.
$10,000 Direct Deposit Sweepstakes Winner



FIGFCU Gives Back 2013 Edition

In 2013, your Credit Union returned over $2.1 million to our members. We kicked off *Return of Value* in the spring, launching several new rebate programs on Home Equity Lines of Credit (HELOC), home loans, auto loans, agency secured loans, and commercial real estate loans.

Our Direct Deposit Sweepstakes awarded $80,000 in total prizes, giving away $1,000 to 10 different members every month, plus a $10,000 grand prize at the end of the year. Plus, Championship agent members received interest rebates just for choosing FIGFCU for their financing needs.

"I cannot believe I won $1,000 for signing up for direct deposit. I never expected to win. It is FANTASTIC! My experiences with FIGFCU have always exceeded my expectations. Please keep doing what you are doing."

Tracy W.
Blue Springs, MO

"...the FIGFCU representative assisted me with a secured loan to purchase another agency. Since then he continues to prove to be a huge asset, readily assisting me to grow my business."

Ross V.
Agent

Member Satisfaction Survey

Your Credit Union continues to focus on ways to make members feel valued. To this end, we are committed to helping you, our members, achieve your financial goals by pairing your needs with the right FIGFCU products and services that will meet your growth objectives. We want you to know that FIGFCU appreciates your business and is committed to your financial success.

In 2013, FIGFCU surpassed its Member Satisfaction Score goal of 88.13% by earning a score of 90.69%. Our members continue to tell us that we are providing extraordinary service levels at all points of contact, but we won't stop working on improving the service levels provided to our member/owners.

Without your feedback, FIGFCU would not be where it is today. We use your feedback to not only enhance your member experience, but also coach our staff and provide them with multiple tools to cater to your financial needs. Whether it is finding a solution to a dilemma or making sure a payment gets to where it needs to go, your Credit Union is here to serve you whenever you contact us.

We are thankful to you for your ongoing trust and loyalty. We will continue to uphold our members' financial interests as our top priority.

“...I have stayed with FIGFCU because of my FIGFCU representative. I kind of conscripted him as my go-to guy whenever I needed something or had issues. He has provided me with excellent assistance in every question or issue I have ever had and has made my experience with you very pleasant.”

John E.
Agent

Supporting Our Community

Serving our members also means giving back to our communities. FIGFCU management and staff demonstrated our dedication and commitment to building fundraising efforts by contributing $20,000 to various charity organizations. Part of our contributions to Farmers Family Fund assisted the victims of the Colorado flooding which took place in September. For the second year we reintroduced the Round it Up to Farmers Family Fund drive around the holidays.

We also continued to support Children's Miracle Network Hospitals and March of Dimes through fundraising events and support from FIGFCU staff. In 2013, we raised over $5,000 for both Children's Miracle Network and March of Dimes. We will continue to raise funds for children, babies, families, and individuals who are in need.

EXCEEDINGEXPECTATIONS

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Lori J. Carmichael, CPA
Daniel C. Moulton, CPA
Jack D. Kenney, CPA

INDEPENDENT AUDITOR'S REPORT

March 28, 2014

To the Supervisory Committee of
Farmers Insurance Group Federal Credit Union

We have audited the accompanying financial statements of Farmers Insurance Group Federal Credit Union, which comprise the statements of financial condition as of December 31, 2013 and 2012, and the related statements of income, comprehensive income, 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.

OCM&Co
A PROFESSIONAL ASSOCIATION
CPAs

To the Supervisory Committee of
Farmers Insurance Group Federal Credit Union
Page 2

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Farmers Insurance Group Federal Credit Union as of December 31, 2013 and 2012, 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.

Orth, Chakler, Murnane & Co.

Orth, Chakler, Murnane & Company
Certified Public Accountants
Miami, FL

OCM&Co
A PROFESSIONAL ASSOCIATION
CPAs

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION

ASSETS

	As of December 31, 2013	2012
Cash	$4,016,722	$2,261,269
Investments:		
Available-for-sale	20,188,811	24,981,490
Held-to-maturity	36,833,938	27,529,465
Other	31,153,467	55,766,973
Loans to members, net of allowance for loan losses	517,060,869	481,127,580
Accrued interest receivable:		
Investments	72,369	69,065
Loans	2,239,956	2,344,591
Other real estate owned (OREO)	2,332,721	2,438,510
Prepaid and other assets	8,692,073	6,854,099
Property and equipment, net	1,718,010	1,744,630
NCUSIF deposit	5,314,583	5,154,807
Total assets	$629,623,519	$610,272,479

LIABILITIES AND MEMBERS' EQUITY

	As of December 31, 2013	2012
LIABILITIES:		
Members' shares and deposits	$543,175,430	$527,632,525
Interest payable	278,118	303,636
Accounts payable and accrued liabilities	5,168,027	5,019,216
Total liabilities	548,621,575	532,955,377
Commitments and contingent liabilities		
MEMBERS' EQUITY:		
Regular reserve	16,966,743	16,966,743
Undivided earnings	63,897,003	60,151,751
Accumulated other comprehensive income	138,198	198,608
Total members' equity	81,001,944	77,317,102
Total liabilities and members' equity	$629,623,519	$610,272,479

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

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION
STATEMENTS OF INCOME

	For the years ended December 31, 2013	2012
INTEREST INCOME:		
Loans to members	$29,232,375	$28,396,964
Investments	637,141	540,866
Total interest income	29,869,516	28,937,830
INTEREST EXPENSE:		
Members' shares and deposits	3,513,481	3,875,065
Net interest income	26,356,035	25,062,765
PROVISION FOR LOAN LOSSES	2,970,773	1,303,370
Net interest income after provision for loan losses	23,385,262	23,759,395
NON-INTEREST INCOME:		
Overdraft and checking fees	3,306,216	3,365,859
Service charges and other fees	2,578,493	2,444,601
Interchange income	1,263,418	1,233,872
Other	1,113,593	680,704
Total non-interest income	8,261,720	7,725,036
	31,646,982	31,484,431
NON-INTEREST EXPENSE:		
Compensation and employee benefits	14,091,760	12,572,741
Office operating costs	6,041,151	5,937,955
Loan servicing expense	2,222,335	1,646,783
Other expenses	1,737,838	1,758,072
Educational and promotional expense	1,566,283	1,933,067
Office occupancy	1,354,776	1,345,533
Professional and outside services	953,563	626,201
(Gain)/loss on sale of OREO, net	(65,976)	1,046,166
Total non-interest expense	27,901,730	26,866,518
Net income	$3,745,252	$4,617,913

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

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION
STATEMENTS OF COMPREHENSIVE INCOME

	For the years ended December 31, 2013	2012
NET INCOME	$3,745,252	$4,617,913
OTHER ITEMS OF COMPREHENSIVE INCOME:		
Net unrealized (loss)/gain on investments classified as available-for-sale	(60,410)	71,410
Other comprehensive (loss)/income	(60,410)	71,410
Comprehensive income	$3,684,842	$4,689,323

