

# American Airlines Federal Credit Union

Financial Statements  
December 31, 2017 and 2016

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RSM US LLP

## Independent Auditor's Report

To the Supervisory Committee  
American Airlines Federal Credit Union

### Report on the Financial Statements

We have audited the accompanying financial statements of American Airlines Federal Credit Union (a federally chartered credit union), which comprise the statements of financial condition as of December 31, 2017 and 2016; the related statements of income, members' equity, comprehensive income 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 audit to obtain reasonable assurance about whether the financial statements are free of 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 American Airlines Federal 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 conformity with accounting principles generally accepted in the United States of America.

*RSM US LLP*

Dallas, Texas  
March 15, 2018

**American Airlines Federal Credit Union**

**Statements of Financial Condition  
December 31, 2017 and 2016  
(In Thousands)**

	2017	2016
<b>Assets</b>		
Cash and cash equivalents	\$ 244,209	\$ 341,055
Investments:		
Available for sale	2,177,101	2,292,280
Other	3,584	3,393
Loans, net	4,158,846	3,682,380
Accrued interest receivable	13,963	11,575
Share insurance fund deposit	52,608	49,940
Property and equipment, net	21,297	21,402
Other real estate owned (OREO), net	113	468
Other assets	9,092	7,966
	<u>9,092</u>	<u>7,966</u>
<b>Total assets</b>	<b>\$ 6,680,813</b>	<b>\$ 6,410,459</b>
<b>Liabilities and Members' Equity</b>		
Liabilities:		
Members' shares	\$ 5,961,482	\$ 5,725,125
Dividends payable	6,322	4,230
Accrued expenses and other liabilities	45,921	39,404
<b>Total liabilities</b>	<b>6,013,725</b>	<b>5,768,759</b>
Commitments and contingencies (Notes 4 and 7)		
Members' equity:		
Retained earnings	664,197	642,046
Accumulated other comprehensive income (loss)	2,891	(346)
<b>Total members' equity</b>	<b>667,088</b>	<b>641,700</b>
<b>Total liabilities and members' equity</b>	<b>\$ 6,680,813</b>	<b>\$ 6,410,459</b>

See notes to financial statements.

**American Airlines Federal Credit Union**

**Statements of Income**  
**Years Ended December 31, 2017 and 2016**  
**(In Thousands)**

	2017	2016
Interest income:		
Loans	\$ 144,873	\$ 134,080
Investments and cash equivalents	34,794	19,882
	<u>179,667</u>	<u>153,962</u>
Interest expense:		
Members' shares	80,359	62,206
<b>Net interest income</b>	<u>99,308</u>	<u>91,756</u>
Provision for loan losses	16,217	11,110
<b>Net interest income after provision for loan losses</b>	<u>83,091</u>	<u>80,646</u>
Noninterest income:		
Fee income	32,396	29,667
Other operating income	7,092	6,821
Gain on sale of investments	408	226
Gain on sale of OREO	4	13
Other gains	1,384	505
	<u>41,284</u>	<u>37,232</u>
<b>Income before noninterest expenses</b>	<u>124,375</u>	<u>117,878</u>
Noninterest expenses:		
Compensation and benefits	50,720	48,890
Office occupancy	7,074	6,883
Office operations	26,832	26,789
Education and promotional	7,876	7,679
Loan servicing	1,672	1,583
Professional and outside services	3,165	2,840
Travel and conferences	1,068	1,042
Miscellaneous operating	3,817	3,507
	<u>102,224</u>	<u>99,213</u>
<b>Net income</b>	<u>\$ 22,151</u>	<u>\$ 18,665</u>

See notes to financial statements.

**American Airlines Federal Credit Union**

**Statements of Members' Equity  
Years Ended December 31, 2017 and 2016  
(In Thousands)**

	Retained Earnings		Accumulated	Total
	Regular Reserve	Undivided Earnings	Other Comprehensive Income (Loss)	
Balance, December 31, 2015	\$ 61,769	\$ 561,612	\$ (236)	\$ 623,145
Net income	-	18,665	-	18,665
Other comprehensive loss	-	-	(110)	(110)
Balance, December 31, 2016	61,769	580,277	(346)	641,700
Net income	-	22,151	-	22,151
Other comprehensive income	-	-	3,237	3,237
<b>Balance, December 31, 2017</b>	<b>\$ 61,769</b>	<b>\$ 602,428</b>	<b>\$ 2,891</b>	<b>\$ 667,088</b>

See notes to financial statements.

**American Airlines Federal Credit Union**

**Statements of Comprehensive Income  
Years Ended December 31, 2017 and 2016  
(In Thousands)**

	<b>2017</b>	2016
Net income	<u>\$ 22,151</u>	<u>\$ 18,665</u>
Other comprehensive income (loss):		
Net unrealized gains on investments available for sale	3,645	116
Reclassification adjustment for gains realized in net income	<u>(408)</u>	<u>(226)</u>
<b>Other comprehensive income (loss)</b>	<u>3,237</u>	<u>(110)</u>
<b>Comprehensive income</b>	<u><u>\$ 25,388</u></u>	<u><u>\$ 18,555</u></u>

See notes to financial statements.

