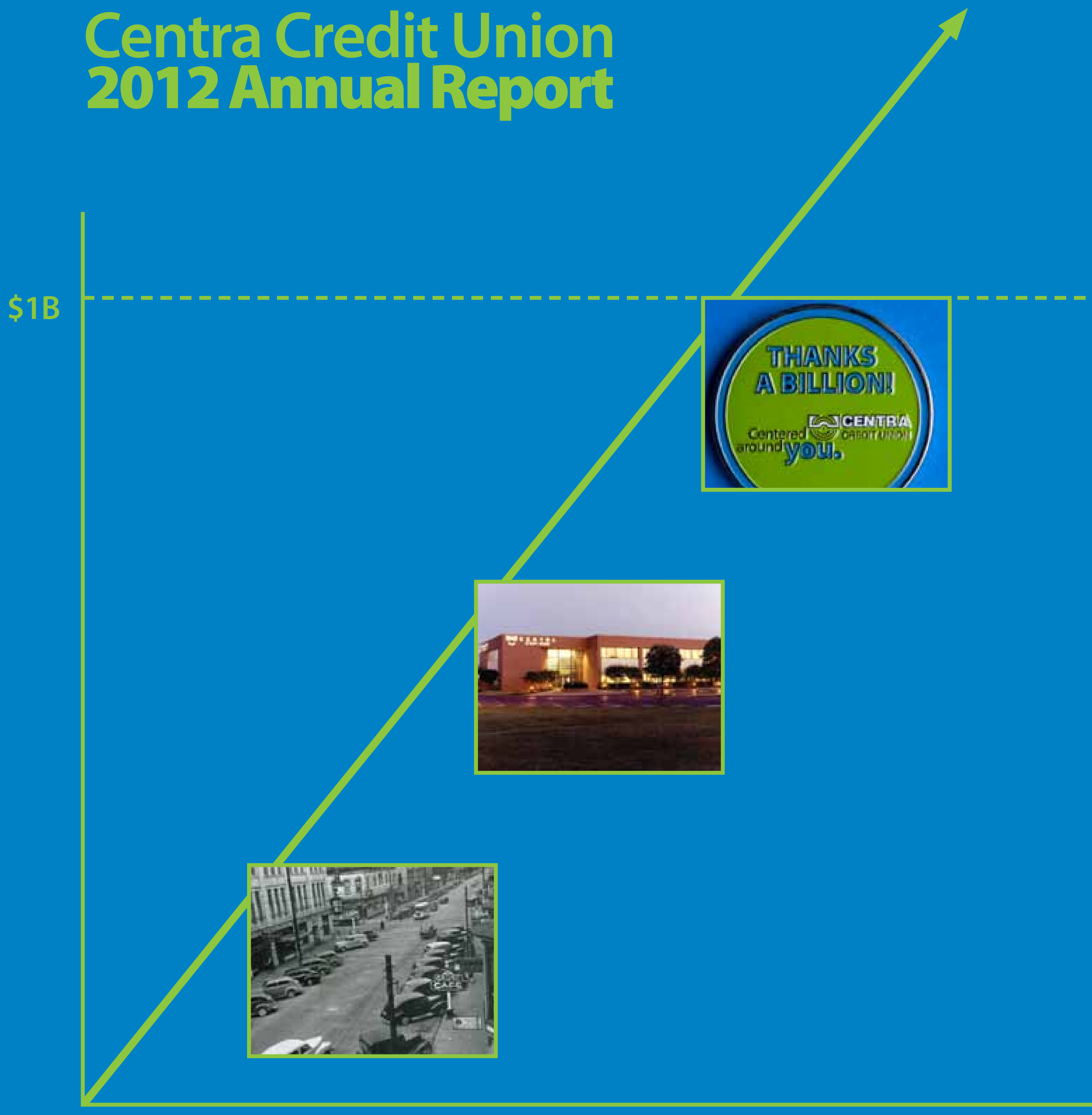
# Centra Credit Union
# 2012 Annual Report




## Celebrating One Billion in Total Assets

# CEO & Chairman's Report

**Loretta M. Burd**
Chief Executive Officer

**Alan Degner**
Chairman

If you are a member of Centra, you are now also the proud owner of a Billion Dollar business. On February 29, 2012, Centra surpassed $1 Billion in Total Assets. Since everyone who is a Member of Centra is an Owner, that makes you part owner in a Billion Dollar company. Centra is now the third largest credit union in Indiana and one of the largest locally owned and operated financial institutions in Central and Southern Indiana.

Surpassing the $1 Billion Dollar mark is significant to us because it demonstrates that our 126,000 members find value in the financial services we provide. Even more important than the growth itself is the fact that we remain local to the communities we serve. Our decisions are made locally to help individuals, families and businesses right where they live and work.

As we have grown, Centra has remained solid financially. In 2012, Centra achieved outstanding performance:

- 7.6% Loan Growth – Helping even more members borrow money at low rates
- 15.7% Deposit Growth – Providing savings opportunities at market-leading rates
- 14.7% Total Asset Growth – A more efficient company capable of delivering more to its members
- 10.5% Capital – Well above the 7% required by federal regulators
- 0.85% Return on Assets – Delivering solid financial results

Throughout the year, Centra also continued to live its brand promise of being "Centered Around You" with these developments:

- Creation of Centra Foundation (see pp. 4-5 for details)
- Addition of a new web- and smart phone-based loan application
- Addition of Centra Mobile Banking, including a mobile banking app, mobile browser banking, text alerts and text banking capabilities
- Development of new Business Checking Accounts for our business clients
- Introduction of the YOU Card Visa Signature Credit Card and Visa Secured Platinum Credit Card
- Improvements in the Centra website: new Learn & Discover, YOU Can, and 24/7 Banking sections, plus improved financial education resources including Consumer U, our online financial university
- Replacement and upgrade of Centra's ATMs with new features
- Addition of a Mortgage Loan Officer to better serve Southern Indiana members
- Creation of the Members Development Center to further develop relationships with our Southern Indiana members

All of these measures demonstrate that Centra is well-positioned for future growth to expand and improve the financial services and convenience provided for our members.

As a Member and an Owner of our company, we want to thank you for this strong performance and growth. Those who conduct their financial services at Centra are the reason for everything we do. It is a privilege to help you reach your financial goals.

Loretta M. Burd
Loretta M. Burd
CEO

Alan D. Degner
Alan Degner
Chairman

# Treasurer's Report

**Brian McBroom**
Chairman

Centra achieved a major milestone in 2012 by surpassing the $1 billion mark in total assets, ending the year at $1.1 billion. This milestone was achieved through strong asset growth in 2012 of $144.7 million, or 14.7%, over year-end 2011 figures. Several other 2012 performance metrics were cause for celebration as well.

Loan growth for the year totaled $42.2 million, or 7.6%, which exceeded the national credit union average of 4.4%. Centra ended the year with total loans of $595.9 million. Other highlights included robust growth in auto loans of $22.4 million, or 12.4%, and in first mortgages in which a record $21.9 million, or 11.9%, increase was achieved.

Deposit growth in 2012 was even better with an increase of $131.3 million, or 15.7% as compared to the national credit union average of 6.4%. Deposit growth keeps Centra in a strong liquidity position to continue growing loans in future years.

Centra's capital ratio of 10.5% remained well above the 7.0% ratio that is required by federal regulators to qualify as a well-capitalized institution. This is an excellent indicator of our financial stability. The organization earned after-tax Return on Average Assets of .85% resulting from net income of $9.6 million.

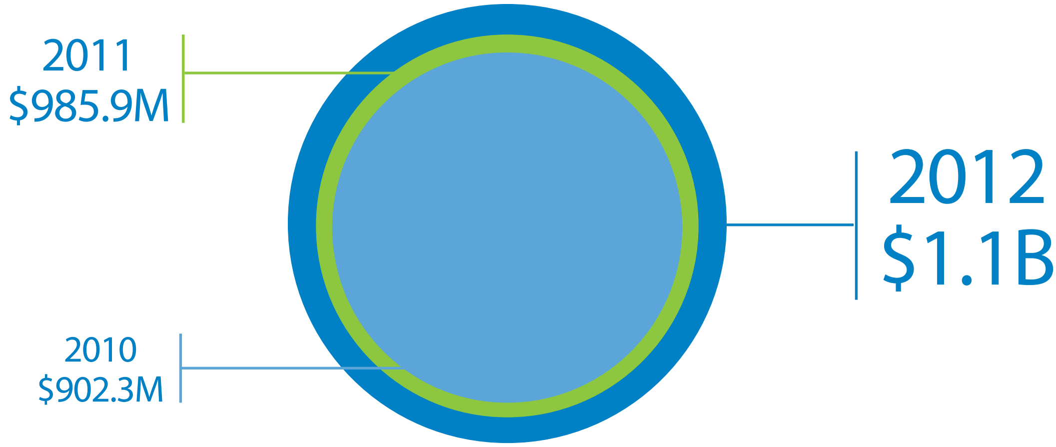
Centra maintained its 5-Star Bauer credit rating for the 70th consecutive quarter. Bauer Financial, Inc. is the nation's leading independent credit union and bank rating firm. A 5-Star rating is their highest classification and is based on the financial condition of the credit union, indicating that Centra remains among the strongest financial institutions in the country. By maintaining this rating for more than 10 consecutive years, Centra earned the additional distinction of being an "Exceptional Performance Credit Union".