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

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION
STATEMENTS OF MEMBERS' EQUITY

For the years ended December 31, 2013 and 2012

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance, December 31, 2011	$16,966,743	$55,533,838	$127,198	$72,627,779
Net income	—	4,617,913	—	4,617,913
Other comprehensive income	—	—	71,410	71,410
Balance, December 31, 2012	16,966,743	60,151,751	198,608	77,317,102
Net income	—	3,745,252	—	3,745,252
Other comprehensive loss	—	—	(60,410)	(60,410)
Balance, December 31, 2013	$16,966,743	$63,897,003	$138,198	$81,001,944

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

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION
STATEMENTS OF CASH FLOWS

	For the years ended December 31, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$3,745,252	$4,617,913
Adjustments:		
Provision for loan losses	2,970,773	1,303,370
Depreciation and amortization	966,974	911,721
Amortization of investment premiums/discounts, net	196,951	15,044
(Gain)/loss on sale of OREO, net	(65,976)	1,046,166
Changes in operating assets and liabilities:		
Accrued interest receivable	101,331	64,286
Prepaid and other assets	(1,837,974)	(2,016,617)
Interest payable	(25,518)	(30,192)
Accounts payable and accrued liabilities	148,811	(1,084,927)
Net cash provided by operating activities	6,200,624	4,826,764
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities and repayments of available-for-sale investments	4,732,269	5,703,047
Proceeds from maturities and repayments of held-to-maturity investments	37,637,000	10,348,000
Purchase of held-to-maturity investments	(47,138,424)	(26,200,509)
Net change in other investments	24,613,506	(5,400,756)
Net change in loans, net of charge-offs	(40,680,300)	(14,162,654)
Recoveries on loans charged off	376,905	617,809
Proceeds from sale of OREO	1,571,098	1,459,920
Expenditures for property and equipment	(940,354)	(756,066)
Change in NCUSIF deposit	(159,776)	(112,203)
Net cash used in investing activities	(19,988,076)	(28,503,412)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in members' shares and deposits	15,542,905	23,915,179
Net cash provided by financing activities	15,542,905	23,915,179
Net change in cash	1,755,453	238,531
Cash at beginning of year	2,261,269	2,022,738
Cash at end of year	$4,016,722	$2,261,269

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

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION
STATEMENTS OF CASH FLOWS

Cash Flows: (continued)

	For the years ended December 31,	
	2013	**2012**
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Interest paid	$3,538,999	$3,905,257
SCHEDULE OF NON-CASH TRANSACTIONS:		
Other comprehensive (loss)/income	($60,410)	$71,410
Transfer from loans to members to OREO	$1,399,333	$3,792,855

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

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION
Farmers Insurance Group Federal Credit Union (the Credit Union), is a cooperative association organized in accordance with the provisions of the Federal Credit Union Act for the purpose of promoting thrift among, and creating a source of credit for, its members. Participation in the Credit Union is limited to those who qualify for membership. The field of membership is defined by the Credit Union's Charter and Bylaws.

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

CASH
Cash includes cash on hand and amounts due from banks and credit unions. Amounts due from banks and credit unions may, at times, exceed federally insured limits.

INVESTMENTS
Investments are classified into the following categories: available-for-sale, held-to-maturity and other. Investment securities classified as available-for-sale are measured at fair value as of the statement of financial condition date. Unrealized gains and losses on available-for-sale investments are reported as a separate component of members' equity. Investment securities classified as held-to-maturity are measured at amortized cost. This classification is based upon the Credit Union's intent and ability to hold these investment securities to full maturity. Realized gains and losses on disposition, if any, are computed using the specific identification method. Investments are adjusted for the amortization of premiums and accretion of discounts as an adjustment to interest income on investments over the term of the investment by a method which approximates the interest method. The Credit Union has elected to classify certain cash equivalents as other investments. This election is available to the Credit Union according to the terms of the Statement of Cash Flows Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

Note 1: (continued)

LOANS TO MEMBERS AND ALLOWANCE FOR LOAN LOSSES

Loans to members are stated at the amount of unpaid principal net of deferred loan origination fees and costs and an allowance for loan losses (ALL). The ALL is increased by a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). The ALL is maintained at a level considered adequate to provide for optimal loss coverage for the entire loan portfolio over the next twelve months. Individually significant, non-homogeneous loans are measured for impairment in accordance with the Subsequent Measurement of Receivables Topic of the FASB ASC. These loans are evaluated individually based on an examination of the current financial information of the borrower and an estimate of the value of the collateral, if any. If the carrying value of any of these loans is greater than the estimated net realizable value of the property or of the collateral securing these loans, a reserve is established for the difference. Management's periodic evaluation of the adequacy of the ALL also considers such factors as changes in the nature and volume of the loan portfolio, review of specific problem loans, and current economic conditions that may affect the borrower's ability to repay.

Interest on loans to members is recognized over the terms of the loans and is calculated on principal amounts outstanding. The accrual of interest is discontinued when a loan reaches 90 days delinquent or when management believes that collection of interest is doubtful. Loan fees and direct loan origination costs are deferred and the net fee or cost is recognized as an adjustment to interest income on loans using a method that approximates the interest method over the estimated life of the loans.

ALL METHODOLOGY

Management has an established methodology to determine the adequacy of the ALL that assesses the risks and losses inherent in the entire loan portfolio. For the purpose of determining the ALL disclosures, the Credit Union has segmented loans in the portfolio by product type. Loans are divided into the following segments: Consumer, Residential Real Estate, and Commercial. The Credit Union further disaggregates these segments into classes based on the associated risks within those segments.

Consumer loans are divided into four classes: Other secured, Unsecured, New auto, and Used auto. Residential real estate loans are divided into three classes: First mortgage, Second mortgage, and Home equity line of credit (HELOC). Commercial loans are all classified as real estate. Each class of loans requires significant judgment to determine the estimation method that fits the credit risk characteristics of its portfolio segment. The Credit Union uses both internally developed and vendor supplied models in the process. The vendor model is supplied by Portfolio 360, Inc. The Portfolio 360, Inc. model provides meaningful insights into the portfolio's risk composition, as dictated by the intrinsic value and other relevant market data. The model is specifically designed to calculate the risk of the loan portfolio on an individual loan level basis to provide optimal loss coverage analysis over the next 12 months.

Note 1: (continued)

Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions used to determine the ALL are independently validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented. The following is how management determines the balance of the ALL for each segment or class of loans.

CONSUMER PORTFOLIO SEGMENT ALL METHODOLOGY

For consumer loans, the Credit Union determines the ALL on a collective basis utilizing historical and forecasted losses to represent the best estimate of inherent losses at the measurement date. Loans are pooled, generally by loan types with similar risk characteristics. The Credit Union identifies consumer loans that underwent a troubled debt restructuring and evaluates these loans on an individual basis. In addition, the ALL model incorporates numerous other historical factors based upon the borrower, collateral type, loan performance, environment, and economy. These historical factors used in the analysis date back to 2001.