**American Airlines Federal Credit Union**

**Statements of Cash Flows**  
**Years Ended December 31, 2017 and 2016**  
**(In Thousands)**

	2017	2016
Cash flows from operating activities:		
Net income	\$ 22,151	\$ 18,665
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on disposition of property and equipment	-	5
Amortization of premium of investment securities, net	995	1,745
Provision for loan losses	16,217	11,110
Depreciation and amortization	4,410	4,311
Gain on sale of investments	(408)	(226)
Gain on sale of OREO	(4)	(13)
Net change in:		
Accrued interest receivable	(2,388)	(525)
Other assets	(1,126)	(731)
Accrued expenses, dividends payable and other liabilities	8,609	4,376
<b>Net cash provided by operating activities</b>	<b>48,456</b>	<b>38,717</b>
Cash flows from investing activities:		
Purchases of available-for-sale investments	(853,992)	(1,569,542)
Proceeds from maturities of available-for-sale investments	672,697	676,718
Proceeds from sales of available-for-sale investments	299,124	368,263
Net change in other investments	(191)	(99)
Net change in loans	(492,871)	(389,203)
Increase in share insurance fund deposits	(2,668)	(2,188)
Proceeds from sale of OREO	547	741
Purchases of property and equipment	(4,305)	(2,585)
<b>Net cash used in investing activities</b>	<b>(381,659)</b>	<b>(917,895)</b>
Cash flows from financing activities:		
Net increase in members' shares	236,357	426,328
<b>Net cash provided by financing activities</b>	<b>236,357</b>	<b>426,328</b>
<b>Decrease in cash and cash equivalents</b>	<b>(96,846)</b>	<b>(452,850)</b>
Cash and cash equivalents:		
Beginning of year	341,055	793,905
End of year	\$ 244,209	\$ 341,055
Supplemental disclosures of cash flow information:		
Dividends paid on members' shares	\$ 78,267	\$ 60,980
Loans transferred to other real estate owned	\$ 270	\$ 727

See notes to financial statements.



## American Airlines Federal Credit Union

### Notes to Financial Statements

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#### Note 1. Nature of Operations and Significant Accounting Policies

**Nature of operations:** American Airlines Federal Credit Union (the Credit Union) is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act. The Credit Union provides a variety of financial services to its members. Primary deposit products are share and certificate accounts. The Credit Union's primary lending products are real estate and consumer loans. The Credit Union is subject to competition from other financial institutions and non-credit financial service companies. The Credit Union is subject to the regulation of certain federal agencies and undergoes periodic examination by the National Credit Union Administration (NCUA).

**Significant accounting policies:** The Credit Union follows the accounting standards set by the Financial Accounting Standards Board (FASB). The FASB establishes accounting principles generally accepted in the United States of America (GAAP). References to GAAP issued by the FASB in these footnotes are to the *FASB Accounting Standards Codification*<sup>™</sup>, commonly referred to as the Codification or ASC.

**Use of estimates:** The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan losses and the fair value of investment securities available for sale.

**Concentrations of credit risk:** Membership in the credit union is open to those working in the Air Transportation Industry and their families. Most of the Credit Union's business activity is with its members who are current or former employees of American Airlines Group, Inc. (AAG). The Credit Union may be exposed to credit risk from a regional economic standpoint as a significant concentration of its borrowers reside in Texas. Although the Credit Union has a diversified loan portfolio, borrowers' ability to repay loans may be affected by the economic climate of either the air transportation industry or the overall geographic region in which they reside.

**Fair value:** The Codification defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement. Fair value is a market-based measurement, not an entity-specific measurement, and the fair value hierarchy gives the highest priority to quoted prices in active markets. Fair value measurements are disclosed by level within the hierarchy. A summary of the Credit Union's financial instruments and other accounts subject to fair value, including methodologies and resulting values, is presented in Note 10 to these financial statements.

**Cash flows:** For purposes of the statement of cash flows, cash and cash equivalents consist of cash on hand and non-term share deposits in various financial institutions. Amounts may exceed the federally insured limits, but the Credit Union has not experienced any losses. Cash flows are reported net for loans and share accounts.

**Investments:** Investments that the Credit Union intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available-for-sale and are carried at fair value. Unrealized gains and losses on investments classified as available-for-sale have been accounted for as accumulated other comprehensive income. Losses, if any, associated with credit impairments are recorded through operations.

## American Airlines Federal Credit Union

### Notes to Financial Statements

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#### Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Gains and losses on the sale of available-for-sale investments are determined using the specific-identification method. Interest and dividends on investments are included in income when earned. Amortization of premiums and accretion of discounts are recognized in interest income over the period to maturity or until sold. Declines in the fair value of individual available-for-sale investments below their costs that are other than temporary would result in write-downs of the individual investments to their fair value. Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrading of the investment by a rating agency, a significant deterioration in the financial condition of the issuer, or a determination that management would not have the ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

Other investments are classified separately and are stated at cost.

**Loans:** The Credit Union grants real estate, consumer and business loans to members. The ability of members to honor their contracts may be impacted by the real estate and/or general economic conditions of their particular area of residence.

Loans are stated at the amount of unpaid principal balances and net deferred fees and costs, reduced by an allowance for loan losses. Purchased loans are stated net of unamortized premiums. Interest on loans is recognized over the terms of the loans and is calculated on principal amounts outstanding.

Accrual of interest income is discontinued when loans become 90 days delinquent. Income is subsequently recognized on a cash basis until the loan's delinquency status is less than 90 days.

Loan fees and origination costs are deferred, with the net fee recognized as an adjustment to interest income using the interest method over the expected lives of the related loans or until such loans are modified or paid in full.

**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 collectability of a loan balance is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based on management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. While management uses the best information available to make its evaluations, further adjustments to the allowance may be necessary if there are significant changes to economic conditions.

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 size and current risk characteristics of the loan portfolio. General allowances are established for loans that can be grouped into pools based on similar characteristics in compliance with GAAP and regulatory guidelines. In this process, general allowance factors are based on an analysis of historical net charge-off experience and expected losses given default ratios derived from the Credit Union's internal risk rating process. These factors are developed and applied to the portfolio by loan type. The qualitative factors associated with the allowance are subjective and require a high degree of management judgment. These factors include credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging data. Specific allowances are maintained for loans with characteristics that distinguish them from the pools of loans with similar, but nonspecific characteristics (such as delinquencies of 60 days or more, bankruptcies, troubled debt restructures, impaired loans, etc.).