Brian K. McBroom
Treasurer

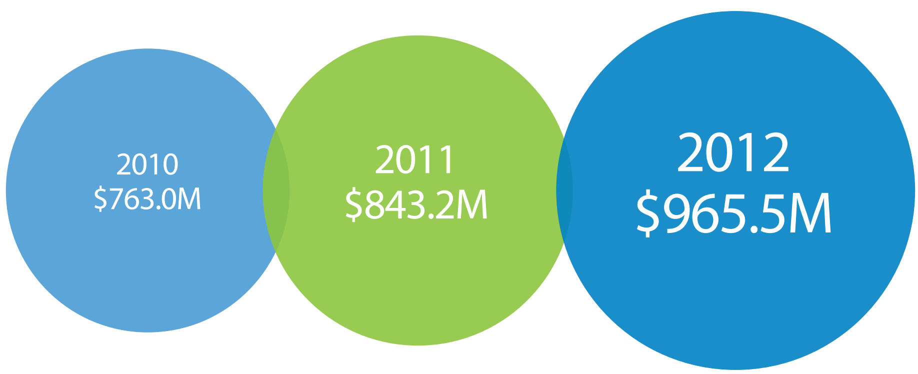
| | 2011 | 2012 | $ Change | % Change |
|---|---|---|---|---|
| Total Assets | $985.9 million | $1.1 billion | $144.7 million | 14.7% |
| Total Deposits | $834.2 million | $965.5 million | $131.3 million | 15.7% |
| Total Loans | $553.7 million | $595.9 million | $42.2 million | 7.6% |
| Auto Loans | $179.5 million | $201.9 million | $22.4 million | 12.4% |
| First Mortgages | $183.9 million | $205.8 million | $21.9 million | 11.9% |
| Capital | 11.0% | 10.5% | | |

# By the Numbers

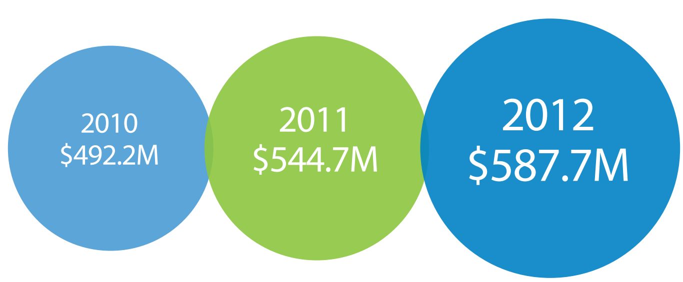
## Total Assets




## Total Deposits




## Total Loans



# Changing Leadership


New President Doug Harris presents Loretta Burd with a scrapbook of memories from Centra employees at her retirement celebration..

December 2012 marked the end of an era for Centra with the retirement of Loretta Burd as our Chief Executive Officer after a 47-year career with Centra. Loretta began working in a clerical position for Centra in July, 1965, but quickly learned many facets of the business. At the time, Centra held about $5 million in assets and had 6,968 members. Over the years, she managed the Union Street branch, and established the Human Resources, Inventory Control and Facilities departments, and became the President/CEO in July, 1987 of what was then a $123 million organization.

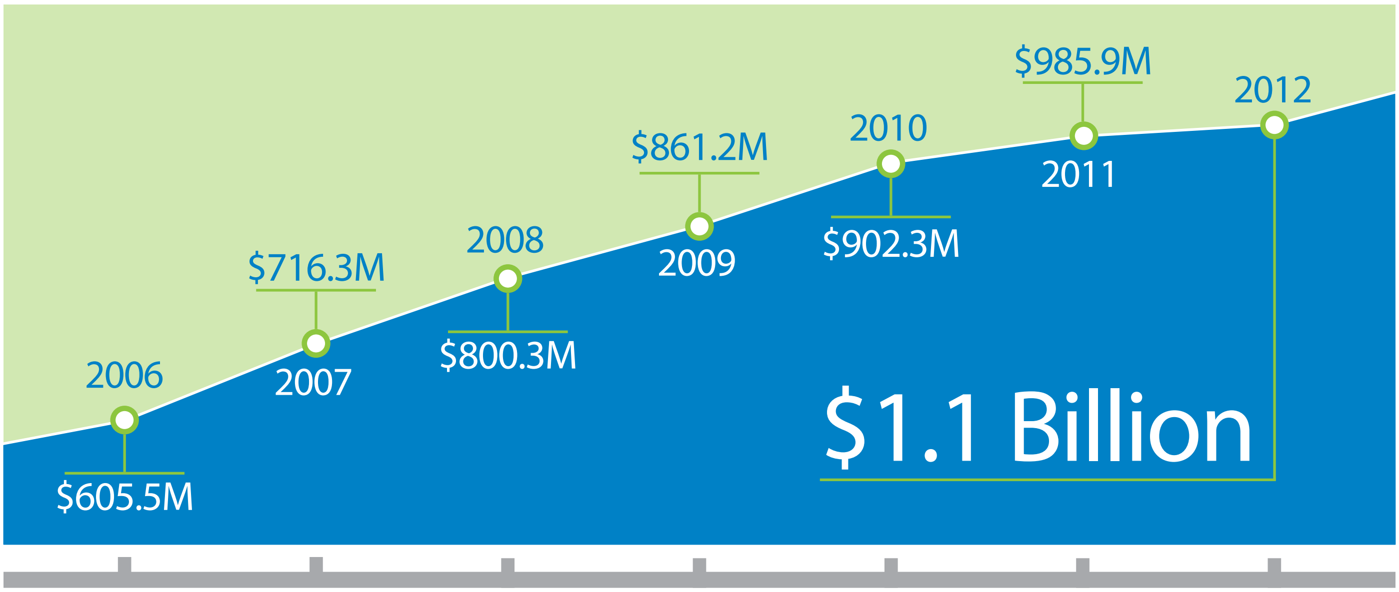
Under Burd's management, Centra expanded from a company employee-based organization to one that extends open membership to residents in 30 Indiana counties, as well as locations in New York and North Carolina. During her tenure, Centra's geographic footprint grew from an organization primarily serving Columbus and surrounding areas to one that extends throughout central Indiana to the Ohio River. Burd served the credit union movement well in several state and national capacities, including Chairman of the CUNA (Credit Union National Association) Board of Directors. She was also quite active in the Columbus community, and earned numerous awards throughout her career.

Centra's Board of Directors recognized Burd for her many years of dedicated service to the organization. "She has always had our members' best interests at heart in the decisions she has made and in the direction she has provided for Centra," noted Board Chairman Alan Degner.

With Burd's retirement came the planned and smooth transition to new leadership in Doug Harris. Harris has been a vital part of Centra for nearly 12 years, initially as Chief Financial Officer and Executive Vice President before being named President. Harris is active as Vice President of the Credit Union Centers Board of Directors. CU Centers is the organization that oversees the shared branching network which provides more than 4,400 nationwide branch locations for Centra and other credit union members to us. He also serves on the Indiana Credit Union League Governmental Affairs Committee, as well as several local non-for-profit boards.

"Centra is a company of financial strength and has such a bright future due to Loretta's leadership," said Harris. "I am committed to continuing to create value for our membership through market-leading rates, low fees, world class service, technology advances, and financial consulting benefits."

# Celebrating a Billion

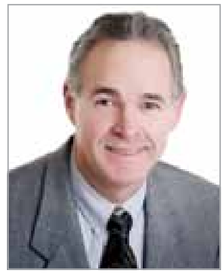



Centra's celebration of surpassing the $1 billion milestone in total assets was commemorated with a Member Appreciation Day, an Employee Celebration Day, and a more formal dinner recognizing Centra's growth and performance over the years. With a "Thanks a Billion" theme, members enjoyed refreshments and prize drawings as a thank you for keeping the Credit Union growing and strong.

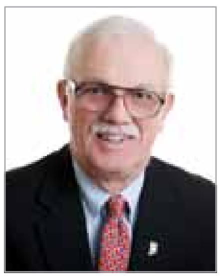

# Board of Directors


Alan Degner
Chairman


Thomas P. Kieffer
Vice Chairman


James R. Johnson
Secretary


Brian McBroom
Treasurer


Dan Arnholt


Loretta M. Burd


Amber Fischvogt

# Supervisory Committee


Stephen Stringer
Chairman


Shirley A. Kreutzjans


David Shinkle

# Senior Management


Loretta M. Burd
CEO


Doug Harris
President


Patty Knorr
Chief Operations Officer


Christopher Bottorff
Southern Indiana Region President


Norb Adrian
Chief Systems Officer


Brad Davis
Chief Sales and Marketing Officer

# Broadening Our Reach

CENTRA FOUNDATION

## Centered on Caring

The Centra Foundation was created in 2012 to extend Centra's reach and philosophy of caring for people in the communities where Centra members and employees live and work. The Foundation's mission is to provide grants to qualified not-for-profit organizations that will help meet critical needs in our communities. To that end, the Foundation's first major grant was a 3-year $50,000 commitment to the Columbus People Trail. Initial fundraising efforts include sales of the Thanks a Billion book, detailing Centra's growth and history, and the 2013 Centra Calendar.

Its mission is also to provide scholarships to students and awards to teachers who encourage financial literacy. Centra announced the renaming of its existing Scholarship and Teacher Awards Program to the Loretta M. Burd Scholarship and Award Program. Additionally, Centra pledged to match dollar for dollar every donation to the Scholarship and Award program up to $20,000 each year.

Philanthropy is not new to Centra Credit Union and its members. In fact, the Credit Union has a 72-year history of providing support to those in need. Now, with the creation of the Centra Foundation, we can expand this spirit of giving by opening our programs to all donors who wish to invest in the communities we serve.


Sherry Stark and Alan Degner, left, present a donation to the Columbus Parks and Recreation Department management for the Columbus People Trail.

# Centered around your convenience

## Free Checking
Still free, still awesome.

## Mobile Banking
Secure banking at your fingertips.

## CentraPhone
Always open. 800.458.4771

## Online BillPayer
It has to be done. Do it at your convenience.

## Popmoney
Send money by text or email.

## Online Banking
Still free, still awesome.

## Account eLerts
Effortlessly keep track of your money.

## 28,000 Free ATMs
Over 28,000 Free ATMS, to be exact.

## eStatements
Delivered faster than snail mail.

## Direct Deposit
Relax, paycheck deposited.

# Centered around your convenience

For starters, Centra still offers FREE checking. Really FREE! And there are other specialty checking options to fit any need.

With Centra convenience, you can bank whenever you want, wherever you are. Get 24/7 access to your accounts with free CentraLink online banking, free mobile banking, free CentraPhone bank-by-phone, and a network of nearly 30,000 free ATMs across the country.

Not only that, but you can stay up-to-the-minute on account transactions with email or text eLerts. Skip all the paperwork and pay your bills electronically with BillPayer. Use Popmoney to pay anyone – not just your bills. All you need is their email address or phone number, and the money can be transferred from your Centra checking account to your friend's account. And now you can even request a payment from someone who owes you money by using Request Money, a feature of Popmoney. Save even more paper and get your Centra statement sooner by using eStatements.

