Northrop Grumman Federal Credit Union and Subsidiary

Consolidated Financial Statements

December 31, 2015 and 2014

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TWHC | Turner, Warren, Hwang & Conrad AC
Certified Public Accountants & Consultants

Independent Auditor's Report

Board of Directors and Supervisory Committee
Northrop Grumman Federal Credit Union

We have audited the accompanying consolidated financial statements of Northrop Grumman Federal Credit Union (the credit union) and subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2015 and 2014, the consolidated statements of income, comprehensive income, members' equity 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 the 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of 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 credit union'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 credit union'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 Northrop Grumman Federal Credit Union and subsidiary as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Turner, Warren, Hwang + Conrad

Burbank, California
April 12, 2016

NORTHROP GRUMMAN FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Cash and cash equivalents	$ 45,791,808	$ 29,945,554
Investments:		
Securities available for sale	472,357,721	482,084,818
Other	250,000	250,000
Loans receivable, net	469,748,482	429,496,443
Accrued interest receivable	3,037,563	3,024,871
Property and equipment	6,260,476	7,008,281
National Credit Union Share Insurance Fund (NCUSIF) deposit	8,377,464	7,966,511
Other assets	7,531,878	6,424,951
Total assets	$ 1,013,355,392	$ 966,201,429
LIABILITIES AND MEMBERS' EQUITY		
Liabilities:		
Members’ share accounts	$ 895,363,574	$ 855,146,939
Accrued expenses and other liabilities	8,541,250	8,113,416
Total liabilities	903,904,824	863,260,355
Members’ equity:		
Regular reserve	3,559,687	3,559,687
Undivided earnings	115,396,908	110,791,385
Accumulated other comprehensive loss	(9,506,027)	(11,409,998)
Total members’ equity	109,450,568	102,941,074
Total liabilities and members’ equity	$ 1,013,355,392	$ 966,201,429

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

Northrop Grumman Federal Credit Union and Subsidiary

Consolidated Statements of Income

Years Ended December 31, 2015 and 2014

	2015	2014
INTEREST INCOME		
Loans receivable	$ 19,560,556	$ 18,946,429
Investments and interest-bearing accounts	9,115,087	10,105,356
Total interest income	28,675,643	29,051,785
INTEREST EXPENSE		
Members' share accounts	5,436,758	5,373,391
NET INTEREST INCOME	23,238,885	23,678,394
PROVISION FOR LOAN LOSSES	1,571,380	629,696
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	21,667,505	23,048,698
NON-INTEREST INCOME		
Fees and charges	2,095,666	1,996,472
Net realized gain on sale of securities available for sale	65,962	57,732
Other income	2,628,103	2,657,417
Total non-interest income	4,789,731	4,711,621
NON-INTEREST EXPENSE		
Compensation and benefits	10,193,475	10,184,877
Operations	10,247,228	9,580,862
Occupancy	1,411,010	1,397,361
Total non-interest expense	21,851,713	21,163,100
NET INCOME	$ 4,605,523	$ 6,597,219

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

Northrop Grumman Federal Credit Union and Subsidiary

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2015 and 2014

	2015	2014
NET INCOME	$ 4,605,523	$ 6,597,219
OTHER COMPREHENSIVE INCOME		
Net change in unrealized losses on securities available for sale	1,969,933	16,460,909
Less: reclassification adjustment for net gains recognized in net income	(65,962)	(57,732)
Other comprehensive income	1,903,971	16,403,177
COMPREHENSIVE INCOME	$ 6,509,494	$ 23,000,396

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

NORTHROP GRUMMAN FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

YEARS ENDED DECEMBER 31, 2015 AND 2014

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2013	$ 3,559,687	$ 104,194,166	$ (27,813,175)	$ 79,940,678
Comprehensive income:				
Net income	-	6,597,219	-	6,597,219
Other comprehensive income	-	-	16,403,177	16,403,177
Total comprehensive income				23,000,396
Balance, December 31, 2014	3,559,687	110,791,385	(11,409,998)	102,941,074
Comprehensive income:				
Net income	-	4,605,523	-	4,605,523
Other comprehensive income	-	-	1,903,971	1,903,971
Total comprehensive income				6,509,494
Balance, December 31, 2015	$ 3,559,687	$ 115,396,908	$ (9,506,027)	$ 109,450,568