## American Airlines Federal Credit Union

### Notes to Financial Statements

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#### Note 1. Nature of Operations and Significant Accounting Policies (Continued)

**Property and equipment:** Land is carried at cost. Building, leasehold improvements, furniture and equipment are carried at cost, less accumulated depreciation and amortization. Building, furniture and equipment are depreciated using the straight-line method over the estimated useful life of the asset. Estimated useful lives are approximately 3-10 years for furniture and equipment, with building life extending to 30 years. Leasehold improvements are amortized using the straight-line method over the lesser of five years or the term of the related lease.

**Other real estate owned and foreclosed assets:** Other real estate owned (OREO) is recorded at fair value less the estimated costs to sell the property at the date of transfer to other real estate owned, establishing a new cost basis. At the time a loan is transferred to OREO, any carrying amount in excess of the fair value less estimated costs to sell the property is charged off to the allowance for loan losses. Subsequently, should the fair value of an asset, less the estimated costs to sell, decline to less than the carrying amount of the asset, the deficiency is recognized in the period in which it becomes known and is included in loss on sale of OREO. Maintenance costs of properties are included in noninterest expense. Gain realized from sales of OREO is recorded in gain on sale of OREO.

**Other revenue recognition:** Revenue from service charges and fees on member deposits is recognized as the services are provided.

**National Credit Union Share Insurance Fund (NCUSIF) deposit:** The deposit in the NCUSIF is in accordance with NCUA regulations, which requires the maintenance of a deposit by each federally insured credit union in an amount equal to 1 percent of its insured members' shares. The deposit would be refunded to the credit union if its insurance coverage was terminated, if it converted its insurance coverage to another source, or if management of the fund was transferred from the NCUA Board.

**Members' shares:** Members' shares are the deposit accounts of the owners of the Credit Union. Share ownership entitles members to vote in the annual election of the Board of Directors. Irrespective of the amount of shares owned, no member has more than one vote. Dividends on members' shares, excluding share certificates, are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates are approved by the Credit Union's Board of Directors.

**Income taxes:** By statute, the Credit Union is exempt from federal and state income taxes.

**Comprehensive income:** Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on available for sale investments.

**Reclassification of prior year presentation:** Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported net income or members' equity.

**Recent accounting pronouncements:** In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Credit Union is currently evaluating the impact this guidance will have on its financial statements and related disclosures.

## American Airlines Federal Credit Union

### Notes to Financial Statements

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#### Note 1. Nature of Operations and Significant Accounting Policies (Continued)

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Credit Union for fiscal years beginning after December 15, 2018. The Credit Union elected to early adopt a provision of the amendment for non-public business entities, which no longer requires disclosure of the fair value of financial instruments measured at amortized cost and as such, this disclosure is not included herein.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Credit Union is currently evaluating the impact this guidance will have on its financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-04, *Liabilities—Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products*, which amends existing guidance on extinguishing financial liabilities for certain prepaid stored-value products. ASU 2016-04 requires a company to derecognize the amount related to the expected breakage in proportion to the pattern of rights expected to be exercised by the product holder to the extent that it is probable that a significant reversal of the recognized breakage amount will not subsequently occur. ASU 2016-04 will be effective for the Credit Union for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Credit Union is currently evaluating the impact this guidance will have on its financial statements and related disclosures.

## American Airlines Federal Credit Union

### Notes to Financial Statements

#### Note 1. Nature of Operations and Significant Accounting Policies (Continued)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial instruments. The existing incurred loss model will be replaced with a current expected credit loss (CECL) model for both originated and acquired financial instruments carried at amortized cost and off-balance sheet credit exposures, including loans, loan commitments, held-to-maturity debt securities, financial guarantees, net investment in leases, and most receivables. Recognized amortized cost financial assets will be presented at the net amount expected to be collected through an allowance for credit losses. Expected credit losses on off-balance sheet credit exposures will be recognized through a liability. Expected credit losses on available-for-sale (AFS) debt securities will also be recognized through an allowance, however the allowance for an individual AFS debt security will be limited to the amount by which fair value is below amortized cost. Unlike current guidance, which requires certain favorable changes in expected cash flows to be accreted into interest income, both favorable and unfavorable changes in expected credit losses (and therefore the allowance) will be recognized through credit loss expense as they occur. With the exception of purchased financial assets with a more than insignificant amount of credit deterioration since origination, for which the initial allowance will be added to the purchase price of the assets, the initial allowance on financial assets subject to the scope (whether originated or acquired) will be recognized through credit loss expense. Expanded disclosures will also be required. Transition will generally be on a modified retrospective basis, with certain prospective application transition provisions for securities for which other-than-temporary impairment had previously been recognized and for assets that had previously been accounted for in accordance with Subtopic 310-30, *Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality*. The ASU is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Credit Union is currently evaluating the impact this guidance will have on its financial statements and related disclosures.

**Subsequent events:** The Credit Union has evaluated subsequent events through March 15, 2018, the date on which the financial statements were available to be issued.