As appropriate, to achieve greater accuracy, further stratification of a selected portfolio may occur such as by year of origination, geographic location and other predictive characteristics. The consumer ALL model primarily uses historical delinquency and default experience. Information on forecasted delinquency analysis, member credit score trends, unemployment trends, industry trends and other key economic variables that may influence the frequency and severity of losses for each class of loan within the consumer segment may also be considered.

The Credit Union's consumer loan portfolio also includes loans collateralized by contract value. These are considered fully secured unless notified otherwise, as these loans, when written within the guidelines established by Farmers Insurance Group Inc. (Farmers), are secured and will be paid in full by Farmers upon member termination if the Credit Union's collection efforts were to ultimately fail. Similarly, loans collateralized by a certificate or share account are also considered fully secured unless otherwise notified.

RESIDENTIAL REAL ESTATE PORTFOLIO SEGMENT ALL METHODOLOGY

For residential real estate loans not identified as impaired, the Credit Union determines the ALL on a collective basis, utilizing various economic and financial simulations in order to determine the best estimate of inherent losses at the measurement date. Loans are pooled, generally by loan types with similar risk characteristics. In addition, the ALL model incorporates numerous other historical factors based upon the borrower, collateral type, loan performance, environment, and economy. These historical factors used in the analysis date back to 2001.

As appropriate, to achieve greater accuracy, further stratification of a selected portfolio may occur such as by year of origination, geographic location and other predictive characteristics. Information on member credit score trends, combined loan to value ratios, home price trends, unemployment trends, industry trends, and other key economic variables that may influence the frequency and severity of losses for each class of loan within the residential real estate segment may also be considered. The residential real estate ALL also includes an amount for the estimated losses on individually evaluated impaired loans.

Note 1: (continued)

Additionally, a mortgage sample analysis is performed periodically to assess the potential loss exposure within the residential real estate loan portfolio. The Credit Union obtains updated property values on all existing real estate loans in its portfolio. Using a sample of loans, the Credit Union performs individual reviews to assess the potential loss exposure based on various risk factors including combined loan to value, member credit score, delinquency, loan vintage, and type of collateral. Results of the sample analysis are extrapolated to the total population to assess the adequacy of the ALL.

COMMERCIAL PORTFOLIO SEGMENT ALL METHODOLOGY

For commercial loans not identified as impaired, the Credit Union determines the ALL on a collective basis utilizing historical and forecasted losses to represent the best estimate of inherent losses at the measurement date. In addition, the ALL model incorporates numerous other historical factors based upon the borrower, collateral type, loan performance, environment, and economy. These historical factors used in the analysis date back to 2001.

Loss estimates for the commercial loan portfolio segment may be adjusted as appropriate based on credit risk assessment and management's analysis of leading predictors of losses, as well as additional analysis of long-term average loss experience compared to previously forecasted losses, external loss data, or other risks identified from current economic conditions and credit quality trends. The commercial ALL may also include an additional ALL for individually evaluated high risk loans and an amount for the estimated losses on individually evaluated impaired loans.

LOAN CHARGE-OFF POLICIES

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

Consumer, residential real estate, and commercial loans are generally charged-off when the loan is deemed to be uncollectible. A loan is deemed uncollectible when:

- the member has gained relief through bankruptcy;
- the loan is a deficiency balance from the sale of collateral and the borrower has indicated an unwillingness to make further payments;
- the borrower is determined to be a "skip";
- the member is deceased, collateral has been liquidated and there is no co-maker or estate to pursue for payment;
- the loan is 180 days or more delinquent, unless one of the following conditions exists:

Note 1: (continued)

- the borrower is making monthly payments but cannot qualify for refinancing or re-aging;
- the Credit Union or the member is waiting for settlement of a documented insurance/bond claim;
- the borrower is deceased, and the Credit Union has substantial reason to expect settlement from the estate, co-makers, or relatives;
- the Credit Union is waiting for the proceeds from the sale of repossessed collateral.

Uncollectible loans to be charged off to the ALL are approved by the Board of Directors each month. For repossessed collateral, including foreclosed property, the loan is charged off to the ALL and the net realizable value moved to other assets.

OTHER REAL ESTATE OWNED (OREO)
Assets acquired through, or in lieu of, loan foreclosure or repossession are held for sale and are initially recorded at fair value at the date of foreclosure or repossession, establishing a new cost basis. Subsequent to foreclosure or repossession, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated costs to sell.

PROPERTY AND EQUIPMENT
Property and equipment are carried at cost less accumulated depreciation. Furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the term of the lease, or the estimated life of the asset, whichever is less. The Credit Union reviews property and equipment (long-lived assets) for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

NCUSIF DEPOSIT
The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board.

CORPORATE CREDIT UNION STABILIZATION FUND ASSESSMENTS
During July 2012 and 2013, the NCUA Board approved 9.5 and 8 basis point assessments to fund the corporate credit union stabilization fund. These assessments were based on the Credit Union's insured shares as of June 30, 2012 and 2013, respectively.

Note 1: (continued)

MEMBERS' SHARES AND DEPOSITS

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

REGULAR RESERVE

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

FEDERAL AND STATE TAX EXEMPTION

The Credit Union is exempt from most federal, state, and local taxes under the provisions of the Internal Revenue Code and state tax laws. The Income Taxes Topic of the FASB ASC clarifies accounting for uncertainty in income taxes reported in the financial statements. The interpretation provides criteria for assessment of individual tax positions and a process for recognition and measurement of uncertain tax positions. Tax positions are evaluated on whether they meet the "more likely than not" standard for sustainability on examination by tax authorities. Federal credit unions are tax-exempt under Internal Revenue Code sections 501(c)(1)(a)(I) and 501(c)(14)(A). As such, the Credit Union has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Additionally, no interest or penalties have been recorded in the accompanying financial statements related to uncertain tax positions.

RECLASSIFICATIONS

Certain 2012 financial statement amounts have been reclassified to conform with classifications adopted in 2013.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 28, 2014, the date the financial statements were available to be issued. Management has not identified any items requiring recognition or disclosure.

NOTE 2: INVESTMENTS

The amortized cost and estimated fair value of investments are as follows:

	As of December 31, 2013			
Available-for-sale:	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Mortgage-backed securities	$2,257,193	$75,708	$—	$2,332,901
NCUA guaranteed notes	17,742,686	62,098	—	17,804,784
Collateralized-mortgage obligations	50,734	392	—	51,126
	$20,050,613	$138,198	$—	$20,188,811

	As of December 31, 2012			
Available-for-sale:	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Mortgage-backed securities	$2,705,649	$93,229	$—	$2,798,878
NCUA guaranteed notes	22,015,387	104,808	—	22,120,195
Collateralized-mortgage obligations	61,846	571	—	62,417
	$24,782,882	$198,608	$—	$24,981,490

All available-for-sale investments receive principal and interest payments based on the payments received on the loans underlying the investments. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay certain obligations without call or prepayment penalties.