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

NORTHROP GRUMMAN FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 4,605,523	$ 6,597,219
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,213,243	1,217,593
Provision for loan losses	1,571,380	629,696
Amortization of investments, net	3,588,402	3,965,865
Amortization of deferred loan origination costs, net	110,814	125,798
Net gain on sale of securities available for sale	(65,962)	(57,732)
Amortization of mortgage servicing rights	125,852	190,248
Net change in:		
Accrued interest receivable	(12,692)	(641,816)
NCUSIF deposit	(410,953)	(202,226)
Other assets	(1,232,779)	(247,176)
Accrued expenses and other liabilities	427,834	2,144,390
Net cash provided by operating activities	9,920,662	13,721,859
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities available for sale	(110,908,206)	(210,497,758)
Proceeds from sales, maturities and principal payments received on securities available for sale	119,016,834	108,839,898
Net increase in loans receivable	(41,934,233)	(32,970,423)
Purchases of property and equipment	(465,438)	(1,631,410)
Net cash used in investing activities	(34,291,043)	(136,259,693)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' share accounts	40,216,635	34,176,046
Net cash provided by financing activities	40,216,635	34,176,046
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,846,254	(88,361,788)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	29,945,554	118,307,342
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 45,791,808	$ 29,945,554
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Dividends paid on members' share accounts	$ 5,442,122	$ 5,810,965

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business: Northrop Grumman Federal Credit Union (the credit union) is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act. The credit union provides a variety of financial services to its members. Participation in the credit union is limited to those individuals who qualify for membership as defined in its charter and bylaws. The credit union's primary deposit products are share accounts, and its primary lending products are real estate, automobile and unsecured loans.

The credit union's wholly owned subsidiary, Flight Plan Financial Services, Inc., provides insurance and investment services for members.

Field of Membership and Sponsor: Participation in the credit union is limited to those individuals who qualify for membership as defined in its charter and bylaws. The primary field of membership of the credit union is employees and former employees of Northrop Grumman Corporation.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the credit union and its wholly owned subsidiary, Flight Plan Financial Services, Inc. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses.

Fair Value: Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, provides a framework for measuring fair value that requires an entity to determine fair value based on the exit price in the principal market for the asset or liability being measured. Fair value is defined as the exchange price that would be received on the measurement date to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants. The guidance also establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 asset and liability fair values are based on quoted prices in active markets for identical assets and liabilities.
- Level 2 asset and liability fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 assets and liabilities are financial instruments whose value is calculated by the use of pricing models and/or discounted cash flow methodologies, as well as financial instruments for which the determination of fair value requires significant management judgment or estimation.

A summary of the credit union's financial instruments and other accounts subject to fair value measurement and/or disclosure is presented in Note 14.

Cash and Cash Equivalents: For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand and in financial institutions and all highly liquid debt instruments with original maturities of three months or less.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments: Investments that the credit union intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as "available for sale" and are 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. Declines in the fair value of individual securities available for sale below their cost that are deemed to be other than temporary are reflected in (1) credit losses, which are reflected in earnings as realized losses, and (2) noncredit losses, which are recorded in other comprehensive income. In determining whether other-than-temporary impairment (OTTI) exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) the current liquidity and volatility of the market for each of the individual security categories, (4) the projected cash flows from the specific security type, (5) the financial guarantee and financial rating of the issuer, and (6) the intent and ability of the credit union to retain its investments in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date, and the costs of securities sold are determined using the specific-identification method.

Other investments are classified separately and stated at cost.

Loans Receivable, Net: The credit union grants mortgage and consumer loans to members. A substantial portion of the loan portfolio is represented by automobile and mortgage loans to members. Members' ability to honor their loan agreements is dependent upon the economic stability of the various groups composing the credit union's field of membership.

Loans that the credit union has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, less an allowance for loan losses and net deferred loan origination costs. Interest on loans is recognized over the term of the loan and calculated using the simple-interest method on principal amounts outstanding.

The accrual of interest on loans is discontinued at the time the loan is 60 days delinquent. Credit card loans and other personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if management believes, after considering economic conditions, business conditions and collection efforts, that collection of principal or interest is considered doubtful.