#### Note 2. Investments

Investments classified as available-for-sale consist of the following (in thousands):

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
December 31, 2017				
Government agencies	\$ 683,646	\$ 2,877	\$ (366)	\$ 686,157
Negotiable certificates	620,000	1,135	(27)	621,108
Mortgage-backed securities	870,564	800	(1,528)	869,836
	<u>\$ 2,174,210</u>	<u>\$ 4,812</u>	<u>\$ (1,921)</u>	<u>\$ 2,177,101</u>
December 31, 2016				
Government agencies	\$ 774,347	\$ 1,955	\$ (318)	\$ 775,984
Negotiable certificates	575,393	320	(7)	575,706
Mortgage-backed securities	942,886	488	(2,784)	940,590
	<u>\$ 2,292,626</u>	<u>\$ 2,763</u>	<u>\$ (3,109)</u>	<u>\$ 2,292,280</u>

Mortgage-backed securities held by the Credit Union are issued by U.S. government-sponsored enterprises.

## American Airlines Federal Credit Union

### Notes to Financial Statements

#### Note 2. Investments (Continued)

Gross realized gains on sales of investments available for sale were \$408,000 in 2017 and \$226,000 in 2016. There were no gross realized losses on sales of investments available for sale in 2017 or 2016.

Investments by maturity as of December 31, 2017, are summarized as follows (in thousands):

	Available for Sale	
	Amortized Cost	Fair Value
Less than 1 year maturity	\$ 564,231	\$ 565,030
1-5 years maturity	739,415	742,235
Mortgage-backed securities	870,564	869,836
	<u>\$ 2,174,210</u>	<u>\$ 2,177,101</u>

As of December 31, 2017 and 2016, there were no securities pledged.

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2017 and 2016, are as follows (in thousands):

Description of Securities— Available for Sale	Fair Value	Continuous Unrealized Losses Existing For		Total Unrealized Losses
		Less Than 12 Months	More Than 12 Months	
2017:				
Government agencies	\$ 41,035	\$ 49	\$ 317	\$ 366
Negotiable certificates	49,973	27	-	27
Mortgage-backed securities	526,280	280	1,248	1,528
	<u>\$ 617,288</u>	<u>\$ 356</u>	<u>\$ 1,565</u>	<u>\$ 1,921</u>
2016:				
Government agencies	\$ 171,166	\$ 318	\$ -	\$ 318
Negotiable certificates	44,993	7	-	7
Mortgage-backed securities	687,290	1,169	1,615	2,784
	<u>\$ 903,449</u>	<u>\$ 1,494</u>	<u>\$ 1,615</u>	<u>\$ 3,109</u>

As of December 31, 2017, the investment portfolio included 142 securities, 54 of which had unrealized losses that existed for longer than one year. As of December 31, 2016, the investment portfolio included 142 securities, 36 of which had unrealized losses that existed for longer than one year. All of these securities are considered to be acceptable credit risks. Based upon an evaluation of the available evidence, including recent changes in market rates, credit rating information and information obtained from regulatory filings, management believes the decline in fair value for these securities is temporary. In addition, the Credit Union has the intent and ability to hold these investment securities for a period of time sufficient to allow for recovery.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period in which the other-than-temporary impairment is identified. The Credit Union has not recognized any other-than-temporary impairment on any securities for the years ended December 31, 2017 or 2016.

## American Airlines Federal Credit Union

### Notes to Financial Statements

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#### Note 2. Investments (Continued)

Other investments consist of the following (in thousands):

	2017	2016
Share certificate in other credit union	\$ 250	\$ 250
Member capital account in corporate credit union	750	750
Federal Home Loan Bank (FHLB) stock	2,584	2,393
	<u>\$ 3,584</u>	<u>\$ 3,393</u>

As of December 31, 2017, FHLB stock of \$2,583,800 and Catalyst Corporate Federal Credit Union Perpetual Contributed Capital of \$750,000 are classified with no contractual maturity. A certificate of \$250,000 in a natural person credit union is classified with less than one year maturity.

**FHLB of Dallas stock:** Although the stock is an equity interest in the FHLB, it does not have a readily determinable fair value as ownership is restricted and a market does not exist. The stock can be sold back to the FHLB or another member institution at its par value, subject to approval by the FHLB.

Management periodically evaluates the carrying amount of the stock for impairment and has determined that no impairment occurred during the years ended December 31, 2017 and 2016.

#### Note 3. Loans and Allowance for Loan Losses

Loans consist of the following at December 31 (in thousands):

	2017	2016
Real estate loans:		
Mortgage loans	\$ 1,721,526	\$ 1,579,274
Home equity loans	121,595	109,125
Total real estate loans	<u>1,843,121</u>	<u>1,688,399</u>
Consumer and business loans:		
Vehicle loans	671,540	574,202
Other consumer loans	1,672,757	1,446,059
Total consumer and business loans	<u>2,344,297</u>	<u>2,020,261</u>
Total loans receivable	4,187,418	3,708,660
Deferred net loan origination fees	(32)	(846)
Allowance for loan losses	(28,540)	(25,434)
	<u>\$ 4,158,846</u>	<u>\$ 3,682,380</u>

The Credit Union originates real estate, consumer and business loans to its members. The loan balances, interest rates, loan terms and collateral requirements vary according to the type of loan offered and creditworthiness of the borrowing member.

## American Airlines Federal Credit Union

### Notes to Financial Statements

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#### Note 3. Loans and Allowance for Loan Losses (Continued)

**Real estate:** The Credit Union grants long-term mortgage loans secured by real property belonging to members. Home equity fixed-rate loans with maturities up to 15 years and home equity lines of credit with maturities up to 25 years may also be offered. Acceptable property types include: single-family detached or attached housing, single condominium units, single units in a planned-unit-development, and 1–4 family residences. The Credit Union generally requires an analysis of collateral value and creditworthiness to determine the capacity of the borrower to repay the obligation.

**Consumer:** The Credit Union grants consumer loans which consist of vehicle, share secured, and unsecured products. The Credit Union generally requires an analysis of creditworthiness to determine the capacity of the borrower to repay the obligation.