	As of December 31, 2013			
Held-to-maturity:	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Brokered certificates of deposit	$36,833,938	$28,602	($4,983)	$36,857,558

	As of December 31, 2012			
Held-to-maturity:	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Brokered certificates of deposit	$27,529,465	$—	$—	$27,529,465

Note 2: (continued)

The amortized cost and estimated fair value of held-to-maturity investments by contractual maturity are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay certain obligations without call or prepayment penalties.

	As of December 31, 2013 *Held-to-maturity*	
	Amortized Cost	**Fair Value**
Within 1 year	$30,769,891	$30,781,053
1 to 5 years	6,064,047	6,076,505
	$36,833,938	$36,857,558

Other investments:	As of December 31, 2013	2012
Corporate One FCU certificates of deposit	$14,000,000	$—
Federal Reserve Bank	8,157,341	41,571,883
Corporate credit union deposits	5,996,126	10,195,090
CUSO investments	3,000,000	4,000,000
	$31,153,467	$55,766,973

The Credit Union maintains deposits at corporate credit unions which normally exceed federally insured limits. Included in these deposits are uninsured perpetual contributed capital shares with Catalyst Corporate Federal Credit Union (CCFCU). Perpetual contributed capital is uninsured, has no maturity and cannot be withdrawn without NCUA approval; however, it is required to be a member of CCFCU. Perpetual contributed capital can be used by CCFCU to absorb any operating losses that exceed the balance of retained earnings. As of December 31, 2013 and 2012, the Credit Union maintained approximately $600,000 in perpetual contributed capital shares at CCFCU.

The following table shows the gross unrealized losses and fair value of investments, aggregated by length of time individual securities have been in a continuous unrealized loss position.

As of December 31, 2013
Held-to-maturity

	Less than 12 Months		*12 Months or Longer*		*Total*	
	Fair Value	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Brokered certificates of deposit	$3,708,109	$4,983	$—	$—	$3,708,109	$4,983

Unrealized losses on brokered certificates of deposit have not been recognized into income because the principal balances of these deposits are guaranteed by the Federal Deposit Insurance Corporation. Additionally, management has the ability and intent to hold these securities through to recovery of fair value, which may be maturity.

NOTE 3: LOANS TO MEMBERS

The composition of loans to members is as follows:

	As of December 31, 2013	As of December 31, 2012
Consumer:		
Other secured	$180,107,879	$176,875,627
Unsecured	90,192,947	70,548,971
New auto	24,829,854	22,429,999
Used auto	43,434,873	41,424,975
Total consumer	338,565,553	311,279,572
Residential Real Estate:		
First mortgage	88,234,782	81,526,726
Second mortgage	10,550,458	11,336,161
HELOC	12,394,825	10,323,087
Total residential real estate	111,180,065	103,185,974
Commercial:		
Real estate	78,184,494	77,711,864
Total loans	527,930,112	492,177,410
Deferred loan origination fees/costs, net	(238,810)	(357,972)
	527,691,302	491,819,438
Less ALL	(10,630,433)	(10,691,858)
	$517,060,869	$481,127,580

A summary of the activity in the ALL by portfolio segment is as follows:

For the years ended December 31, 2013 and 2012	Consumer	Residential Real Estate	Commercial	Total
Balance, December 31, 2011	$2,954,878	$4,568,785	$5,455,268	$12,978,931
Provision for loan losses	734,585	(522,840)	1,091,625	1,303,370
Recoveries	282,429	251,446	83,934	617,809
Loans charged off	(1,842,668)	(922,616)	(1,442,968)	(4,208,252)
Balance, December 31, 2012	2,129,224	3,374,775	5,187,859	10,691,858
Provision for loan losses	2,736,676	(809,037)	1,043,134	2,970,773
Recoveries	280,950	95,955	—	376,905
Loans charged off	(2,226,050)	(331,199)	(851,854)	(3,409,103)
Balance, December 31, 2013	$2,920,800	$2,330,494	$5,379,139	$10,630,433

Note 3: (continued)

	As of December 31, 2013			
	Consumer	Residential Real Estate	Commercial	Total
Individually evaluated for impairment	$38,960	$1,725,707	$5,168,766	$6,933,433
Collectively evaluated for impairment	$2,881,840	$604,787	$210,373	$3,697,000

	As of December 31, 2012			
	Consumer	Residential Real Estate	Commercial	Total
Individually evaluated for impairment	$93,067	$2,219,078	$4,722,735	$7,034,880
Collectively evaluated for impairment	$2,036,157	$1,155,697	$465,124	$3,656,978

A summary of the recorded investment in loans, by portfolio segment, is as follows:

	As of December 31, 2013			
	Consumer	Residential Real Estate	Commercial	Total
Ending balance	$338,602,395	$111,112,537	$77,976,370	$527,691,302
Individually evaluated for impairment	$383,064	$9,305,021	$15,672,728	$25,360,813
Collectively evaluated for impairment	$338,219,331	$101,807,516	$62,303,642	$502,330,489

	As of December 31, 2012			
	Consumer	Residential Real Estate	Commercial	Total
Ending balance	$311,279,572	$103,205,505	$77,334,361	$491,819,438
Individually evaluated for impairment	$456,046	$8,726,451	$16,758,224	$25,940,721
Collectively evaluated for impairment	$310,823,526	$94,479,054	$60,576,137	$465,878,717

IMPAIRED LOANS

A loan is impaired when it is probable, based on current information and events, that the Credit Union will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. When management identifies a loan as impaired, the impairment is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral, less selling costs, when foreclosure is probable, instead of discounted cash flows. If management determines that the value of the impaired loan is less than the recorded investment in the loan, impairment is recognized through an ALL estimate or a charge-off to the ALL.

Note 3: (continued)

The following tables include the recorded investment and unpaid principal balances for impaired loans with the associated ALL amount, if applicable. Also presented are the average recorded investments in the loans and the related amount of interest recognized during the time within the period that the loans were individually evaluated for impairment. Interest is credited to interest income when received, under the cash basis method. The average balances are calculated based on the year-end balances of the loans of the period reported.

Payments received on impaired loans are recorded as a reduction of principal or as interest income depending on management's assessment of the ultimate collectability of the loan principal. Generally, interest income on an impaired loan is recorded on a cash basis when the outstanding principal is brought current. Interest income recorded on impaired loans for all periods presented was recorded on a cash basis.