Direct Deposit your pay to save time and not worry about having to get to the credit union to deposit a check. And gain peace of mind knowing you've reduced the risk of ID theft or mail fraud.

Need a loan, but don't have time to come into the Credit Union to speak with our loan representatives? No worries! Just apply online – whether it's a mortgage, auto, credit card, or other borrowing need.

Traveling, but need a Credit Union branch? Check online at www.centra.org/locations-and-hours.org for the nearest shared branch location. Shared branches make it possible for you to use one of 5,036 other credit union locations just like you were walking into a Centra branch.

We want to make banking easy for you! Let us show you the many ways we can help.

# Centered around your dreams

You have dreams. We want to help you reach those dreams.

You've found the perfect home for your family…with room to grow, or maybe you're downsizing because the kids are grown and gone now.

You want to make the home you have more comfortable and worth bragging about. New kitchen appliances and countertops, a new bathroom, maybe a new deck and hot tub.

You've been eyeing that new car – or maybe just one that's new to you. It's got all the bells and whistles you want. It gets better gas mileage. Sometimes, it's just that it looks so cool.

You want to save enough money for the trip you've been longing to take. Or the big screen TV you'd like to buy. Or for your rainy day fund. We have many savings options to help you meet those goals.

You value education, but sending your children to college is something you thought was out of reach. It doesn't have to be.

Family time is important. Your family enjoys boating, RV camping, or snowmobiling together. You would love to zip through the countryside on a new motorcycle, feeling the wind in your face.

For all your dreams, Centra has a savings option or a loan to help. And we can help you choose the best options for you. It's easy to apply for a loan! Apply in person, online, using your smart phone, or by phone.

If you already have loans and want to make sure you've gotten the best deal you can get, let us provide you with a free, professional Loan Check-Up. We'll take a look at the loans you have and let you know if we can save you money with a lower rate or payment. And if we can't, you'll have the peace of mind to knowing you already have the best deal. It's all about value for you!

# Centered around your dreams

## Mortgage Loans
New or refinance, we do it all.

## Vacations
We can help get you there.

## Bill Consolidation
Can we save you hundreds a month?

## Savings
From simple to sophisticated.

## Auto Loans
Low rates and excellent service.

## College
Save now for tomorrow.

## Credit Cards
Low rates, rewards and more.

## Home Improvement
Fence, patio, 2nd story, whatever.

# Centered around your business

## Business Mortgages
Your business needs room to grow.

## Construction Financing
We can start from the ground up.

## Equipment Loans
When you need the right tools for the job.

## Vehicle Loans
Low rates, new, used or refinance.

## Business Checking
We have an option for your business.

## Business Money Market
Flexible savings for your business.

## Lines of Credit
Need working capital? We can help.

## Letters of Credit
Strengthen your relationships.

## Business Credit Cards
All with business friendly features.

## Acquisition Financing
Some opportunities can't be passed up.

## Business Certificates
Your money shouldn't stop growing.

## Business Online Services
Take less time to bank.

# Centered around your business

Centra's Business Banking team likes nothing better than to see your business grow. We know your business is your dream, your baby, your special project, your livelihood. And we know that every business, whether large or small, is different with different needs. Our expert Business Banking team provides customized support, centered around your financial goals and success. Our business decisions are made locally, so we get to know you and your business, and we make responsive decisions with your needs in mind.

In 2012, Centra introduced three new Business Checking Accounts to better serve the checking needs of our business clients. In addition to checking accounts, Centra offers our business clients a wide range of deposit and convenience services such as various savings options, merchant card processing, ACH/payroll deductions and telephone and online banking. At year-end, Centra held $74.7 million in commercial loan balances, helping local businesses to expand and grow. Additionally, through Centra Financial Services, Centra provides investment and insurance services for business owners and their employees. Your success is our success.

Stop by our Business Services Centers at 1430 National Road in Columbus or 2125 Veterans Parkway in Jeffersonville, visit any Centra branch, check out our website at Centra.org or call us at 800-232-3642, option 4, then press 5.

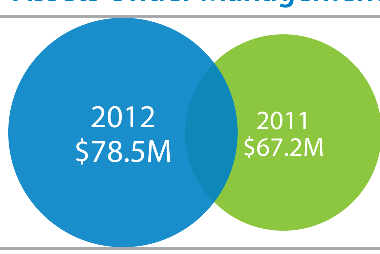
# Centered around your investment needs

Getting married. Starting a family. Saving for college. Preparing for retirement. Enjoying retirement living. All are life milestones that our experienced Financial Advisors at Centra Financial Services can help you be prepared for and make the most of. They can help you achieve your financial goals through planning and investing wisely, as well as making sure your family is adequately insured.

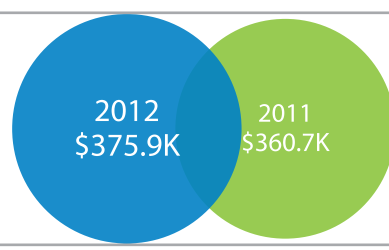
Stop by any Centra branch, our Centra Financial Services offices at 1430 National Road in Columbus or 700 Pillsbury Lane in New Albany, visit online at Centra.org/invest-and-insure.org, or call us at 800-232-3642, option 4.

In 2012, Centra Financial Services managed $78.5 million in assets under management, a 16.8% increase over 2011. CFS served the investment needs of 1,829 clients and invested new money and performed trades for clients for $16.9 million. Additionally, CFS protected 1,800 members with auto and home insurance. CFS is also proud to have contributed $375,902 in net income, a 4.2% increase over 2011.

**Assets Under Management**




**Net Income**




Representatives are registered, and securities are sold, and investment advisory services offered through CUNA Brokerage Services, Inc. (CBSI) member FINRA/SIPC, a registered broker/dealer and investment advisor, 2000 Heritage Way, Waverly, IA 50677, toll-free (866) 512-6109. Nondeposit investment and insurance products are not federally insured, involve risk, may lose value and are not obligations of or guaranteed by the financial institution. CBSI is under contract with the financial institution, through the financial services program, to make securities available to members.

# Centered around your investment needs

## Financial Management
With careful planning comes peace of mind.

## Retirement Planning
Accomplish your retirement dreams.

## IRAs
A great tool to get there.

## Education Planning
Achieve your goal of higher education.

## Investments
Let's put the pieces in place.

## Long-term Insurance
Preserve your assets for the future.

## Disability Insurance
Protect your current income stream.

## Auto and Home Insurance
Practical protection for your family.

# Independent Accountant's Report

To the Supervisory Committee and
Board of Directors
Centra Credit Union
Columbus, Indiana

We have audited the accompanying consolidated financial statements of Centra Credit Union and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, equity capital and cash flows for the years then ended, and the related notes to the consolidated financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Centra Credit Union and its subsidiary as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Indianapolis, Indiana
March 6, 2013

# Consolidated Balance Sheets
## December 31, 2012 and 2011

### Assets

| | 2012 | 2011 |
|---|---|---|
| Cash and due from banks | $ 11,643,751 | $ 8,266,927 |
| Interest-bearing demand deposits | 186,543,892 | 125,024,702 |
| Cash and cash equivalents | 198,187,643 | 133,291,629 |
| Interest-bearing time deposits | 8,181,860 | 6,945,991 |
| Investment securities | | |
| Available-for-sale | 246,840,994 | 193,722,031 |
| Held-to-maturity (fair value of $51,941,000 and $68,153,000 at December 31, 2012 and 2011) | 51,027,841 | 66,923,992 |
| Total investment securities | 297,868,835 | 260,646,023 |
| Loans held for sale | 3,134,175 | 1,829,550 |
| Loans, net of allowance for loan losses of $8,159,000 and $7,203,000 at December 31, 2012 and 2011 | 584,563,011 | 544,674,145 |
| Premises and equipment | 15,119,818 | 14,891,399 |
| Federal Home Loan Bank stock | 2,516,800 | 2,281,100 |
| National Credit Union Share Insurance Fund deposit | 8,826,017 | 7,830,058 |
| Other assets | 12,267,085 | 13,548,843 |
| Total assets | $ 1,130,665,244 | $ 985,938,738 |

### Liabilities

| | 2012 | 2011 |
|---|---|---|
| Members' deposits | $ 965,487,204 | $ 834,221,506 |
| FHLB advances | 40,000,000 | 37,000,000 |
| Other liabilities | 3,790,220 | 3,132,269 |
| Total liabilities | 1,009,277,424 | 874,353,775 |

### Equity Capital

| | 2012 | 2011 |
|---|---|---|
| Retained earnings | 118,434,545 | 108,811,972 |
| Accumulated other comprehensive income | 2,953,275 | 2,772,991 |
| Total equity capital | 121,387,820 | 111,584,963 |
| Total liabilities and equity capital | $ 1,130,665,244 | $ 985,938,738 |

# Consolidated Statements of income
## December 31, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| **Interest Income** | | |
| Loans receivable | $ 27,400,413 | $ 27,528,913 |
| Investment securities | 3,915,809 | 5,150,524 |
| Interest-bearing deposits | 372,876 | 308,929 |
| | 31,689,098 | 32,988,366 |
| **Interest Expense** | | |
| Deposits | 8,792,513 | 9,416,163 |
| FHLB advances | 1,622,797 | 1,542,226 |
| | 10,415,310 | 10,958,389 |
| **Net Interest Income** | 21,273,788 | 22,029,977 |
| Provision for loan losses | 3,020,000 | 3,725,000 |
| **Net Interest Income After Provision for Loan Losses** | 18,253,788 | 18,304,977 |
| **Other Income** | | |
| Service charges on deposit accounts and other member fees | 11,813,396 | 11,057,986 |
| Insurance commissions | 645,327 | 722,596 |
| Interchange income | 5,739,249 | 4,921,788 |
| Gain on loan sales | 1,430,415 | 440,376 |
| Other income | 513,041 | 324,067 |
| | 20,141,428 | 17,466,813 |
| **Other Expenses** | | |
| Salaries and employee benefits | 11,584,341 | 10,582,552 |
| Office occupancy expense | 2,292,769 | 2,334,062 |
| Office operations expense | 4,177,294 | 3,928,352 |
| Advertising and promotion expense | 817,285 | 1,100,624 |
| Loan servicing expense | 2,045,308 | 1,800,399 |
| Third-party service expense | 3,571,399 | 3,973,304 |
| NCUSIF share insurance expense | 838,472 | 1,957,515 |
| Loss on other assets | 1,485,747 | 766,645 |
| Other expenses | 1,960,028 | 1,729,081 |
| | 28,772,643 | 28,172,534 |
| **Net Income** | $ 9,622,573 | $ 7,599,256 |