**Business:** The Credit Union grants loans to business members which consist of 1–4 family dwellings that are not a member's primary residence, commercial real estate, term loans (secured), revolving lines of credit (secured and unsecured), and unsecured credit cards. The Credit Union requires an analysis that includes collateral valuation (where applicable) and projected income and cash flow that allows for adequate coverage of required payments and obligations. As of December 31, 2017 and 2016, total business loans amounted to \$4,882,000 and \$4,645,000, respectively. These loans are included in other mortgage and other consumer loans above.

**Workout:** The Credit Union grants workout loans to members who may be experiencing a change in financial condition and who have demonstrated a willingness and ability to repay their debts. Depending on the specific circumstance, workout options include loan refinance or loan modification, for consumer loans, and repayment plan/forbearance agreement, loan modification, loan refinance, or troubled debt restructuring (TDR) for real estate loans.

**Impairment:** A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. The Credit Union assesses real estate loans that are four or more months past due for impairment. Impairment is considered to exist when the unpaid balance of the loan exceeds the appraised property value less estimated costs to sell. Real estate loans considered a troubled debt restructuring are also evaluated for impairment. Impairment is the greater of the difference between the original loan contract and the present value of future discounted cash flows of the restructured loan contract versus the difference between the outstanding loan balance and the market value of the property less costs to sell (assuming the outstanding loan balance is higher).



## American Airlines Federal Credit Union

### Notes to Financial Statements

#### Note 3. Loans and Allowance for Loan Losses (Continued)

The schedule below presents impaired loans and nonperforming loans by class at December 31 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2017:					
Impaired loans with no related allowance recorded	\$ -	\$ -	\$ -	\$ -	\$ -
Impaired loans with an allowance recorded:					
Real estate loans:					
Mortgage loans	10,588	10,588	958	10,275	204
Home equity loans	1,393	1,393	166	1,453	24
Total real estate loans	11,981	11,981	1,124	11,728	228
Consumer and business loans:					
Vehicle loans	2,357	2,357	1,697	2,244	65
Other consumer loans	8,297	8,297	5,229	8,475	96
Total consumer and business loans	10,654	10,654	6,926	10,719	161
Impaired loans with an allowance recorded	22,635	22,635	8,050	22,447	389
Total impaired loans	\$ 22,635	\$ 22,635	\$ 8,050	\$ 22,447	\$ 389
2016:					
Impaired loans with no related allowance recorded	\$ -	\$ -	\$ -	\$ -	\$ -
Impaired loans with an allowance recorded:					
Real estate loans:					
Mortgage loans	9,962	9,962	1,143	12,467	250
Home equity loans	1,513	1,513	216	1,779	38
Total real estate loans	11,475	11,475	1,359	14,246	288
Consumer and business loans:					
Vehicle loans	2,131	2,131	1,456	3,290	82
Other consumer loans	8,653	8,653	5,599	6,622	115
Total consumer and business loans	10,784	10,784	7,055	9,912	197
Impaired loans with an allowance recorded	22,259	22,259	8,414	24,158	485
Total impaired loans	\$ 22,259	\$ 22,259	\$ 8,414	\$ 24,158	\$ 485

A summary of impaired loans also classified as TDRs at December 31 is as follows (in thousands):

	2017	2016
Consumer	\$ 314	\$ 321
Real estate	4,577	2,999
	\$ 4,891	\$ 3,320

## American Airlines Federal Credit Union

### Notes to Financial Statements

#### Note 3. Loans and Allowance for Loan Losses (Continued)

The schedule below presents the recorded investment in nonaccrual loans by loan category as of December 31 (in thousands):

	2017	2016
Mortgage loans	\$ 5,665	\$ 5,365
Home equity loans	400	1,037
Vehicle loans	1,155	794
Other consumer loans, excluding credit cards and purchased loans	1,916	1,539
	<u>\$ 9,136</u>	<u>\$ 8,735</u>

The following table presents the aging of the recorded investment in past due loans as of December 31 by class of loans (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total	Loans Not Past Due	Total Loans
2017:						
Real estate loans:						
Mortgage loans	\$ 9,810	\$ 714	\$ 5,665	\$ 16,189	\$ 1,705,337	\$ 1,721,526
Home equity loans	379	9	400	788	120,807	121,595
Total real estate loans	<u>10,189</u>	<u>723</u>	<u>6,065</u>	<u>16,977</u>	<u>1,826,144</u>	<u>1,843,121</u>
Consumer and business loans:						
Vehicle	3,398	488	1,155	5,041	666,499	671,540
Other consumer loans	7,459	2,665	5,170	15,294	1,657,463	1,672,757
Total consumer and business loans	<u>10,857</u>	<u>3,153</u>	<u>6,325</u>	<u>20,335</u>	<u>2,323,962</u>	<u>2,344,297</u>
	<u>\$ 21,046</u>	<u>\$ 3,876</u>	<u>\$ 12,390</u>	<u>\$ 37,312</u>	<u>\$ 4,150,106</u>	<u>\$ 4,187,418</u>
2016:						
Real estate loans:						
Mortgage loans	\$ 7,661	\$ 1,999	\$ 5,365	\$ 15,025	\$ 1,564,249	\$ 1,579,274
Home equity loans	999	464	1,037	2,500	106,625	109,125
Total real estate loans	<u>8,660</u>	<u>2,463</u>	<u>6,402</u>	<u>17,525</u>	<u>1,670,874</u>	<u>1,688,399</u>
Consumer and business loans:						
Vehicle	3,074	619	794	4,487	569,715	574,202
Other consumer loans	6,922	2,538	5,527	14,987	1,431,072	1,446,059
Total consumer and business loans	<u>9,996</u>	<u>3,157</u>	<u>6,321</u>	<u>19,474</u>	<u>2,000,787</u>	<u>2,020,261</u>
	<u>\$ 18,656</u>	<u>\$ 5,620</u>	<u>\$ 12,723</u>	<u>\$ 36,999</u>	<u>\$ 3,671,661</u>	<u>\$ 3,708,660</u>

The Credit Union charges-off loans that have been past due for over 180 days. Loans are classified by delinquency status.