The tables below summarize key information for impaired loans:

	As of December 31, 2013			**For the year ended December 31, 2013**	
	Recorded Investment	Unpaid Principal Balance	Specific Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:					
Consumer:					
Other secured	$80,841	$80,841	$899	$129,008	$10,040
Unsecured	$228,751	$228,751	$32,984	$217,567	$25,379
New auto	$9,182	$9,182	$453	$9,414	$333
Used auto	$64,290	$64,290	$4,624	$63,566	$3,240
Residential Real Estate					
First mortgage	$9,135,884	$9,167,204	$1,659,240	$8,831,838	$391,027
Second mortgage	$169,137	$169,137	$66,467	$173,855	$11,840
Commercial:					
Real estate	$15,672,728	$15,948,471	$5,168,766	$16,215,476	$850,888
Totals:					
Consumer	$383,064	$383,064	$38,960	$419,555	$38,992
Residential Real Estate	$9,305,021	$9,336,341	$1,725,707	$9,005,693	$402,867
Commercial	$15,672,728	$15,948,471	$5,168,766	$16,215,476	$850,888

Note 3: (continued)

	As of December 31, 2012			For the year ended December 31, 2012	
	Recorded Investment	Unpaid Principal Balance	Specific Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Consumer:					
Other secured	$—	$—	$—	$23,038	$2,598
With an allowance recorded:					
Consumer:					
Other secured	$177,176	$177,176	$33,314	$180,991	$9,588
Unsecured	$206,382	$206,382	$38,579	$227,251	$20,252
New auto	$9,646	$9,646	$545	$21,253	$9
Used auto	$62,842	$62,842	$20,629	$163,839	$3,113
Residential Real Estate					
First mortgage	$8,527,792	$8,552,805	$1,959,261	$9,155,145	$398,811
Second mortgage	$178,573	$178,573	$95,662	$180,390	$12,428
HELOC	$20,086	$19,596	$164,155	$10,043	$784
Commercial:					
Real estate	$16,758,224	$17,159,002	$4,722,735	$19,465,067	$968,484
Totals:					
Consumer	$456,046	$456,046	$93,067	$616,372	$35,560
Residential Real Estate	$8,726,451	$8,750,974	$2,219,078	$9,345,578	$412,023
Commercial	$16,758,224	$17,159,002	$4,722,735	$19,465,067	$968,484

The tables below provide an age analysis of past due loans by class:

	As of December 31, 2013					
	Days Delinquent			Total Delinquent Loans	Total Current Loans	Total Loans
	30 - 59	60 - 89	90 or more			
Consumer:						
Other secured	$194,417	$32,239	$257,685	$484,341	$179,623,538	$180,107,879
Unsecured	1,062,274	403,367	482,287	1,947,928	88,281,861	90,229,789
New auto	48,388	51,510	28,928	128,826	24,701,028	24,829,854
Used auto	501,472	201,723	125,295	828,490	42,606,383	43,434,873
Residential Real Estate:						
First mortgage	591,850	316,044	668,646	1,576,540	86,389,036	87,965,576
Second mortgage	101,934	102,593	—	204,527	10,345,931	10,550,458
HELOC	56,843	203,443	—	260,286	12,336,217	12,596,503
Commercial:						
Real estate	870,135	1,554,480	4,762,863	7,187,478	70,788,892	77,976,370
Total	$3,427,313	$2,865,399	$6,325,704	$12,618,416	$515,072,886	$527,691,302

Note 3: (continued)

As of December 31, 2012

	Days Delinquent 30 - 59	Days Delinquent 60 - 89	Days Delinquent 90 or more	Total Delinquent Loans	Total Current Loans	Total Loans
Consumer:						
Other secured	$88,168	$24,979	$169,295	$282,442	$176,593,185	$176,875,627
Unsecured	731,768	330,503	219,416	1,281,687	69,267,284	70,548,971
New auto	43,634	—	18,126	61,760	22,368,239	22,429,999
Used auto	158,844	124,816	126,285	409,945	41,015,030	41,424,975
Residential Real Estate:						
First mortgage	977,545	—	1,235,591	2,213,136	79,075,150	81,288,286
Second mortgage	146,432	230,104	—	376,536	10,959,625	11,336,161
HELOC	250,345	—	43,572	293,917	10,287,141	10,581,058
Commercial:						
Real estate	634	—	3,733,144	3,733,778	73,600,583	77,334,361
Total	$2,397,370	$710,402	$5,545,429	$8,653,201	$483,166,237	$491,819,438

The Credit Union places loans on non-accrual status when the loan reaches 90 days past due or when the collection of interest or principal becomes uncertain. Loans on which the accrual of interest has been discontinued or reduced approximated $6,326,000 and $5,545,000 as of December 31, 2013 and 2012, respectively. There were no loans 90 days or more past due and still accruing interest as of December 31, 2013 or 2012.

TROUBLED DEBT RESTRUCTURING

The Credit Union's loan portfolio includes certain loans that have been modified in a Troubled Debt Restructuring (TDR), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Credit Union's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions.

When the Credit Union modifies a collateral dependent loan, management uses the current fair value of the collateral, less selling costs, to determine the net realizable value of the collateral. If management determines that the value of the modified loan is less than the recorded investment in the loan, impairment is recognized by segment or class of loan, as applicable, through the ALL.

The following tables include TDRs approved during the period. There were no TDRs performed during the periods that then defaulted in the same period. The Credit Union defines a TDR as subsequently defaulted when the TDR is 90 days past due or the member files bankruptcy.

Note 3: (continued)

The following table presents the TDRs performed by class of loans during the year ended December 31, 2013:

	Number	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Consumer:			
Unsecured	6	$102,324	$93,307
Used auto	1	23,626	22,287
Residential Real Estate:			
First mortgage	6	2,295,225	2,294,943
Commercial:			
Real estate	4	2,549,701	2,551,911
		$4,970,876	$4,962,448

The following table presents the TDRs performed by class of loans during the year ended December 31, 2012:

	Number	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential Real Estate:			
First mortgage	2	$710,437	$703,334
Commercial:			
Real estate	4	947,133	1,178,272
		$1,657,570	$1,881,606

CREDIT QUALITY INDICATORS

The Credit Union uses the Portfolio 360, Inc. model to monitor credit quality for the consumer, residential real estate, and commercial loan portfolios. The Portfolio 360, Inc. model analyzes each loan's risk. When analyzing each loan, the model identifies a set of numbers, or vectors, which represent the borrower's probability of default and the loss severity of the loan over a set of different economic scenarios. These vectors are used to calculate the loan risk grade and run risk adjusted cash flows which result in the value-at-risk, pricing, and loan valuation.

The model incorporates over 150 data points covering more than just credit score and collateral value. These loan level factors include institution and borrower specific data points as well as economic measures that feed into the risk analysis. They provide value reconciliation when refreshing property values and add updated values for the new and used auto portfolios. They continue to enhance the risk model by incorporating new technologies and applying all loan data available.