# Consolidated Statements of Comprehensive Income
## December 31, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| **Net Income** | $ 9,622,573 | $ 7,599,256 |
| **Other Comprehensive Income** | | |
| Unrealized appreciation on available-for-sale securities | 180,284 | 514,264 |
| **Comprehensive Income** | $ 9,802,857 | $ 8,113,520 |

# Consolidated Statements of Equity Capital
## December 31, 2012 and 2011

| | Regular Reserve | Undivided Earnings | Accumulated Other Comprehensive Income | Total |
|---|---|---|---|---|
| **Balances, January 1, 2011** | $ 29,301,416 | $ 71,911,300 | $ 2,258,727 | $ 103,471,443 |
| Net income | | 7,599,256 | | 7,599,256 |
| Other comprehensive income | | | 514,264 | 514,264 |
| Regulatory transfers, net | 5,001,481 | (5,001,481) | | - |
| **Balances, December 31, 2011** | 34,302,897 | 74,509,075 | 2,772,991 | 111,584,963 |
| Net income | | 9,622,573 | | 9,622,573 |
| Other comprehensive income | | | 180,284 | 180,284 |
| Regulatory transfers, net | 4,400,350 | (4,400,350) | | - |
| **Balances, December 31, 2012** | $ 38,703,247 | $ 79,731,298 | $ 2,953,275 | $ 121,387,820 |

# Consolidated Statements of Cash Flows

## December 31, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| **Operating Activities** | | |
| Net income | $ 9,622,573 | $ 7,599,256 |
| Items not requiring (providing) cash | | |
| Provision for loan losses | 3,020,000 | 3,725,000 |
| Depreciation | 1,234,383 | 1,156,386 |
| Amortization of deferred loan fees and costs | 2,279,117 | 1,840,629 |
| Premium amortization (discount accretion) on investment securities, net | 3,817,887 | 2,682,144 |
| Gains on sales of loans | (1,430,415) | (440,376) |
| Loss on other assets | 1,683,048 | 766,645 |
| Change in | | |
| Loans held-for-sale | (1,304,625) | (1,596,050) |
| Other assets | (1,452,342) | (1,911,648) |
| Other liabilities | 657,949 | 1,294,975 |
| Net cash provided by operating activities | 18,127,575 | 15,116,961 |
| **Investing Activities** | | |
| Net change in interest-bearing time deposits | (1,235,869) | 10,660,053 |
| Purchases of securities available-for-sale | (142,712,888) | (140,009,755) |
| Proceeds from maturities, calls and paydowns of securities available-for-sale | 86,974,137 | 95,217,164 |
| Purchases of securities held-to-maturity | (12,632,148) | (24,036,716) |
| Proceeds from maturities, calls and paydowns of securities held-to-maturity | 27,510,484 | 16,068,255 |
| Net change in loans | (42,509,213) | (55,093,792) |
| Purchases of premises and equipment | (1,660,103) | (1,758,011) |
| Redemptions (purchase) of Federal Home Loan Bank stock | (235,700) | 98,000 |
| Net change in National Credit Union Share Insurance fund deposit | (995,959) | (535,789) |
| Net cash used in investing activities | (87,497,259) | (99,390,591) |
| **Financing Activities** | | |
| Net change in | | |
| Share checking, money market shares and regular shares | 99,942,449 | 76,144,534 |
| Certificates | 31,323,249 | (4,926,698) |
| Proceeds from FHLB advances | 3,000,000 | 3,000,000 |
| Net cash provided by financing activities | 134,265,698 | 74,217,836 |
| **Net Change in Cash and Cash Equivalents** | 64,896,014 | (10,055,794) |
| **Cash and Cash Equivalents, Beginning of Year** | 133,291,629 | 143,347,423 |
| **Cash and Cash Equivalents, End of Year** | $ 198,187,643 | $ 133,291,629 |
| **Additional Cash Flows Information** | | |
| Interest paid | $ 10,419,382 | $ 10,962,145 |
| Transfer of loans to other real estate owned | 1,213,189 | 2,456,982 |

## Note 1: Nature of Operations and Summary of Significant Accounting Policies

The accounting and reporting policies of Centra Credit Union (Credit Union) and its wholly owned subsidiary, Centra Financial Services, LLC (CFS), conform to accounting principles generally accepted in the United States of America and reporting practices followed by the credit union industry. The more significant of the policies are described below.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Credit Union is headquartered in Columbus, Indiana, and branches are located throughout central and southern Indiana; Jamestown, New York; and Whitakers, North Carolina. As a state-chartered, federally insured credit union, the Credit Union is subject to the regulation of the Indiana Department of Financial Institutions, National Credit Union Administration and the National Credit Union Share Insurance Fund. The Credit Union grants consumer loans including credit card, lease-like loans and open-end credit, mortgage loans and business loans to its members. The Credit Union's membership criteria is designed to include a well-diversified membership base. The majority of its loans are secured by collateral including members' shares, real property and other consumer assets. CFS provides insurance and brokerage services to Credit Union members and others.

**Consolidation** - The consolidated financial statements include the accounts of the Credit Union and CFS after elimination of all material intercompany transactions.

**Cash and Cash Equivalents** - The Credit Union considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents at December 31, 2012 and 2011 consist of overnight deposits.

Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions. This legislation expired on December 31, 2012. Under the NCUA's Temporary Corporate Credit Union Share Guarantee Program (TCCUSGP), the entire amounts in those accounts are fully guaranteed through December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the $250,000 limit on FDIC and NCUA insurance per covered institution.

At December 31, 2012, the Credit Union has approximately $4,243,000 on deposit with the Federal Home Loan Bank - Indianapolis, which are not FDIC-insured. In addition, the Credit Union has approximately $172,296,000 on deposit with the Federal Reserve. While the Federal Reserve is not FDIC-insured, these deposits are implicitly guaranteed by the United States Government.

**Investment Securities** - Certain debt securities that management has the positive intent and ability to hold to maturity are classified as “held-to-maturity” and recorded at amortized cost. Securities not classified as held to maturity are classified as “available-for-sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific-identification method.

For debt securities with fair value below amortized cost when the Credit Union does not intend to sell a debt security, and it is more likely than not the Credit Union will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

**Loans** - Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

For all loan classes, the accrual of interest is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. For all loan classes, the entire balance of the loan is considered past due if the minimum payment contractually required to be paid is not received by the contractual due date. For all loan classes, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

Management’s general practice is to proactively charge down loans individually evaluated for impairment to the fair value of the underlying collateral. Consistent with regulatory guidance, charge-offs on all loan segments are taken when specific loans, or portions thereof, are considered uncollectible. The Credit Union’s policy is to promptly charge these loans off in the period the uncollectible loss is reasonably determined.

For all loan portfolio segments except residential and consumer loans, the Credit Union promptly charges off loans, or portions thereof, when available information confirms that specific loans are uncollectible based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower's ability to adequately meet its obligations. For impaired loans that are considered to be solely collateral dependent, a partial charge-off is recorded when a loss has been confirmed by an updated appraisal or other appropriate valuation of the collateral.

The Credit Union charges off residential and consumer loans, or portions thereof, when the Credit Union reasonably determines the amount of the loss. The Credit Union adheres to timeframes established by applicable regulatory guidance, which provides for the charge-down of 1-4 family first and junior lien mortgages to the net realizable value, less costs to sell when the loan is 90 days past due, charge-off of unsecured open-end loans when the loan is 90 days past due, and charge-down to the net realizable value when other secured loans are 90 days past due. Loans at these respective delinquency thresholds for which the Credit Union can clearly document that the loan is both well-secured and in the process of collection, such that collection will occur regardless of delinquency status, need not be charged off.

For all classes, all interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal. The Credit Union requires a period of satisfactory performance of not less than six months before returning a nonaccrual loan to accrual status.

When cash payments are received on impaired loans in each loan class, the Credit Union records the payment as interest income unless collection of the remaining recorded principal amount is doubtful, at which time payments are used to reduce the principal balance of the loan. Troubled debt restructured loans recognize interest income on an accrual basis at the renegotiated rate if the loan is in compliance with the modified terms, no principal reduction has been granted and the loan has demonstrated the ability to perform in accordance with the renegotiated terms for a period of at least six months.

**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 income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. 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 upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonimpaired loans and is based on historical charge-off experience by segment. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Credit Union over the prior three years. Management believes the three year historical loss experience methodology is appropriate in the current economic environment. Other adjustments (qualitative/environmental considerations) for each segment may be added to the allowance for each loan segment after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due based on the loan's current payment status and the borrower's financial condition including available sources of cash flows. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for nonhomogenous type loans such as commercial, nonowner residential and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent. For impaired loans where the Credit Union utilizes the discounted cash flows to determine the level of impairment, the Credit Union includes the entire change in the present value of cash flows as bad debt expense.

The fair values of collateral dependent impaired loans are based on independent appraisals of the collateral. In general, the Credit Union acquires an updated appraisal upon identification of impairment and annually thereafter for commercial, commercial real estate and multi-family loans. If the most recent appraisal is over a year old, and a new appraisal is not performed due to lack of comparable values or other reasons, the existing appraisal is utilized and discounted based on the age of the appraisal, condition of the subject property and overall economic conditions. After determining the collateral value as described, the fair value is calculated based on the determined collateral value, less selling expenses. The potential for outdated appraisal values is considered in the determination of the allowance for loan losses through analysis of various trends and conditions including the local economy, trends in charge-offs and delinquencies, etc. and the related qualitative adjustments assigned by the Credit Union.