During the periods ended December 31, 2017 and 2016, the terms of certain loans were modified as troubled debt restructurings. The modification of such loans was a reduction of the stated interest rate or extension of the loan term. Real estate troubled debt restructures are included in the allowance as either the greater of the difference between the present value of the original loan contract and the present value of future discounted cash flows of the restructured loan contract or the difference between the outstanding loan balance and the market value of the property less costs to sell (assuming the outstanding loan balance is higher). Consumer loan troubled debt restructures are included in the allowance when the outstanding balance of the loan exceeds the total remaining bankruptcy court ordered loan repayments. The troubled debt restructures are considered in default when the borrower becomes three months past due under the new contract terms.

## American Airlines Federal Credit Union

### Notes to Financial Statements

#### Note 3. Loans and Allowance for Loan Losses (Continued)

The following is a summary of troubled debt restructurings during the 12 months ended December 31, 2017 and 2016, and loans that have been restructured during the previous 12 months ended December 31, 2016 and 2015, that subsequently defaulted during the 12 months ended December 31 2017 and 2016 (dollar amount in thousands):

	Troubled Debt Restructurings During the 12 Months Ended December 31			Troubled Debt Restructurings During the Previous 12 Months That Subsequently Defaulted During the 12 Months Ended December 31	
	Number of Contracts	Pre- Restructuring Outstanding Recorded Investment	Post- Restructuring Outstanding Recorded Investment	Number of Contracts	Recorded Investment
2017:					
Real estate loans:					
Mortgage loans	11	\$ 2,437	\$ 2,396	-	\$ -
Home equity loans	1	56	53	-	-
Consumer and business loans:					
Vehicle	13	164	157	4	43
Other consumer loans	1	8	7	1	2
	<u>26</u>	<u>\$ 2,665</u>	<u>\$ 2,613</u>	<u>5</u>	<u>\$ 45</u>
2016:					
Real estate loans:					
Mortgage loans	7	\$ 947	\$ 906	-	\$ -
Home equity loans	1	41	40	-	-
Consumer and business loans:					
Vehicle	9	174	88	7	67
Other consumer loans	1	2	2	-	-
	<u>18</u>	<u>\$ 1,164</u>	<u>\$ 1,036</u>	<u>7</u>	<u>\$ 67</u>

**Allowance for loan losses:** Management categorizes loans into risk categories based on class of loans (e.g., real estate, consumer and business). Loan risk categories are reserved based on historical loss ratios, delinquency status, and legal status of the loan (bankruptcy).

The general component of the allowance for loan losses covers unimpaired loans and is based on the historical loss experience of the Credit Union adjusted for other qualitative factors. The factors used by management to establish a qualitative reserve are: unemployment trends, primary sponsor status, changes to lending policies, certain economic conditions, and underwriting standards. The reserve for nonbankrupt delinquent consumer loans relates to loans that are classified as 60 or more days past due. When the Credit Union restructures a real estate loan there is an additional component to its allowance calculation. This component will be the greater of the difference between the original loan contract and the present value of the future discounted cash flows of the restructured loan contract versus the difference between the market value less costs to sell of the impaired loan and the current balance of the loan secured by the property. Factors considered by management in determining impairment include, collateral value and the probability of collecting scheduled principal and interest payments when due.

## American Airlines Federal Credit Union

### Notes to Financial Statements

#### Note 3. Loans and Allowance for Loan Losses (Continued)

The table below presents the activity in the allowance for loan losses and the recorded investment in loans by portfolio segment based on impairment method as of and for the years ended December 31 (in thousands):

	Real Estate		Consumer and Business		Total
	Mortgage	Home Equity	Vehicle	Other	
2017:					
Allowance for loan losses:					
Balance, beginning of the year	\$ 4,011	\$ 416	\$ 4,146	\$ 16,861	\$ 25,434
Provision for loan losses	(363)	21	2,216	14,343	16,217
Loans charged to allowance	(110)	(267)	(2,268)	(13,303)	(15,948)
Recoveries of loans previously charged off	194	188	470	1,985	2,837
Balance, end of the year	<u>\$ 3,732</u>	<u>\$ 358</u>	<u>\$ 4,564</u>	<u>\$ 19,886</u>	<u>\$ 28,540</u>
Period-ended amount allocated to:					
Individually evaluated for impairment	\$ 958	\$ 166	\$ 1,697	\$ 5,229	\$ 8,050
Collectively evaluated for impairment	2,774	192	2,867	14,657	20,490
Ending balance	<u>\$ 3,732</u>	<u>\$ 358</u>	<u>\$ 4,564</u>	<u>\$ 19,886</u>	<u>\$ 28,540</u>
Loans:					
Individually evaluated for impairment	\$ 10,588	\$ 1,393	\$ 2,357	\$ 8,297	\$ 22,635
Collectively evaluated for impairment	1,710,938	120,202	669,183	1,664,460	4,164,783
Total ending loan balance	<u>\$ 1,721,526</u>	<u>\$ 121,595</u>	<u>\$ 671,540</u>	<u>\$ 1,672,757</u>	<u>\$ 4,187,418</u>
2016:					
Allowance for loan losses:					
Balance, beginning of the year	\$ 5,971	\$ 454	\$ 4,213	\$ 14,317	\$ 24,955
Provision for loan losses	(2,483)	223	1,317	12,053	11,110
Loans charged to allowance	(215)	(284)	(1,936)	(10,979)	(13,414)
Recoveries of loans previously charged off	738	23	552	1,470	2,783
Balance, end of the year	<u>\$ 4,011</u>	<u>\$ 416</u>	<u>\$ 4,146</u>	<u>\$ 16,861</u>	<u>\$ 25,434</u>
Period-ended amount allocated to:					
Individually evaluated for impairment	\$ 1,143	\$ 216	\$ 1,456	\$ 5,599	\$ 8,414
Collectively evaluated for impairment	2,868	200	2,690	11,262	17,020
Ending balance	<u>\$ 4,011</u>	<u>\$ 416</u>	<u>\$ 4,146</u>	<u>\$ 16,861</u>	<u>\$ 25,434</u>
Loans:					
Individually evaluated for impairment	\$ 9,962	\$ 1,513	\$ 2,131	\$ 8,653	\$ 22,259
Collectively evaluated for impairment	1,569,312	107,612	572,071	1,437,406	3,686,401
Total ending loan balance	<u>\$ 1,579,274</u>	<u>\$ 109,125</u>	<u>\$ 574,202</u>	<u>\$ 1,446,059</u>	<u>\$ 3,708,660</u>