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 the associated loans qualify 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.

Certain loan fees and direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans, adjusted for estimated prepayments based on the credit union's historical prepayment experience.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Allowance for Loan Losses: The credit union maintains an allowance for loan losses to absorb losses inherent in the loan portfolio. The allowance is based on ongoing monthly assessments of the probable estimated losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses and decreased by charge-offs when management believes the uncollectibility of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Management develops and documents its systematic methodology for determining the allowance for loan losses by first dividing its portfolio into two segments: residential real estate and consumer. The credit union further divides the portfolio segments into classes based on initial measurement attributes, risk characteristics or its method of monitoring and assessing credit risk. The classes within the residential real estate portfolio segment are first mortgage and home equity line of credit (HELOC) and other mortgage. The classes within the consumer portfolio segment are automobile, credit cards and other consumer.

The allowance for loan losses consists of the specific loan loss allowance for impaired loans and the general loan loss allowance. The credit union evaluates the residential real estate and consumer segments for impairment on a pooled basis, unless they represent TDRs, as part of the general loan loss allowance. Impaired loans are subject to the specific loan loss allowance. Loans are considered impaired when the individual evaluation of current information regarding the borrower's financial condition, loan collateral and cash flows indicates that the credit union will be unable to collect all amounts due according to the contractual terms of the loan agreement, including interest payments. Impairment is measured based on the present value of the expected future cash flows discounted at the loan's effective interest rate or, as an expedient, at the loan's observable market price or the fair value of the collateral, less costs to sell, if the loan is collateral dependent.

A general loan loss allowance is provided on loans not specifically identified as impaired. The allowance is determined by pooling residential real estate and consumer loans by portfolio class and applying a historical loss percentage to each class. The credit union's historical loss percentage may be adjusted for significant qualitative and environmental factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date. The conditions evaluated for qualitative and environmental factors may include existing general economic and business conditions affecting the key lending areas and products of the credit union, credit quality trends and risk identification, collateral values, loan volumes, underwriting standards and concentrations, specific industry conditions within portfolio segments, recent loss experience in particular classes of the portfolio and duration of the current business cycle.

In estimating the allowance for loan losses, significant risk characteristics considered for the residential real estate segments are historical and expected future charge-offs, borrower's credit and property collateral.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Real Estate Owned: Real estate properties acquired through or in lieu of loan foreclosure are held for sale and initially recorded at fair value less estimated selling cost at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the credit union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the credit union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Property and Equipment: Land is carried at cost. Building, furniture and equipment, data processing equipment and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Building, furniture and equipment, and data processing equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases.

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

NCUSIF Insurance Premium and Temporary Corporate Credit Union Stabilization Fund (TCCUSF) Assessment: The credit union is required to pay an annual insurance premium and/or TCCUSF assessment based on a percentage of its total insured shares as declared by the NCUA Board, unless the payment is waived by the Board. There were no assessments during the years ended December 31, 2015 and 2014.

Members' Share Accounts: Members' share accounts are the savings deposit accounts of the owners of the credit union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. Irrespective of the amount of shares owned, no member has more than one vote. Members' share accounts are subordinated to all other liabilities of the credit union upon liquidation.

Dividends on members' share accounts are based on available earnings at the end of a dividend period and are not guaranteed by the credit union. Dividend rates on members' share accounts are set by the Board of Directors based on an evaluation of current and future market conditions.

Members' Equity: The credit union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of dividends.

Comprehensive Income: Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale, are reported as a separate component of the members' equity section in the accompanying consolidated statements of financial condition.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes: The credit union is exempt from federal and California taxes on income. The credit union's wholly owned subsidiary, however, is subject to federal and state income taxes. The operations of the subsidiary resulted in immaterial income taxes for the years ended 2015 and 2014.

Recent Accounting Pronouncements: In January 2016, the FASB issued ASU No. 2016-01—*Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This ASU requires an entity to measure equity investments at fair value through net income, with certain exceptions; present in other comprehensive income the changes in instrument-specific credit risk for financial liabilities measured using the fair value option; present financial assets and financial liabilities by measurement category and form of financial assets; and calculate the fair value of financial instruments for disclosure purposes based on an exit price. ASU No. 2016-01 provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment and adjusted for certain observable price changes. This ASU also requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements.