Segments of loans with similar risk characteristics are collectively evaluated for impairment based on the segment's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Credit Union does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

In the course of working with borrowers, the Credit Union may choose to restructure the contractual terms of certain loans. In this scenario, the Credit Union attempts to work-out an alternative payment schedule with the borrower in order to optimize collectability of the loan. Any loans that are modified are reviewed by the Credit Union to identify if a troubled debt restructuring ("TDR") has occurred, which is when, for economic or legal reasons related to a borrower's financial difficulties, the Credit Union grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status, and the restructuring of the loan may include the transfer of assets from the borrower to satisfy the debt, a modification of loan terms, or a combination of the two. If such efforts by the Credit Union do not result in a satisfactory arrangement, the loan is referred to legal counsel, at which time foreclosure proceedings are initiated. At any time prior to a sale of the property at foreclosure, the Credit Union may terminate foreclosure proceedings if the borrower is able to work-out a satisfactory payment plan.

It is the Credit Union's policy that any restructured loans on nonaccrual status prior to being restructured remain on nonaccrual status until six months of satisfactory borrower performance at which time management would consider its return to accrual status. If a loan was accruing at the time of restructuring, the Credit Union reviews the loan to determine if it is appropriate to continue the accrual of interest on the restructured loan.

With regard to determination of the amount of the allowance for credit losses, troubled debt restructured loans are considered to be impaired. As a result, the determination of the amount of impaired loans for each portfolio segment within troubled debt restructurings is the same as detailed previously.

**Premises and equipment** are carried at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

**Required Investments** - Federal Home Loan Bank stock and membership shares in corporate credit unions are required investments for credit unions that are members of those institutions. The required investment in each institution is based on a predetermined formula.

**National Credit Union Share Insurance Fund deposit** is required in an amount equal to one percent of the Credit Union's total insured shares. This noninterest-earning deposit is intended to provide insurance coverage on savings deposits.

**Comprehensive income** consists of net income and other comprehensive income. Other comprehensive income includes unrealized appreciation on available-for-sale securities.

**Retained earnings** includes a regular reserve, which is a regulatory restriction of retained earnings and is not available for the payment of interest.

**Current economic environment** continues to present financial institutions with circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair values of investments and other assets, constraints on liquidity and capital and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans.

Due to national, state, and local economic conditions, values for commercial and development real estate have declined significantly, and the market for these properties is depressed. The accompanying consolidated financial statements have been prepared using values and information currently available to the Credit Union.

The Credit Union's consolidated financial statements have been prepared using values and information currently available to the Credit Union.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the consolidated financial statements could change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses and capital that could negatively impact the Credit Union's ability to meet regulatory capital requirements and maintain sufficient liquidity. Furthermore, the Company's regulators could require material adjustments to asset values or the allowance for loan losses for regulatory capital purposes that could affect the Company's measurement of regulatory capital and compliance with the capital adequacy guidelines under the regulatory framework for prompt corrective action. As noted in Note 14, the Credit Union is currently classified as "well-capitalized."

## Note 2: Restriction on Cash and Due From Banks

The Credit Union is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2012 was $5,911,000.

## Note 3: Investment Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of investment securities is as follows:

| | 2012 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Available-for-sale | | | | |
| Federal agencies | $ 133,535 | $ 501 | $ (16) | $ 134,020 |
| Small business administration (SBA) securities | 8,832 | 235 | - | 9,067 |
| NCUA guaranteed notes | 9,713 | 79 | - | 9,792 |
| Mortgage-backed securities - government-sponsored enterprises (GSE) residential | 91,807 | 2,238 | (83) | 93,962 |
| Total available-for-sale | 243,887 | 3,053 | (99) | 246,841 |
| Held-to-maturity | | | | |
| Mortgage-backed securities - GSE residential | 51,028 | 966 | (53) | 51,941 |
| Total investment securities | $ 294,915 | $ 4,019 | $ (152) | $ 298,782 |

| | 2011 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Available-for-sale | | | | |
| Federal agencies | $ 77,968 | $ 519 | $ (24) | $ 78,463 |
| Small business administration (SBA) securities | 10,095 | 87 | - | 10,182 |
| NCUA guaranteed notes | 11,972 | - | (261) | 11,711 |
| Mortgage-backed securities - GSE residential | 90,914 | 2,461 | (9) | 93,366 |
| Total available-for-sale | 190,949 | 3,067 | (294) | 193,722 |
| Held-to-maturity | | | | |
| Mortgage-backed securities - GSE residential | 66,924 | 1,263 | (34) | 68,153 |
| Total investment securities | $ 257,873 | $ 4,330 | $ (328) | $ 261,875 |

The amortized cost and fair value of securities available-for-sale and held-to-maturity at December 31, 2012, by contractual maturity, are shown in the following table. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | Available-for-Sale | | Held-to-Maturity | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| One year or less | $ 35,209 | $ 35,260 | $ - | $ - |
| One to five years | 112,918 | 113,661 | - | - |
| Five to ten years | 3,953 | 3,958 | - | - |
| | 152,080 | 152,879 | - | - |
| Mortgage-backed securities - GSE residential | 91,807 | 93,962 | 51,028 | 51,941 |
| Totals | $ 243,887 | $ 246,841 | $ 51,028 | $ 51,941 |

Certain investments in debt securities have a fair value at an amount less than their historical cost. Total fair value of these investments at December 31, 2012 and 2011 was $56,553,000 and $36,778,000, which is approximately 19.0% and 14.1% of the Credit Union's available-for-sale and held-to-maturity investment portfolio. Unrealized losses within the investment portfolio are temporary, as they are a result of market changes rather than a reflection on credit quality.

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 or other comprehensive income in the period the other-than-temporary impairment is identified.

The following tables show the Credit Union's investments' gross unrealized losses and fair value of the Credit Union's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2012 and 2011:

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or More | | Total | |
| **Description of Securities** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** |
| **Available-for-sale securities:** | | | | | | |
| Federal agencies | $ 27,513 | $ (16) | $ - | $ - | $ 27,513 | $ (16) |
| Mortgage-backed securities - GSE residential | 20,328 | (83) | - | - | 20,328 | (83) |
| Total temporarily impaired securities | $ 47,841 | $ (99) | $ - | $ - | $ 47,841 | $ (99) |

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or More | | Total | |
| **Description of Securities** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** |
| **Held-to-maturity securities:** | | | | | | |
| Mortgage-backed securities - GSE residential | $ 4,832 | $ (46) | $ 3,880 | $ (7) | $ 8,712 | $ (53) |

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or More | | Total | |
| Description of Securities | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| **Available-for-sale securities:** | | | | | | |
| Federal agencies | $ 10,000 | $ (24) | $ - | $ - | $ 10,000 | $ (24) |
| NUCA guaranteed notes | 11,712 | (261) | | | 11,712 | (261) |
| Mortgage-backed securities - GSE residential | 5,077 | (9) | - | - | 5,077 | (9) |
| Total temporarily impaired securities | $ 26,789 | $ (294) | $ - | $ - | $ 26,789 | $ (294) |

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or More | | Total | |
| Description of Securities | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| **Held-to-maturity securities:** | | | | | | |
| Mortgage-backed securities - GSE residential | $ 9,989 | $ (34) | $ - | $ - | $ 9,989 | $ (34) |

### *Federal Agencies*

The unrealized losses on the Credit Union's investments in direct obligations of U.S. Government agencies were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Credit Union does not intend to sell the investments and it is not more likely than not the Credit Union will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Credit Union does not consider those investments to be other-than-temporarily impaired at December 31, 2012 and 2011.

### *National Credit Union Administration Guaranteed Notes*

The unrealized losses on the Credit Union's investment in National Credit Union Administration (NCUA) notes were caused by interest rate changes. The Credit Union expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Credit Union does not intend to sell the investments and it is not more likely than not the Credit Union will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Credit Union does not consider those investments to be other-than-temporarily impaired at December 31, 2011.

***Mortgage-Backed Securities - GSE Residential***

The unrealized losses on the Credit Union's investment in residential mortgage-backed securities were caused by interest rate changes. The Credit Union expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Credit Union does not intend to sell the investments and it is not more likely than not the Credit Union will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Credit Union does not consider those investments to be other-than-temporarily impaired at December 31, 2012 and 2011.

## Note 4: Loans and Allowance for Loan Losses

Loans at year end are comprised of the following:

| | 2012 | 2011 |
|---|---|---|
| Loans | | |
| Commercial | $ 74,722 | $ 75,283 |
| Secured by automobiles | 201,850 | 179,528 |
| First mortgage | 202,202 | 181,580 |
| Home equity | 58,911 | 60,316 |
| Other consumer | 51,334 | 52,115 |
| | 589,019 | 548,822 |
| Deferred loan costs, net | 3,703 | 3,055 |
| Allowance for loan losses | (8,159) | (7,203) |
| | $ 584,563 | $ 544,674 |

The following presents, by portfolio class, the activity in the allowance for loan losses for the years ended December 31, 2012 and 2011:

| 2012 | Commercial | Automobile | First Mortgage | Home Equity | Other Consumer | Total |
|---|---|---|---|---|---|---|
| Beginning Balance | $ 3,455 | $ 1,861 | $ 578 | $ 266 | $ 1,043 | $ 7,203 |
| Provision | 772 | 563 | 1,125 | 353 | 207 | 3,020 |
| Loans Charged Off | (579) | (1,227) | (104) | (226) | (607) | (2,743) |
| Recoveries | 133 | 381 | 1 | 14 | 150 | 679 |
| Ending Balance | $ 3,781 | $ 1,578 | $ 1,600 | $ 407 | $ 793 | $ 8,159 |

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Commercial | Automobile | First Mortgage | Home Equity | Other Consumer | Total |
| Beginning Balance | $ 2,955 | $ 2,047 | $ 418 | $ 389 | $ 1,259 | $ 7,068 |
| Provision | 1,859 | 937 | 611 | 104 | 214 | 3,725 |
| Loans Charged Off | (1,359) | (1,501) | (451) | (243) | (507) | (4,061) |
| Recoveries | - | 378 | - | 16 | 77 | 471 |
| Ending Balance | $ 3,455 | $ 1,861 | $ 578 | $ 266 | $ 1,043 | $ 7,203 |