## American Airlines Federal Credit Union

### Notes to Financial Statements

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#### Note 4. Property and Equipment

Property and equipment as of December 31 are summarized as follows (in thousands):

	2017	2016
Land	\$ 1,711	\$ 1,711
Building	17,982	17,982
Furniture and equipment	31,092	30,646
Leasehold improvements	13,521	13,305
Construction in process	1,944	116
	<u>66,250</u>	<u>63,760</u>
Accumulated depreciation and amortization	(44,953)	(42,358)
	<u>\$ 21,297</u>	<u>\$ 21,402</u>

During the periods ended December 31, 2017 and 2016, \$1,815,000 and \$682,000, respectively, of property and equipment were retired.

The Credit Union leases multiple offices. The operating leases contain renewal options and provisions requiring the Credit Union to pay property taxes and operating expenses over base period amounts. All rental payments are dependent only upon the lapse of time.

Minimum rental payments under operating leases with initial or remaining terms of one year or more at December 31, 2017, are as follows (in thousands):

Years ending December 31:		
2018		\$ 984
2019		589
2020		432
2021		251
2022		190
Subsequent years		362
		<u>\$ 2,808</u>

Rental expense for the years ended December 31, 2017 and 2016, for all facilities leased under operating leases totaled \$1,222,000 and \$1,299,000, respectively.

#### Note 5. Members' Shares

Members' shares as of December 31 are summarized as follows (in thousands):

	2017	2016
Regular shares	\$ 3,469,851	\$ 3,053,968
Share draft accounts	420,285	377,317
401(k) shares	1,100,452	1,332,696
Individual retirement account shares	174,521	167,614
Certificates	796,373	793,530
	<u>\$ 5,961,482</u>	<u>\$ 5,725,125</u>

## American Airlines Federal Credit Union

### Notes to Financial Statements

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#### Note 5. Members' Shares (Continued)

Shares by maturity as of December 31, 2017, are summarized as follows (in thousands):

No contractual maturity	\$ 5,165,109
0-1 year maturity	228,724
Greater than 1 year to 2 years maturity	181,613
Greater than 2 years to 3 years maturity	168,742
Greater than 3 years to 4 years maturity	109,372
Greater than 4 years to 5 years maturity	107,922
	<u>\$ 5,961,482</u>

Regular, share draft, 401(k) and individual retirement account shares have no contractual maturity. Certificate accounts have maturities of five years or less.

NCUSIF insures members' share accounts up to a maximum federal deposit insurance level of \$250,000 per ownership category. The most common types of common ownership categories are individual accounts, joint accounts, revocable trust accounts and certain retirement accounts such as 401(k) and IRA accounts. 401(k) shares represent funds which participants of AAG's various 401(k) plans have elected to invest in the Credit Union cash option of those plans.

The aggregate amount of certificates in denominations of \$250,000 or more at December 31, 2017 and 2016, is approximately \$29,166,000 and \$26,679,000, respectively.

#### Note 6. Borrowings

The Credit Union has a \$1,375,019,000 and \$1,266,143,000 line of credit available with the FHLB at December 31, 2017 and 2016, respectively. The line of credit is secured by the general assets of the Credit Union and accrues interest at variable interest rates, which depend on market interest rates. As of December 31, 2017 and 2016, there were no amounts outstanding under this line of credit. There is no expiration on this line of credit.

The Credit Union has a \$95,000,000 line of credit available with Catalyst Corporate Federal Credit Union at December 31, 2017 and 2016. This line of credit is secured by the general assets of the Credit Union with variable interest rates, which depend on market interest rates. As of December 31, 2017 and 2016, there were no amounts outstanding under this line of credit.

#### Note 7. Commitments and Contingencies

The Credit Union is a party to various legal actions normally associated with the collection of loans and other business activities of financial institutions, the aggregate effect of which, in management's opinion, would not have a material adverse effect on the financial condition or results of operations of the Credit Union.

The Credit Union is party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit which include lines of credit, credit cards and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the financial statements. The Credit Union follows the same credit policies in making commitments as it does for those loans recorded in the financial statements.

## American Airlines Federal Credit Union

### Notes to Financial Statements

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#### Note 7. Commitments and Contingencies (Continued)

Outstanding mortgage loan commitments at December 31, 2017 and 2016, total approximately \$101,409,000 and \$100,363,000, respectively.