Entities that are not public business entities will no longer be required to disclose the fair value of financial instruments carried at amortized cost.

The classification and measurement guidance will be effective for non-public entities in fiscal years beginning after December 15, 2018. The credit union has chosen to early adopt this ASU, effective for the year ended December 31, 2015.

In February 2016, the FASB issued ASU No. 2016-02—*Leases (Topic 842)*. This ASU was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This ASU affects any entity that enters into a lease, with some specified scope exemptions. The guidance in ASU No. 2016-02 supersedes ASC 840, *Leases*.

Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

- A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and ASC 606, *Revenue from Contracts with Customers*.

The new lease guidance simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance-sheet financing.

The amendments in ASU No. 2016-02 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for public business entities, specific not-for-profit entities and specific employee benefit plans. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. The credit union is currently evaluating the impact of the ASU on its consolidated financial statements.

Subsequent Events: Subsequent events have been evaluated through April 12, 2016, which is the date the consolidated financial statements were available to be issued.

NOTE 2 – INVESTMENTS

The amortized cost and fair value of securities available for sale are as follows:

2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Federal agency securities	$ 83,932,180	$ 34,173	$ (1,684,839)	$ 82,281,514
Mortgage-backed securities	397,931,568	847,121	(8,702,482)	390,076,207
	$481,863,748	$ 881,294	$ (10,387,321)	$472,357,721
2014				
Federal agency securities	$206,929,934	$ 68,407	$ (3,979,686)	$203,018,655
Mortgage-backed securities	286,564,882	1,065,101	(8,563,820)	279,066,163
	$493,494,816	$ 1,133,508	$ (12,543,506)	$482,084,818

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position are as follows:

2015	Fair Value	Continuous Unrealized Losses Existing for Less Than 12 Months	Continuous Unrealized Losses Existing for 12 Months or Longer	Total Unrealized Losses
Federal agency securities	$ 67,083,211	$ (385,214)	$ (1,299,625)	$ (1,684,839)
Mortgage-backed securities	340,045,284	(833,798)	(7,868,684)	(8,702,482)
	$407,128,495	$ (1,219,012)	$ (9,168,309)	$ (10,387,321)
2014				
Federal agency securities	$182,085,154	$ (811,719)	$ (3,167,967)	$ (3,979,686)
Mortgage-backed securities	230,507,548	(1,169,725)	(7,394,095)	(8,563,820)
	$412,592,702	$ (1,981,444)	$ (10,562,062)	$ (12,543,506)

Management evaluates securities for OTTI on at least a quarterly basis and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the credit union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

As of December 31, 2015, 42 investments have been in a continuous unrealized loss position for less than 12 months and 87 have been in a continuous unrealized loss position for 12 months or longer. The unrealized losses associated with these investments are considered temporary, as the credit union has both the intent and ability to hold these investments for a period of time sufficient to allow for any anticipated recovery in fair value.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period in which the other-than-temporary impairment is identified.

There was no OTTI loss recorded for the years ended December 31, 2015 and 2014.

NOTE 2 – INVESTMENTS (CONTINUED)

Other investments consisted of the following:

	2015	2014
Contributed capital in a corporate credit union	$ 250,000	$ 250,000

The amortized cost and fair value of investments by contractual maturity at December 31, 2015 are as follows:

	Securities Available for Sale		
	Amortized Cost	Fair Value	Other
No contractual maturity	$ -	$ -	$ 250,000
Five to ten years	46,614,034	45,583,689	-
Over ten years	37,318,146	36,697,825	-
	83,932,180	82,281,514	250,000
Mortgage-backed securities	397,931,568	390,076,207	-
	$ 481,863,748	$ 472,357,721	$ 250,000

Because borrowers may prepay obligations with or without call or prepayment penalties, the expected maturities of mortgage-backed securities may differ from the contractual maturities. Mortgage-backed securities are therefore classified separately with no specific maturity date.