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio classes and impairment method as of December 31, 2012 and 2011:

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Commercial | Automobile | First Mortgage | Home Equity | Other Consumer | Total |
| Allowance Balances: | | | | | | |
| Individually evaluated for impairment | $ 2,910 | $ - | $ - | $ - | $ - | $ 2,910 |
| Collectively evaluated for impairment | 871 | 1,578 | 1,600 | 407 | 793 | 5,249 |
| Total allowance for loan losses | $ 3,781 | $ 1,578 | $ 1,600 | $ 407 | $ 793 | $ 8,159 |
| Loan Balances: | | | | | | |
| Individually evaluated for impairment | $ 9,252 | $ - | $ 721 | $ - | $ - | $ 9,973 |
| Collectively evaluated for impairment | 65,470 | 201,850 | 201,481 | 58,911 | 51,334 | 579,046 |
| Total loan balances | $ 74,722 | $ 201,850 | $ 202,202 | $ 58,911 | $ 51,334 | $ 589,019 |

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Commercial | Automobile | First Mortgage | Home Equity | Other Consumer | Total |
| Allowance Balances: | | | | | | |
| Individually evaluated for impairment | $ 2,421 | $ - | $ 64 | $ - | $ - | $ 2,485 |
| Collectively evaluated for impairment | 1,034 | 1,861 | 514 | 266 | 1,043 | 4,718 |
| Total allowance for loan losses | $ 3,455 | $ 1,861 | $ 578 | $ 266 | $ 1,043 | $ 7,203 |
| Loan Balances: | | | | | | |
| Individually evaluated for impairment | $ 8,796 | $ 18 | $ 256 | $ - | $ 5 | $ 9,075 |
| Collectively evaluated for impairment | 66,487 | 179,510 | 181,324 | 60,316 | 52,110 | 539,747 |
| Total loan balances | $ 75,283 | $ 179,528 | $ 181,580 | $ 60,316 | $ 52,115 | $ 548,822 |

The risk characteristics of each loan portfolio class are as follows:

Commercial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected, and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and may include a personal guarantee.

Automobile loans are typically secured by the underlying automobile or recreational vehicle. First mortgage loans are typically secured by 1-4 family residences and are generally owner occupied. The Credit Union generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Home equity and other consumer loans are typically secured by subordinate interests in 1-4 family residences and other personal assets. Some personal loans are unsecured and repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas, such as unemployment levels, property values, etc.

Commercial loans are rated by credit quality using the following designations:

**Risk Rating - 1 Excellent**

These loans include:

1. Loans secured by highly liquid collateral (cash or cash equivalent) with sufficient margin to assure payment in full, including interest, at maturity.
2. Unsecured loans to high net worth individuals with supporting assets that are highly liquid.
3. Loans adequately secured by marketable collateral within established margin requirements.
4. Loans to very strong middle market, or local borrowers that have a history of profitability, liquidity, and leverage ratios that are above industry averages. Probability of serious financial deterioration is unlikely.
5. Unsecured loans directly to or guaranteed by, high net worth individuals who have appropriate, liquid supporting assets. These loans have a strong reliable source of repayment. Borrower's business is in a strong industry and has an experienced, stable management team. Portions of loans may be secured by government guarantees, Farm Service Agency (FSA) or Small Business Administration (SBA), with correct documentation in compliance with guarantee.

**Risk Rating - 2 Good**

These loans are to middle market or local borrowers with average financial strength, but who have some minor deficiencies or vulnerability to changing economic or industry conditions. The borrower has adequate capital and fair profitability, liquidity and leverage ratios. Loans in this category may also be secured by collateral that lacks adequate margin or liquidity. Unsecured loans may also be directly to, or guaranteed by, identified sources of repayment. Management is experienced, relatively stable and has demonstrated the ability to manage the company.

**Risk Rating - 3 Satisfactory**

These loans are to borrowers of slightly below average or somewhat mediocre financial conditions, with some noted weaknesses. It is not anticipated that the borrower's financial condition will deteriorate over the term of the loan. Noted weaknesses are overcome by strength in other areas. These loans have adequate sources of repayment.

**Risk Rating - 4 Special Mention (Watch Credit)**

These loans may be fundamentally sound to borrowers who have trends or characteristics that render them particularly vulnerable to economic adversity (competition, market conditions or potential product obsolescence) or have a continued lack of proper credit administration by the loan officer (i.e. critical documentation exceptions or monitoring cash flow with financial data). These credits require more frequent monitoring in order to periodically assess their condition as a result of increased vulnerability.

Other characteristics could include:

1. A significant change in trends (ratios, earnings, borrowings, etc.) that may include adverse concerns.
2. Out of the ordinary repayment programs.
3. Deficient collateralization.
4. Questionable management.
5. An expected or actual significant change that may have a negative impact on the company.
6. Frequent change in accounting/CPA firms or management has recently changed and their capabilities are unknown.
7. As the Watch Credit classification is generally a transitory grade from/to satisfactory and substandard, credits will generally not remain as a Watch Credit for more than 1 – 2 years.

**Risk Rating - 5 (Substandard)**

These loans are considered inadequately protected by the current worth and repayment capacity of the borrower, or the value of collateral, if any. Such loans have well-defined weaknesses that could jeopardize liquidation of the loan. If such weaknesses are not corrected, it is likely that the lender will incur a loss. Examples of weaknesses inherent in such loans include:

1. The borrower's financial condition has deteriorated to the point that ultimate repayment of the loan may be in doubt. For example, cash is positive but inadequate to service the debt if liquidated.
2. There are cash flow deficiencies, which may jeopardize an orderly repayment of the loan, as specified in the note or loan agreement; this may also indicate an impaired loan classification.
3. The borrower is in bankruptcy or, for any other reason, repayment is dependent on court action.
4. The credit relationship has deteriorated to the point that the sale of collateral is the primary source of repayment, unless this was the original source of repayment when the loan was originated.

**Risk Rating - 6 (Doubtful)**

These loans exhibit weaknesses similar to substandard loan and require immediate action. The severity of such weaknesses makes collection or repayment in full highly questionable or improbable, based on existing facts, conditions and values. The probability of loss is high, but the ultimate loss exposure cannot be completely determined due to pending factors that may affect the loan. Such pending factors could include merger/liquidation, additional capital injection, perfection of liens on additional collateral and refinancing plans. These loans are generally on nonaccrual.

**Risk Rating - 7 (Loss)**

These loans are considered uncollectible, have little or no value and are on a nonaccrual basis. This rating does not mean that the loan has no recovery or salvage value. The loan can continue as long as recovery is regularly occurring. Once recovery ceases, the loan should be charged off.

Automobile, first mortgage, home equity and other consumer loans are not rated on the above-listed risk categories, but are classified by their payment activity, either as performing, delinquent less than 90 days or nonperforming.

The following tables present the credit risk profile of the Credit Union's loan portfolio based on internal rating category and payment activity as of December 31, 2012 and 2011:

| | 2012 Commercial |
|---|---|
| Grade: | |
| Pass (1-3) | $ 55,771 |
| Special mention (4) | 8,321 |
| Substandard (5) | 8,505 |
| Doubtful (6) | 2,125 |
| Loss (7) | - |
| | $ 74,722 |

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Automobile | First Mortgage | Home Equity | Other Consumer | Total |
| Performing | $ 196,802 | $ 197,143 | $ 57,376 | $ 49,836 | $ 501,157 |
| Delinquent less than 90 days | 4,728 | 2,853 | 1,325 | 1,420 | 10,326 |
| Nonperforming | 320 | 2,206 | 210 | 78 | 2,814 |
| | $ 201,850 | $ 202,202 | $ 58,911 | $ 51,334 | $ 514,297 |
| Total loans | | | | | $ 589,019 |

| | 2011 Commercial |
|---|---|
| Grade: | |
| Pass (1-3) | $ 53,174 |
| Special mention (4) | 14,641 |
| Substandard (5) | 5,884 |
| Doubtful (6) | 1,584 |
| Loss (7) | - |
| | $ 75,283 |

| | 2011 | | | | |
|---|---|---|---|---|---|
| | Automobile | First Mortgage | Home Equity | Other Consumer | Total |
| Performing | $ 175,066 | $ 177,163 | $ 58,864 | $ 50,515 | $ 461,608 |
| Delinquent less than 90 days | 4,066 | 3,048 | 1,339 | 1,268 | 9,721 |
| Nonperforming | 396 | 1,369 | 113 | 332 | 2,210 |
| | $ 179,528 | $ 181,580 | $ 60,316 | $ 52,115 | $ 473,539 |
| Total loans | | | | | $ 548,822 |

The following tables present the Credit Union's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2012 and 2011:

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days | Total Past Due | Current | Total Loans | Loans > 90 Days and Accruing |
| Commercial | $ 120 | $ 226 | $ 1,754 | $ 2,100 | $ 72,622 | $ 74,722 | $ - |
| Automobile | 4,539 | 189 | 320 | 5,048 | 196,802 | 201,850 | - |
| First mortgage | 2,690 | 163 | 2,206 | 5,059 | 197,143 | 202,202 | - |
| Home equity | 1,306 | 19 | 210 | 1,535 | 57,376 | 58,911 | - |
| Other consumer | 1,155 | 265 | 78 | 1,498 | 49,836 | 51,334 | - |
| Total loans | $ 9,810 | $ 862 | $ 4,568 | $ 15,240 | $ 573,779 | $ 589,019 | $ - |

| 2011 | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days | Total Past Due | Current | Total Loans | Loans > 90 Days and Accruing |
|---|---|---|---|---|---|---|---|
| Commercial | $ 426 | $ 170 | $ 2,620 | $ 3,216 | $ 72,067 | $ 75,283 | $ - |
| Automobile | 3,924 | 142 | 396 | 4,462 | 175,066 | 179,528 | - |
| First mortgage | 2,878 | 170 | 1,369 | 4,417 | 177,163 | 181,580 | - |
| Home equity | 1,304 | 35 | 113 | 1,452 | 58,864 | 60,316 | - |
| Other consumer | 1,233 | 35 | 332 | 1,600 | 50,515 | 52,115 | - |
| Total loans | $ 9,765 | $ 552 | $ 4,830 | $ 15,147 | $ 533,675 | $ 548,822 | $ - |