Unfunded loan commitments under lines of credit at December 31 are summarized as follows (in thousands):

	2017	2016
Home equity	\$ 59,023	\$ 46,874
Credit card	281,830	275,307
Other consumer	424,292	418,469
	<u>\$ 765,145</u>	<u>\$ 740,650</u>

Commitments to extend credit are agreements to lend to a member consistent with conditions established in the contract. Certain commitments have fixed expiration dates or other termination clauses. Because some of the commitments are expected to expire without being drawn on, the total commitment amount does not necessarily represent future cash requirements. The amount of collateral obtained to secure borrowing on the lines of credit is based on management's credit evaluation of the member.

Unfunded commitments under revolving credit lines are commitments for possible future extensions of credit to existing members. These lines of credit are generally uncollateralized but may be protected by a cross-collateralization clause or statutory lien if the member has other secured consumer loans or deposits with the Credit Union and usually do not contain a specified maturity date and ultimately may not be drawn upon to the total extent to which the Credit Union is committed.

#### Note 8. Regulatory Matters

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 guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines that involve quantitative measures of the Credit Union's assets, liabilities and certain off-balance sheet items as calculated under GAAP.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table, which follows) of net worth to total assets. Further, credit unions with over \$10,000,000 in assets are also required to calculate a Risk-Based Net Worth (RBNW) requirement which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The minimum requirement to be considered "complex" under the regulatory framework is 6 percent. The Credit Union's RBNW requirements as of December 31, 2017 and 2016, were 4.78% and 4.85%, respectively. Management believes, as of December 31, 2017 and 2016, that the Credit Union meets all capital adequacy requirements to which it is subject.

## American Airlines Federal Credit Union

### Notes to Financial Statements

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#### Note 8. Regulatory Matters (Continued)

Key aspects of the Credit Union's minimum capital amounts and ratios are summarized as follows as of December 31 (dollar amounts in thousands):

	2017		2016	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Amount needed to be classified as "adequately capitalized"	\$ 400,849	6.0%	\$ 384,628	6.0%
Amount needed to be classified as "well capitalized"	467,657	7.0%	448,732	7.0%
Actual net worth	664,197	9.9%	642,046	10.0%

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

#### Note 9. Related-Party Transactions

Compensation and benefits of approximately \$51,320,000 and \$49,084,000 in 2017 and 2016, respectively, represent costs of payroll and benefits that are paid by AAG, and reimbursed by the Credit Union. In addition, AAG provides facilities at its headquarters and at various airports and provides other services to the Credit Union. Reimbursement to AAG for such items was approximately \$3,308,000 and \$2,440,000 in 2017 and 2016, respectively.

In the normal course of business, the Credit Union extends credit to Directors, Supervisory Committee members and executive officers (related parties) on the same terms and conditions as to other Credit Union members, with the exception of limited discounts offered to employees. The aggregate loans to related parties at December 31, 2017 and 2016, were approximately \$4,491,000 and \$4,642,000, respectively. Member shares from related parties at December 31, 2017 and 2016, amounted to approximately \$7,572,000 and \$6,656,000, respectively.

#### Note 10. Fair Value Measurements

Accounting guidance on fair value measurements defines fair value, establishes a framework for measuring fair value using a hierarchy system and requires disclosure of fair value measurements. The hierarchy is intended to maximize the use of observable inputs and minimize the use of unobservable inputs and includes three levels based on the valuation techniques used. The three levels are as follows:

**Level 1:** Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

**Level 2:** Significant other observable inputs other than Level 1 prices such as 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.

**Level 3:** Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.



## American Airlines Federal Credit Union

### Notes to Financial Statements

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#### Note 10. Fair Value Measurements (Continued)

**Investments available for sale:** Where quoted prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. Level 1 investments would include highly liquid government bonds and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using quoted prices of investments with similar characteristics for Level 2 investments or using pricing models or discounted cash flows for Level 3 investments. Level 2 would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions, and certain corporate, asset-backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, investments are classified within Level 3 of the valuation hierarchy.

**Impaired loans:** Impaired loans represent certain loans for which an allowance for loan losses has been calculated as the greater of the difference between the original loan contract and the present value of future discounted cash flows of the restructured loan contract or the difference between the market value of the collateral less costs to sell of the impaired loan and the current balance of the loan secured by the property if the loan balance is higher. When significant adjustments have been made to unobservable inputs, the resulting fair value measurement is categorized as a Level 3 measurement.

**Other real estate owned (OREO):** OREO is initially recorded and subsequently carried at fair value and generally based on a current independent third-party appraisal. The use of significant unobservable inputs by which to assess or estimate appraised values of collateral resulted in a Level 3 classification.

There have been no changes in valuation techniques used for any assets or liabilities measured at fair value during the year ended December 31, 2017.

## American Airlines Federal Credit Union

### Notes to Financial Statements

#### Note 10. Fair Value Measurements (Continued)

The following table represents assets and liabilities reported on the statement of financial condition at their fair value as of December 31 by level within the fair value measurement hierarchy (in thousands):

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2017:			
Measured on a recurring basis:			
Assets:			
Government agencies	\$ 686,157	\$ -	\$ 686,157
Negotiable certificates	621,108	-	621,108
Mortgage-backed securities	869,836	-	869,836
Measured on a nonrecurring basis:			
Assets:			
Impaired loans	14,585	-	14,585
OREO	113	-	113
2016:			
Measured on a recurring basis:			
Assets:			
Government agencies	775,984	-	775,984
Negotiable certificates	575,706	-	575,706
Mortgage-backed securities	940,590	-	940,590
Measured on a nonrecurring basis:			
Assets:			
Impaired loans	13,845	-	13,845
OREO	468	-	468