The fair value of securities available for sale measured on a recurring basis is as follows:

		Fair Value Measurements at Reporting Date Using		
2015	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Federal agency securities	$ 82,281,514	$ -	$ 82,281,514	$ -
Mortgage-backed securities:				
U.S. agency	388,081,761	-	388,081,761	-
Non U.S. agency	1,994,446	-	1,994,446	-
Total mortgage-backed securities	390,076,207	-	390,076,207	-
	$ 472,357,721	$ -	$ 472,357,721	$ -

NOTE 2 – INVESTMENTS (CONTINUED)

2014	Fair Value	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Federal agency securities	$ 203,018,655	$ -	$ 203,018,655	$ -
Mortgage-backed securities:				
U.S. agency	276,703,423	-	276,703,423	-
Non U.S. agency	2,362,740	-	2,362,740	-
Total mortgage-backed securities	279,066,163	-	279,066,163	-
	$ 482,084,818	$ -	$ 482,084,818	$ -

NOTE 3 – LOANS RECEIVABLE, NET

Loans outstanding by portfolio segment and class of loan are as follows:

	2015	2014
Residential real estate:		
First mortgage	$ 207,268,207	$ 187,394,905
HELOC and other mortgage	86,703,755	79,583,250
Total residential real estate	293,971,962	266,978,155
Consumer:		
Automobile	108,373,686	98,819,696
Credit card	43,115,184	39,430,499
Other consumer, primarily unsecured	26,350,939	26,181,855
Total consumer	177,839,809	164,432,050
Total loans	471,811,771	431,410,205
Allowance for loan losses	(2,063,289)	(1,913,762)
Total loans, net	$ 469,748,482	$ 429,496,443

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

The allowance for loan losses and recorded investment in loans, by portfolio segment, are as follows:

2015	Residential Real Estate	Consumer	Total
Allowance for loan losses:			
Beginning balance	$ 759,727	$ 1,154,035	$ 1,913,762
Charge-offs	(174,886)	(1,469,784)	(1,644,670)
Provision (credit) for loan losses	(25,956)	1,597,336	1,571,380
Recoveries	16,332	206,485	222,817
Ending balance	$ 575,217	$ 1,488,072	$ 2,063,289
Ending balance: individually evaluated for impairment	$ 372,176	$ 110,846	$ 483,022
Ending balance: collectively evaluated for impairment	$ 203,041	$ 1,377,226	$ 1,580,267
Recorded loan balance:			
Ending balance	$ 293,971,962	$ 177,839,809	$ 471,811,771
Ending balance: individually evaluated for impairment	$ 4,237,178	$ 216,215	$ 4,453,393
Ending balance: collectively evaluated for impairment	$ 289,734,784	$ 177,623,594	$ 467,358,378

2014	Residential Real Estate	Consumer	Total
Allowance for loan losses:			
Beginning balance	$ 1,381,305	$ 952,119	$ 2,333,424
Charge-offs	(150,236)	(1,198,242)	(1,348,478)
Provision (credit) for loan losses	(558,669)	1,188,365	629,696
Recoveries	87,327	211,793	299,120
Ending balance	$ 759,727	$ 1,154,035	$ 1,913,762
Ending balance: individually evaluated for impairment	$ 653,800	$ 138,308	$ 792,108
Ending balance: collectively evaluated for impairment	$ 105,927	$ 1,015,727	$ 1,121,654
Recorded loan balance:			
Ending balance	$ 266,978,155	$ 164,432,050	$ 431,410,205
Ending balance: individually evaluated for impairment	$ 5,143,012	$ 243,743	$ 5,386,755
Ending balance: collectively evaluated for impairment	$ 261,835,143	$ 164,188,307	$ 426,023,450

Changes in Accounting Methodology: There were no changes in accounting methodology for the allowance for loan losses during the years ended December 31, 2015 and 2014, respectively.

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

Credit Quality Indicators: The credit union assesses the credit quality of its residential real estate and consumer loans by FICO score and loan-to-value (LTV) ratio.

FICO Score: Residential real estate and consumer loans are assessed for credit quality by recent FICO score. The credit union obtains FICO scores at loan origination, and the scores are updated at least annually. Loans that trend toward higher levels are generally associated with a lower risk factor, whereas loans that migrate toward lower ratings will generally result in a higher risk factor being applied to the related loan balances.