The following tables present impaired loans for the years ended December 31, 2012 and 2011:

| 2012 | Recorded Balance | Unpaid Principal Balance | Specific Allowance | Average Investment in Impaired Loans | Interest Income Recognized |
|---|---|---|---|---|---|
| Impaired loans without a specific valuation allowance: | | | | | |
| Commercial | $ 568 | $ 568 | $ - | $ 1,311 | $ - |
| Automobile | - | - | - | 4 | - |
| First mortgage | 721 | 721 | - | 541 | 13 |
| Home equity | - | - | - | - | - |
| Other consumer | - | - | - | 1 | - |
| Total impaired loans with no related specific reserve | $ 1,289 | $ 1,289 | $ - | $ 1,857 | $ 13 |
| Impaired loans with a specific valuation allowance: | | | | | |
| Commercial | $ 8,684 | $ 8,684 | $ 2,910 | $ 8,572 | $ 479 |
| Automobile | - | - | - | - | - |
| First mortgage | - | - | - | - | - |
| Home equity | - | - | - | - | - |
| Other consumer | - | - | - | - | - |
| Total impaired loans with an allowance recorded | $ 8,684 | $ 8,684 | $ 2,910 | $ 8,572 | $ 479 |
| Total impaired loans | $ 9,973 | $ 9,973 | $ 2,910 | $ 10,429 | $ 492 |

| | 2011 | | | | |
|---|---|---|---|---|---|
| | Recorded Balance | Unpaid Principal Balance | Specific Allowance | Average Investment in Impaired Loans | Interest Income Recognized |
| Impaired loans without a specific valuation allowance: | | | | | |
| Commercial | $ 623 | $ 623 | $ - | $ 1,455 | $ 26 |
| Automobile | 18 | 18 | - | 16 | 2 |
| First mortgage | - | - | - | - | - |
| Home equity | - | - | - | - | - |
| Other consumer | 5 | 5 | - | 13 | 2 |
| Total impaired loans with no related specific reserve | $ 646 | $ 646 | $ - | $ 1,484 | $ 30 |
| Impaired loans with a specific valuation allowance: | | | | | |
| Commercial | $ 8,173 | $ 8,173 | $ 2,421 | $ 6,881 | $ 430 |
| Automobile | - | - | - | - | - |
| First mortgage | 256 | 256 | 64 | 205 | - |
| Home equity | - | - | - | - | - |
| Other consumer | - | - | - | - | - |
| Total impaired loans with an allowance recorded | $ 8,429 | $ 8,429 | $ 2,485 | $ 7,086 | $ 430 |
| Total impaired loans | $ 9,075 | $ 9,075 | $ 2,485 | $ 8,570 | $ 460 |

The following table presents the Credit Union's nonaccrual loans at December 31, 2012 and 2011. This table excludes purchased impaired loans and performing troubled debt restructurings.

| | 2012 | 2011 |
|---|---|---|
| Commercial | $ 1,754 | $ 2,620 |
| Automobile | 320 | 396 |
| First mortgage | 2,206 | 1,369 |
| Home equity | 210 | 113 |
| Other consumer | 78 | 332 |
| Total nonaccrual loans | $ 4,568 | $ 4,830 |

As a result of adopting the amendments in Accounting Standards Update No. 2011-02 (ASU), the Credit Union reassessed all restructurings that occurred on or after the beginning of its fiscal year January 1, 2011 for identification as troubled debt restructurings. The Credit Union identified as troubled debt restructurings certain receivables for which the allowance for credit losses had previously been measured under a general allowance for credit losses methodology. Upon identifying those receivables as troubled debt restructurings, the Credit Union identified them as impaired under the guidance in Accounting Standards Codification (ASC) 310-10-35. The ASU requires prospective application of the impairment measurement guidance in ASC 310-10-35 for those receivables newly identified as impaired.

At December 31, 2012 and 2011, the Credit Union had a number of loans that were modified in troubled debt restructurings and impaired. The modification of terms of such loans included one or a combination of the following: an extension of maturity, a reduction of the stated interest rate or a permanent reduction of the recorded investment in the loan.

The following table presents information regarding troubled debt restructurings by class for the years ended December 31, 2012 and 2011:

Newly classified troubled debt restructurings:

| | | 2012 | |
|---|---|---|---|
| | Number of Loans | Pre-Modification Recorded Balance | Post-Modification Recorded Balance |
| Commercial | 3 | $ 772 | $ 772 |
| Automobile | 29 | 380 | 380 |
| First mortgage | 1 | 139 | 137 |
| Home equity | 2 | 9 | 9 |
| Other consumer | 2 | 5 | 5 |
| | 37 | $ 1,305 | $ 1,303 |

| | 2011 | | |
|---|---|---|---|
| | Number of Loans | Pre-Modification Recorded Balance | Post-Modification Recorded Balance |
| Commercial | 6 | $ 412 | $ 401 |
| Automobile | 44 | 537 | 403 |
| First mortgage | 3 | 306 | 309 |
| Home equity | 1 | 5 | 5 |
| Other consumer | 4 | 59 | 58 |
| | 58 | $ 1,319 | $ 1,176 |

Newly restructured loans by type of modification:

| | 2012 | | | |
|---|---|---|---|---|
| | Interest Only | Term Only | Combination | Total Modification |
| Commercial | $ 267 | $ - | $ 505 | $ 772 |
| Automobile | - | 380 | - | 380 |
| First mortgage | - | - | 137 | 137 |
| Home equity | - | 9 | - | 9 |
| Other consumer | - | 5 | - | 5 |
| | $ 267 | $ 394 | $ 642 | $ 1,303 |

| | 2011 | | | |
|---|---|---|---|---|
| | Interest Only | Term Only | Combination | Total Modification |
| Commercial | $ - | $ 7 | $ 394 | $ 401 |
| Automobile | - | 403 | - | 403 |
| First mortgage | - | - | 309 | 309 |
| Home equity | - | 5 | - | 5 |
| Other consumer | - | 58 | - | 58 |
| | $ - | $ 473 | $ 703 | $ 1,176 |

Troubled debt restructurings modified in the past 12 months that subsequently defaulted:

| | 2012 | |
|---|---|---|
| | Number of Loans | Recorded Balance |
| Commercial | - | $ - |
| Automobile | 6 | 114 |
| First mortgage | - | - |
| Home equity | 1 | 9 |
| Other consumer | 1 | 5 |
| | 8 | $ 128 |

| | 2011 | |
|---|---|---|
| | Number of Loans | Recorded Balance |
| Commercial | 1 | $ 6 |
| Automobile | 14 | 110 |
| First mortgage | 3 | 287 |
| Home equity | - | - |
| Other consumer | 1 | 5 |
| | 19 | $ 408 |

## Note 5: Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows:

| | 2012 | 2011 |
|---|---|---|
| Cost | | |
| Land | $ 3,549 | $ 3,549 |
| Building and improvements | 15,834 | 15,693 |
| Equipment | 13,208 | 12,602 |
| Construction in progress | 214 | 536 |
| Total cost | 32,805 | 32,380 |
| Accumulated depreciation | (17,685) | (17,489) |
| Net | $ 15,120 | $ 14,891 |

## Note 6: Members' Deposits

| | 2012 | 2011 |
|---|---|---|
| Savings deposits | | |
| Regular shares | $ 297,102 | $ 263,035 |
| Share checking | 120,971 | 102,924 |
| Money market shares | 178,498 | 130,670 |
| Share certificates | 284,533 | 258,338 |
| IRA certificates | 84,383 | 79,255 |
| Total deposits | $ 965,487 | $ 834,222 |

At December 31, 2012, scheduled maturities of certificates are as follows:

| | |
|---|---|
| 2013 | $ 164,089 |
| 2014 | 77,069 |
| 2015 | 38,746 |
| 2016 | 48,765 |
| 2017 | 40,247 |
| Total certificates | $ 368,916 |

The aggregate amount of share certificates with a minimum denomination of $100,000 was approximately $124,812,000 and $102,189,000 at December 31, 2012 and 2011, respectively.

## Note 7: FHLB Advances

Advances outstanding from the Federal Home Loan Bank totaled $40,000,000 and $37,000,000 at December 31, 2012 and 2011, respectively. Interest rates range from 2.00 percent to 4.62 percent at December 31, 2012. Interest is payable monthly. The advances are collateralized by approximately $181,956,000 of mortgage loans as of December 31, 2012, under a specific collateral agreement.

The advances are subject to prepayment penalties and provisions and conditions of the credit policy of the Federal Home Loan Bank. Future obligations of the advances are as follows at December 31, 2012:

| | |
|---|---|
| 2013 | $ - |
| 2014 | - |
| 2015 | 8,000 |
| 2016 | 5,000 |
| 2017 | 5,000 |
| Thereafter | 22,000 |
| Total advances | $ 40,000 |

## Note 8: Line of Credit

The Credit Union has available a $900,000 open-ended line of credit from Alloya Corporate Federal Credit Union (formerly Members United Bridge Corporate FCU). Borrowings under this line, if used, would be secured by substantially all assets of the Credit Union, including mortgage loans. At December 31, 2012 and 2011, no indebtedness was outstanding under this line of credit. The line matures on December 1, 2013.

## Note 9: Loan Servicing

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others totaled approximately $135,355,726 and $124,075,040 at December 31, 2012 and 2011, respectively.

The aggregate fair value of capitalized mortgage-servicing rights at December 31, 2012 and 2011 was immaterial to the consolidated financial statements taken as a whole.

## Note 10: Taxes

The Credit Union and subsidiary are subject to a franchise tax imposed by the State of Indiana on net income after regulatory reserve transfers and certain other adjustments. The Credit Union and subsidiary incurred current franchise tax of $355,000 for 2012 and $220,000 for 2011. Federal income taxes are not provided for the Credit Union in the consolidated financial statements since the Credit Union is exempt. The subsidiary is subject to federal income tax, which is immaterial to the consolidated financial statements. With few exceptions, the Credit Union is no longer subject to U.S. federal, state and local examinations by tax authorities for years before 2009.