Note 3: (continued)

In addition to credit score, the model incorporates numerous other factors based upon the borrower, collateral, loan performance, environment, institution, and economy as follows:

Macro-economic - This segment's data points are used to depict the overall health of the national economy such as: national unemployment, GDP growth, Treasury rate curves and forecasts, industry delinquencies and charge-offs, national credit scores, borrower bankruptcy rates, etc.

Institution - This segment focuses on the Credit Union and is used to model the borrower's profile, stability, and fine tune the risk adjustments to the specific institution. Examples of data points include delinquency rates and trends, charge-offs, and bankruptcies per 1,000 members.

Regional geography - This segment focuses on local economic factors such as unemployment, growth, and real estate values.

Loan - Additional data points added to this analysis are payment trend, auto pay, updated senior balances, last payment amounts, and use of proceeds.

Borrower - Examples of data points in this segment are disposable income, updated cash reserves, employment status, and direct deposit.

Asset - In addition to using different automated valuation model products for the residential portfolio, the model includes new data to improve vehicle valuations for the new and used auto portfolios.

The following tables represent the recorded investment of consumer, residential real estate, and commercial loan credit exposures by Portfolio 360, Inc. risk grade as of December 31, 2013 and 2012. The use of the Portfolio 360, Inc. risk grades permits management to estimate a portion of credit risk. Category ratings are reviewed quarterly, at which time management analyzes the resulting grades, as well as other external statistics and factors, to track loan performance. Loans that trend upward toward higher levels generally have a higher risk factor associated. Whereas, loans that migrate toward lower ratings generally will result in a lower risk factor being applied to those related loan balances. The risk ratings from Business Partners are taken into consideration when the Portfolio 360, Inc. risk grades are applied to the individual commercial real estate loan participations.

The Portfolio 360, Inc. risk grades are as follows:

V1 - Minimal risk - These loans generally show the ability to cover expenses with a minimal chance of default. The typical characteristics for these loans are long-term Credit Union members with excellent credit history, strong cash flow, quality money management, excellent access to alternative sources of financing, and well collateralized. These loans typically have very low potential loss, no greater than one percent of the loan balance in most cases when factoring the default probability and loss severity.

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS

Note 3: (continued)

V2 - Low risk - These loans generally reflect good payment history, a healthy loan to value ratio and are adequately collateralized. The borrowing entity has very good to excellent credit, steady cash flow, quality money management, and good access to alternative sources of financing. As a result, the risk category is highly unlikely to experience a loss. If a loss does occur, it is likely to be minimal.

V3 - Acceptable risk - These loans are better than average loans with a low chance of a loss. The potential loss should be no greater than five percent of the loan balance when factoring default probability and loss severity. Most of the risk attributes for these loans are in line with a low risk profile but are on the fringe of adding risk. Borrower has some access to alternative sources of financing, good money management, and shows control of expenses.

V4 - Moderate risk - These loans have potential weaknesses or may show a propensity to deteriorate further. These loans are the start of the tipping point of the mid-range risk grades (V4 - V6) that tend to move either to a worsening position or a healthier position and is measured by a ten percent value at risk. This risk grade may include borrowers with only medium to fair credit ratings and a few recent problems. Cash flow is steady and generally adequate to service debt but may be subject to cyclical conditions. The borrower may have limited access to alternative financing.

V5 - Special mention - These loans can prove to be in the most critical stage. Most loans tend to either move up or down from the mid-range risk grades (V4 - V6). Both credit and collateral are substandard, with external economic factors bearing down. The outstanding loan balance may not be entirely protected by equity in the underlying asset with up to a fifteen percent potential loss produced by probability and severity. There may be one or more specific weaknesses jeopardizing the loan, and the Credit Union will most likely sustain a loss if the deficiencies are not corrected.

V6 - Increased risk - These loans generally have multiple vulnerable and weak risk factors that could be attributed to local economic factors. On the basis of currently known facts, the combination of weak attributes make collection or liquidation in full highly questionable and improbable. The risk grade is defined by potential losses of up to twenty percent of the loan balance.

V7 - Elevated risk - There is a strong probability that the Credit Union may not be able to recover on these loans. The Credit Union and the member must look at all options, including modification. Liquidation needs to be considered because most of the underlying assets for this risk grade have passed the tipping point. A loss is nearly impossible to avoid on repayment, refinancing, or liquidation for these loans. The value at risk could be upwards of thirty percent of the current loan balance.

V8 - Doubtful - These borrowers are most likely in a loss situation and can be measured by potential value at risk between thirty and forty percent of the outstanding loan balance. In most cases, assets in this region do not recover and the members and properties are being worked with directly. The most current information on the member and asset has been acquired and the Credit Union has a firm estimate of the loss when the time arrives.

Note 3: (continued)

V9 - Inherent loss - These loans are considered uncollectible and will be charged off immediately. Assets in this risk area have an inherent value at risk, north of forty percent. Modification is impossible without major concessions or write down. Residential and commercial properties have a high probability of becoming other real estate owned. In some cases, the Credit Union may find a glimmer of success in short sale opportunities. Other real estate owned, having extended liquidation times and expenses are most likely in less than optimal locations. Conditions prove challenging to draw respectable tenants and rent.

The tables below summarize key information for consumer credit quality:

Consumer Credit Quality Indicators
As of December 31, 2013

Risk grade	Other Secured	Unsecured	New auto	Used auto	Total
V1	$—	$39,955,148	$22,651,396	$34,629,394	$97,235,938
V2	—	30,927,302	1,604,932	5,033,952	37,566,186
V3	—	7,524,761	453,416	2,297,035	10,275,212
V4	—	6,881,315	75,167	1,085,429	8,041,911
V5	—	1,530,798	30,021	170,113	1,730,932
V6	—	583,763	14,922	86,503	685,188
V7	—	488,553	—	91,398	579,951
V8	—	66,429	—	18,610	85,039
V9	—	621,760	—	22,439	644,199
No risk grade	180,107,879	1,649,960	—	—	181,757,839
	$180,107,879	$90,229,789	$24,829,854	$43,434,873	$338,602,395

Consumer Credit Quality Indicators
As of December 31, 2012

Risk grade	Other Secured	Unsecured	New auto	Used auto	Total
V1	$—	$34,178,194	$20,567,561	$34,196,571	$88,942,326
V2	—	21,612,649	1,256,627	4,563,227	27,432,503
V3	—	6,504,213	357,926	1,663,873	8,526,012
V4	—	5,048,673	212,069	827,073	6,087,815
V5	—	1,076,450	34,810	107,253	1,218,513
V6	—	222,522	—	53,863	276,385
V7	—	429,233	—	11,247	440,480
V8	—	52,208	—	—	52,208
V9	—	357,945	—	—	357,945
No risk grade	176,875,627	1,066,884	1,006	1,868	177,945,385
	$176,875,627	$70,548,971	$22,429,999	$41,424,975	$311,279,572

Note 3: (continued)

The tables below summarize key information for residential real estate credit quality:

Residential Real Estate Credit Quality Indicators
As of December 31, 2013

Risk grade	First mortgage	Second mortgage	HELOC	Total
V1	$60,362,481	$4,237,549	$9,546,263	$74,146,293
V2	12,037,444	1,328,809	1,293,857	14,660,110
V3	4,858,642	1,744,098	635,846	7,238,586
V4	6,315,752	1,310,338	334,621	7,960,711
V5	2,266,644	1,077,439	16,088	3,360,171
V6	1,080,557	360,781	121,469	1,562,807
V7	772,762	152,981	514,511	1,440,254
V8	—	107,043	133,848	240,891
V9	—	231,420	—	231,420
No risk grade	271,294	—	—	271,294
	$87,965,576	$10,550,458	$12,596,503	$111,112,537

Residential Real Estate Credit Quality Indicators
As of December 31, 2012

Risk grade	First mortgage	Second mortgage	HELOC	Total
V1	$48,870,135	$3,119,681	$5,917,457	$57,907,273
V2	8,582,084	998,924	803,017	10,384,025
V3	5,477,513	1,619,428	462,446	7,559,387
V4	6,748,348	1,982,656	986,395	9,717,399
V5	4,426,166	985,817	403,117	5,815,100
V6	2,035,304	794,624	32,821	2,862,749
V7	2,602,445	1,160,070	460,999	4,223,514
V8	612,147	284,862	117,510	1,014,519
V9	1,743,374	390,099	98,977	2,232,450
No risk grade	190,770	—	1,298,319	1,489,089
	$81,288,286	$11,336,161	$10,581,058	$103,205,505

Note 3: (continued)

The tables below summarize key information for commercial credit quality:

Commercial Credit Quality Indicators
As of December 31, 2013

Risk grade	Real estate
V1	$39,033,147
V2	18,304,954
V3	7,635,319
V4	4,885,627
V5	2,808,367
V6	730,353
V7	2,523,800
V8	1,115,283
V9	939,520
No risk grade	—
Total	$77,976,370

Commercial Credit Quality Indicators
As of December 31, 2012

Risk grade	Real estate
V1	$32,070,081
V2	15,542,230
V3	10,450,301
V4	5,130,957
V5	3,179,200
V6	1,939,553
V7	6,793,067
V8	1,080,657
V9	558,107
No risk grade	590,208
Total	$77,334,361

NOTE 4: PROPERTY AND EQUIPMENT

A summary of the Credit Union's property and equipment is as follows:

	As of December 31,	
	2013	**2012**
Furniture and equipment	$9,952,424	$9,492,920
Leasehold improvements	2,417,294	2,058,037
	12,369,718	11,550,957
Less accumulated depreciation and amortization	(10,651,708)	(9,806,327)
	$1,718,010	$1,744,630

NOTE 5: MEMBERS' SHARES AND DEPOSITS

Members' shares and deposits are summarized as follows:

	As of December 31, 2013	As of December 31, 2012
Share drafts	$87,407,378	$75,440,005
Regular shares	90,256,849	82,084,993
Money market accounts	203,201,459	196,136,060
IRA shares	30,206,929	31,797,580
Share and IRA certificates	132,102,815	142,173,887
	$543,175,430	$527,632,525

The aggregate balance of members' time deposit accounts in denominations of $100,000 or more was approximately $69,463,000 and $73,788,000 as of December 31, 2013 and 2012, respectively. Negative share and share draft accounts reclassified to loans to members were approximately $504,000 and $427,000 as of December 31, 2013 and 2012, respectively.

Scheduled maturities of share and IRA certificates are as follows:

	As of December 31, 2013
Within 1 year	$90,409,093
1 to 2 years	21,395,354
2 to 3 years	8,231,001
3 to 4 years	6,982,797
4 to 5 years	5,084,570
	$132,102,815

SHARE INSURANCE

As of December 31, 2013, members' shares were insured by the NCUSIF to a maximum of $250,000 for each member. Individual Retirement Accounts are insured by the NCUSIF for an additional $250,000 of coverage.

NOTE 6: EMPLOYEE BENEFITS

CASH BALANCE PROGRAM AND 401(K) PENSION PLAN

On January 1, 2009, the Credit Union's defined benefit pension plan was modified and only vested employees who were age 40 and over, or who had 10 years of service as of December 31, 2008, were grandfathered into the existing pension plan. All remaining and new employees became participants of the Cash Balance Program. Farmers makes quarterly contributions to the employees' cash balance account, which is based on a percentage of the employees' salaries. Also, the noncontributory deferred profit sharing plan was terminated and replaced with a 401(k) plan through Farmers, which allows employees to defer a portion of their salary into the 401(k) plan up to certain limits established by the Internal Revenue Service. The Credit Union makes discretionary matching contributions each year. Participants are always 100% vested in all their voluntary contributions. The Credit Union's matching contributions become fully vested at the completion of three years of service.

Retirement plan costs are accrued and funded on a current basis. Total retirement plan costs paid by the Credit Union to Farmers for the years ended December 31, 2013 and 2012 amounted to approximately $821,000 and $830,000, respectively.

NOTE 7: COMMITMENTS AND CONTINGENT LIABILITIES

LEASE COMMITMENTS

The Credit Union leases several branch locations. The minimum remaining noncancellable lease obligations approximate the following as of December 31, 2013:

Year ending December 31,	Amount
2014	$958,000
2015	961,000
2016	916,000
2017	903,000
Thereafter	1,458,000
	$5,196,000

Rental expense under operating leases was approximately $1,280,000 and $1,262,000 for the years ended December 31, 2013 and 2012, respectively.

LINES OF CREDIT

As of December 31, 2013, the Credit Union maintained two unused lines of credit with CCFCU. The terms of the agreement requires the pledging of all presently owned and later acquired unencumbered assets as security for obligations under the line-of-credit agreement. As of December 31, 2013, the total unused lines of credit under the CCFCU agreement approximated $50,000,000.

Note 7: (continued)

MISCELLANEOUS LITIGATION

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

NOTE 8: OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

OFF-BALANCE-SHEET RISK

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

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments may expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. As of December 31, 2013, total unfunded commitments under such lines of credit approximated $149,733,000. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the member.

CONCENTRATIONS OF CREDIT RISK

A significant amount of the Credit Union's business activity is with members who are employees or former employees of Farmers. The Credit Union also may be exposed to credit risk from a regional economic standpoint, since a significant concentration of its borrowers work or reside in the state of California. However, the loan portfolio is well diversified and the Credit Union does not have any significant concentration of credit risk, except unsecured loans, which by their nature, increase the risk of loss compared to those loans that are collateralized.