## Note 11: Commitments and Contingent Liabilities

In the normal course of business, there are outstanding commitments and contingent liabilities, such as commitments to extend credit, which are not included in the Credit Union consolidated financial statements. The Credit Union's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit is represented by the contractual or notional amount of those instruments. The Credit Union uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated balance sheets.

Financial instruments whose contract amount represents credit risk were as follows:

| | 2012 | 2011 |
|---|---|---|
| Commitments to extend credit | | |
| Mortgage loans | $ 47,578 | $ 45,166 |
| Consumer loans | 79,841 | 77,541 |
| Commercial loans | 2,268 | 1,926 |

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 and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Credit Union upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include consumer goods and real estate.

The Credit Union is also subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such possible claims or lawsuits will not have a material adverse effect on the consolidated financial position of the Credit Union.

## Note 12: Employee Benefit Plans

The Credit Union has a retirement savings 401(k) plan in which substantially all employees may participate. The Credit Union matches employees' contributions up to three percent and may make a discretionary contribution. The Credit Union's expense for the plan was approximately $145,000 and $130,000 for 2012 and 2011, respectively.

## Note 13: Fair Values of Financial Instruments

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

**Level 1** Quoted prices in active markets for identical assets or liabilities

**Level 2** 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 for substantially the full term of the assets or liabilities

**Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies and inputs used for assets measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

### *Available-for-Sale Securities*

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. The Credit Union does not have any Level 1 securities. If quoted market prices are not available, then fair values are estimated by using pricing models and quoted prices of securities with similar characteristics. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security’s terms and conditions. Additionally, matrix pricing is used for certain investment securities and is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities, but rather relying on the investment securities’ relationship to other benchmark quoted investment securities. Level 2 securities include federal agencies, SBA securities, NCUA guaranteed notes and mortgage-backed securities. The Credit Union does not have any Level 3 securities.

The following tables present the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2012 and 2011:

| | | 2012 Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Federal agencies | $ 134,020 | $ - | $ 134,020 | $ - |
| SBA securities | 9,067 | - | 9,067 | - |
| NCUA guaranteed notes | 9,792 | - | 9,792 | - |
| Mortgage-backed securities - GSE residential | 93,962 | - | 93,962 | - |
| | $ 246,841 | $ - | $ 246,841 | $ - |

| | | 2011 Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Federal agencies | $ 78,463 | $ - | $ 78,463 | $ - |
| SBA securities | 10,182 | - | 10,182 | - |
| NCUA guaranteed notes | 11,711 | - | 11,711 | - |
| Mortgage-backed securities - GSE residential | 93,366 | - | 93,366 | - |
| | $ 193,722 | $ - | $ 193,722 | $ - |

Following is a description of the valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

### *Impaired Loans (Collateral Dependent)*

The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

The Credit Union considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by senior management. Appraisals are reviewed for accuracy and consistency by senior management. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by senior management by comparison to historical results.

### *Other Real Estate Owned*

Other real estate owned (OREO) is carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value of OREO is based on appraisals or evaluations. OREO is classified within Level 3 of the fair value hierarchy.

Appraisals of OREO are obtained when the real estate is acquired and subsequently as deemed necessary by senior management. Appraisals are reviewed for accuracy and consistency by senior management. Appraisers are selected from the list of approved appraisers maintained by management.

The following tables present the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2012 and 2011:

| | | 2012 Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Impaired loans | $ 6,183 | $ - | $ - | $ 6,183 |
| Other real estate owned | 1,476 | - | - | 1,476 |

| | | 2011 Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Impaired loans | $ 6,173 | $ - | $ - | $ 6,173 |
| Other real estate owned | 1,450 | - | - | 1,450 |

### *Unobservable (Level 3) Inputs*

The following table presents quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements.

| | Fair Value at December 31, 2012 | Valuation Technique | Unobservable Inputs | Range |
|---|---|---|---|---|
| Collateral-dependent impaired loans | $ 6,183 | Appraisal | Marketability discount | 10 - 15% |
| Other real estate owned | 1,476 | Market comparable properties | Comparability adjustments (%) | 10 - 15% |

ASC 825-10, *Financial Instruments*, requires that the Credit Union disclose estimated fair values for its financial instruments. The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

**Cash and cash equivalents** - The fair value of cash and cash equivalents approximates carrying value.

**Interest-bearing time deposits** - The fair value of interest-bearing time deposits is estimated using discounted cash flow analysis, using interest rates currently being offered for time deposits with similar terms.

**Securities held-to-maturity** - The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions. Additionally, matrix pricing is used for certain investment securities and is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities but rather relying on the investment securities' relationship to other benchmark quoted investment securities.

**Loans held-for-sale** -The fair value of loans held for sale approximates carrying value.

**Loans** - The fair value of loans is estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to members of similar credit quality.

**FHLB stock** - Fair value of FHLB stock is based on the price at which it may be resold to the FHLB.

**NCUSIF deposit** - The fair value of NCUSIF deposit approximates carrying value.

**Members' deposits** - The fair value of share checking, regular shares, club accounts and money market shares is the amount payable on demand at the balance sheet date. The fair value of fixed maturity certificates is estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected maturities on such time deposits.

**FHLB advances** - The fair value of FHLB advances is estimated using a discounted cash flow valuation that applies interest rates currently being offered on similar advances to a schedule of aggregated expected maturities of similar advances.

**Off-balance sheet commitments** - Commitments include commitments to purchase and originate mortgage loans, commitments to sell mortgage loans and standby letters of credit and are generally of a short-term nature. The fair value of such commitments is based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

The estimated fair values of the Credit Union's financial instruments at December 31 are as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| **Assets** | | | | |
| Cash and cash equivalents | $ 198,188 | $ 198,188 | $ 133,292 | $ 133,292 |
| Interest-bearing time deposits | 8,182 | 8,181 | 6,946 | 6,980 |
| Securities available-for-sale | 246,841 | 246,841 | 193,722 | 193,722 |
| Securities held-to-maturity | 51,028 | 51,941 | 66,924 | 68,153 |
| Loans held-for-sale | 3,134 | 3,134 | 1,830 | 1,830 |
| Loans, net | 584,563 | 604,597 | 544,674 | 564,713 |
| FHLB stock | 2,517 | 2,517 | 2,281 | 2,281 |
| NCUSIF deposit | 8,826 | 8,826 | 7,830 | 7,830 |
| **Liabilities** | | | | |
| Members' deposits | 965,487 | 974,201 | 834,222 | 842,827 |
| FHLB advances | 40,000 | 44,987 | 37,000 | 41,574 |

## Note 14: Regulatory Capital

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

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum ratios (set forth in the table on the following page) of net worth (as defined in the regulations) to assets (as defined) and RBNW ratios (as defined). Management believes, as of December 31, 2012, that the Credit Union meets all capital adequacy requirements to which it is subject, and no events have occurred since that date that would change the Credit Union's classification. The Credit Union's RBNW ratio is below the 6% minimum requirement to be considered a complex credit union. As of December 31, 2012 and 2011, the Credit Union's RBNW was 4.51% and 4.72%, respectively.

As of December 31, 2012 and 2011, the Credit Union's net worth is categorized 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%.

| | Actual | | For Capital Adequacy Purposes | | Minimum To Be Well Capitalized Under the Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| December 31, 2012 | $ 118,435 | 10.47% | $ 67,890 | 6.00% | $ 79,205 | 7.00% |
| December 31, 2011 | $ 108,812 | 11.03% | $ 59,189 | 6.00% | $ 69,054 | 7.00% |

## Note 15: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the consolidated financial statements were available to be issued.

# Centra Locations

## Columbus

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Columbus, IN 47201
(812) 376-9771
or (800) 232-3642

Union Street
601 Union Street
Columbus, IN 47201
(812) 372-8811
or (800) 451-8185

26th Street
2020 26th Street
Columbus, IN 47201
(812) 378-5962

St. Rd. 46 West
2165 Jonathan Moore Pike
Columbus, IN 47201
(812) 376-7661

Walesboro
2010 West 450 South
Columbus, IN 47201
(812) 342-4403

Edinburgh
1170 North US 31
Edinburgh, IN 46124
(812) 376-9979

Mortgage Center
70 Carr Hill Road
Columbus, IN 47201
(812) 314-0420

## South-Central Indiana

Greensburg Plaza
1803 North Lincoln Street,
Suite A
Greensburg, IN 47240
(812) 662-9392

Greensburg
734 West Main Street
Greensburg, IN 47240
(812) 663-5807

North Vernon
975 North Veterans Drive
North Vernon, IN 47265
(812) 346-9596

Madison
303 Clifty Drive
Madison, IN 47250
(812) 273-8844

Seymour
520 South Jackson Park Drive
Seymour, IN 47274
(812) 523-3230

Shelbyville
2450 East State Road 44
Shelbyville, IN 46176
(317) 392-2100

## Southern Indiana

Clarksville Walmart
1351 Veterans Parkway
Clarksville, IN 47129
(812) 284-4180

Jeffersonville
2125 Veterans Parkway
Jeffersonville, IN 47130
(812) 288-2450

New Albany
710 Pillsbury Lane
New Albany, IN 47150
(812) 944-1325

Sellersburg
7812 State Road 60
Sellersburg, IN 47172
(812) 280-2820

Scottsburg
281 North Gardner
Scottsburg, IN 47170
(812) 752-3377

Scottsburg Walmart
1618 West McClain
Scottsburg, IN 47170
(812) 752-7010

## Indianapolis

Carmel
11711 North Pennsylvania, Suite #101
Carmel, IN 46032
(317) 843-5380
or (800) 421-4111

Shadeland
4562 North Shadeland Avenue
Indianapolis, IN 46226
(317) 541-1960

## New York

Jamestown
4720 Baker Street
Lakewood, NY 14750
(716) 763-4405

## North Carolina

Whitakers
9377 North U.S. 301
Whitakers, NC 27891
(252) 437-9214

## Shared Branch and CO-OP ATM Locations

For a list of over 5,000 nationwide shared branches and over 30,000 FREE ATM locations, visit Centra.org.

## Corporate Headquarters

Centra Credit Union
1430 National Road
P.O. Box 789
Columbus, IN 47202
(812) 376-9771
(800) 232-3642

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