NOTE 9: REGULATORY CAPITAL

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

Note 9: (continued)

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth (as defined in NCUA's Regulations) to total assets (as defined in NCUA's Regulations). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR as of December 31, 2013 and 2012 was 5.66% and 5.26%, respectively. The minimum requirement to be considered complex under the regulatory framework is 6.00%. Management believes, as of December 31, 2013, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2013, the most recent call reporting period, the NCUA categorized the Credit Union as "*well capitalized*" under the regulatory framework for prompt corrective action. To be categorized as "*well capitalized*" the Credit Union must maintain a minimum net worth ratio of 7.00% of assets. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

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

	As of December 31, 2013		As of December 31, 2012	
	Amount	**Ratio/ Requirement**	**Amount**	**Ratio/ Requirement**
Actual net worth	$80,863,746	12.84%	$77,118,494	12.64%
Amount needed to be classified as "adequately capitalized"	$37,777,411	6.00%	$36,616,349	6.00%
Amount needed to be classified as "well capitalized"	$44,073,646	7.00%	$42,719,074	7.00%

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

NOTE 10: FAIR VALUES OF FINANCIAL INSTRUMENTS

The Fair Value Measurements and Disclosures Topic of the FASB ASC provides a framework for measuring fair value and requires an entity to derive fair value from the price 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 within its principal market for the asset or liability, or in the absence of a principal market, the most advantageous market for the asset or liability. To increase consistency and comparability in fair value measurements and related disclosures, a three-level hierarchy prioritizes the inputs to valuation techniques used to measure fair value with the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3) as further described below:

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

Level 2
Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are inactive; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3
Level 3 inputs are unobservable inputs for the asset or liability which reflect the Credit Union's own assumptions about the assumptions that market participants would use in pricing the asset or liability. Assumptions about risk include risk inherent in a particular valuation technique used to measure fair value, typically pricing models and/or discounted cash flow methodologies.

The methodologies and associated inputs used may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Credit Union believes its valuation methods and associated inputs are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Certain assets and liabilities may be required to be measured at fair value on a non-recurring basis. These non-recurring fair value measurements usually result from the application of lower of cost or market accounting or the write-down of individual assets due to impairment.

Note 10: (continued)

RECURRING BASIS

AVAILABLE-FOR-SALE SECURITIES
The Credit Union receives pricing for available-for-sale securities from a third-party pricing service. These securities are classified as Level 2 in the fair value hierarchy. All available-for-sale securities are valued based on quoted market prices on similar assets in the marketplace and the vintage of the underlying collateral.

NON-RECURRING BASIS

OTHER REAL ESTATE OWNED (OREO)
OREO properties acquired through or in lieu of foreclosure are initially recorded at fair value less estimated selling costs at the date of foreclosure. Depending on the accessability of the property, the Credit Union may utilize broker price opinions (BPOs), full appraisals or use an automated valuation model to estimate the fair market value of OREO properties. These methods consider the value of similar surrounding properties, sales trends in the neighborhood, an estimate of any of the costs associated with getting the property ready for sale, and/or the cost of any needed repairs. The Credit Union evaluates the reasonableness by analyzing significant fluctuations in property values on a period-by-period basis. Fair value less costs to sell is an estimated value based on relevant recent historical data that are considered unobservable inputs, and as such, OREO is classified as Level 3 in the fair value hierarchy and valued on a non-recurring basis.

During the holding period, valuations are updated to reflect changes in fair value, and the OREO is carried at the lower of the amount recorded at acquisition date or estimated fair value less costs to sell. Holding costs such as insurance, maintenance, taxes and utility costs are expensed as incurred. The Credit Union markets the OREO properties for sale to the public and generally does not hold OREO for longer than one year. Valuation adjustments on these assets as well as gains or losses realized from disposition of such properties are reflected in "other non-interest expense" on the statements of income.

The following tables set forth by level, within the fair value hierarchy, the Credit Union's financial instruments at fair value on a recurring basis.

	Assets at Fair Value as of December 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale securities:				
Mortgage-backed securities	$—	$2,332,901	$—	$2,332,901
NCUA guaranteed notes	—	17,804,784	—	17,804,784
Collateralized-mortgage obligations	—	51,126	—	51,126
	$—	$20,188,811	$—	$20,188,811

Note 10: (continued)

	Assets at Fair Value as of December 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale securities:				
Mortgage-backed securities	$—	$2,798,878	$—	$2,798,878
NCUA guaranteed notes	—	22,120,195	—	22,120,195
Collateralized-mortgage obligations	—	62,417	—	62,417
	$—	$24,981,490	$—	$434,256,125

The tables below present the items measured at fair value on the statements of financial condition on a non-recurring basis when certain assets are measured at the lower of cost of market that were recognized at fair value below cost at the end of the period.

	Assets at Fair Value as of December 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
OREO	$—	$—	$2,332,721	$2,332,721

	Assets at Fair Value as of December 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
OREO	$—	$—	$2,438,510	$2,438,510

The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of amounts that could be realized in a market exchange. The use of different assumptions and estimation methodologies may have a material effect on the estimated fair value amounts. The following methods and assumptions were used to estimate fair value of each of the financial instruments for which it is practicable to estimate.

CASH
The carrying amount is a reasonable estimation of fair value.

INVESTMENTS
Estimated fair values for investments are obtained from quoted market prices where available.

LOANS TO MEMBERS, NET
The fair value of loans was estimated by discounting the estimated cash flows using market-based assumptions for expected prepayment rates, default rates, loss severity, and required rates of return.

ACCRUED INTEREST RECEIVABLE
The carrying amount is a reasonable estimation of fair value.

Note 10: (continued)

MEMBERS' SHARES AND DEPOSITS

The estimated fair value of demand deposit accounts is the carrying amount. The fair value of fixed-rate certificates was estimated by discounting the estimated cash flows using the current rate at which similar certificates would be issued.

INTEREST PAYABLE

The carrying amount is a reasonable estimation of fair value.

COMMITMENTS TO EXTEND CREDIT

The Credit Union's unused loan commitments to extend credit have no carrying amount and have been estimated to have no realizable fair value. The Credit Union does not charge fees in connection with these commitments and a majority of the unused loan commitments have historically not been drawn upon.

The carrying value and estimated fair value of the Credit Union's financial instruments are as follows:

	As of December 31, 2013		As of December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash	$4,016,722	$4,016,722	$2,261,269	$2,261,269
Investments:				
Available-for-sale	$20,188,811	$20,188,811	$24,981,490	$24,981,490
Held-to-maturity	$36,833,938	$36,857,558	$27,529,465	$27,529,465
Other	$31,153,467	$31,153,467	$55,766,973	$55,766,973
Loans to members, net	$517,060,869	$509,877,695	$481,127,580	$484,278,355
Accrued interest receivable:				
Investments	$72,369	$72,369	$69,065	$69,065
Loans	$2,239,956	$2,239,956	$2,344,591	$2,344,591
Financial liabilities:				
Members' shares and deposits	$543,175,430	$544,386,996	$527,632,525	$528,934,269
Interest payable	$278,118	$278,118	$303,636	$303,636

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