The FICO score distribution is as follows:

2015	First Mortgage	HELOC and Other Mortgage	Automobile	Credit Card	Other Consumer	Total
800 and above	$ 65,954,216	$ 18,954,363	$ 12,248,761	$ 1,901,619	$ 780,471	$ 99,839,430
720 to 799	105,758,342	40,564,766	48,686,040	20,702,836	9,541,210	225,253,194
680 to 719	19,885,778	12,507,538	17,519,208	8,755,001	5,794,259	64,461,784
640 to 679	8,506,671	6,397,724	12,435,128	6,184,527	4,752,180	38,276,230
580 to 639	3,251,767	4,162,568	9,016,874	3,437,544	2,848,414	22,717,167
579 and below	1,852,904	2,898,669	7,062,209	1,736,003	2,310,027	15,859,812
Unknown	2,058,529	1,218,127	1,405,466	397,654	324,378	5,404,154
	$ 207,268,207	$ 86,703,755	$ 108,373,686	$ 43,115,184	$ 26,350,939	$ 471,811,771
2014						
800 and above	$ 58,995,963	$ 18,283,219	$ 11,129,983	$ 1,912,779	$ 972,731	$ 91,294,675
720 to 799	94,629,936	37,578,046	43,133,087	19,222,591	9,603,840	204,167,499
680 to 719	18,671,570	10,417,282	16,358,586	7,780,820	5,626,829	58,855,087
640 to 679	7,075,230	5,848,703	12,614,726	5,551,290	4,654,204	35,744,153
580 to 639	5,023,739	4,572,305	8,653,611	3,001,900	3,139,795	24,391,350
579 and below	1,498,485	1,951,752	6,311,799	1,674,675	2,018,552	13,455,264
Unknown	1,499,981	931,943	617,905	286,445	165,905	3,502,179
	$ 187,394,905	$ 79,583,250	$ 98,819,696	$ 39,430,499	$ 26,181,855	$ 431,410,205

LTV and Combined LTV (CLTV) Ratios: Residential real estate loans are assessed for credit quality by LTV or CLTV, the ratio of the loan's unpaid principal balance to the value of the collateral securing repayment of the loan. If the credit union is in a junior lien position, only the excess collateral value over the amounts necessary to retire any senior lien positions is considered. LTVs are updated annually using a cascade approach that first uses values provided by an automated valuation model (AVM) for a property. If an AVM is not available, the value is estimated using the original appraised value adjusted by the change in Home Price Index (HPI) for the property location. If an HPI is not available, the original appraised value is used.

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

Although residential real estate markets experienced significant declines in property values several years ago, recent analysis, as shown in the table below, highlights improvement in all mortgage categories. Some markets in which the credit union serves have seen significant improvements in property values over the past year or two. These trends are considered in the way the credit union monitors credit risk and establishes the residential real estate allowance for loan losses. LTV does not necessarily reflect the likelihood of performance of a given loan but does provide an indication of collateral value. In the event of default, any loss to the credit union should be limited to approximately the portion of the loan amount in excess of the net realizable value of the underlying real estate collateral.

The LTV distribution of first mortgage and HELOC and other mortgage loans is as follows:

2015	Less Than 80%	80%–89%	90%–100%	Greater Than 100%	Unknown	Total
First mortgage	$ 188,155,399	$ 12,886,516	$ 4,321,649	$ 1,811,181	$ 93,462	$ 207,268,207
HELOC and other mortgage	77,809,220	4,197,908	2,344,335	2,025,428	326,864	86,703,755
	$ 265,964,619	$ 17,084,424	$ 6,665,984	$ 3,836,609	$ 420,326	$ 293,971,962
2014						
First mortgage	$ 168,594,863	$ 11,207,867	$ 3,589,472	$ 3,935,975	$ 66,728	$ 187,394,905
HELOC and other mortgage	63,384,369	6,302,024	3,075,308	5,033,204	1,788,345	79,583,250
	$ 231,979,232	$ 17,509,891	$ 6,664,780	$ 8,969,179	$ 1,855,073	$ 266,978,155

Nonaccrual and Past Due Loans: Information relating to the age and nonaccrual status of the loans by class is as follows:

2015	Current	60 -179 Days Past Due	180-359 Days Past Due	360 Days or More Past Due	Total	Loans on Nonaccrual Status
First mortgage	$ 206,855,683	$ -	$ 69,249	$ 343,275	$ 207,268,207	$ 412,524
HELOC and other mortgage	85,100,121	465,112	328,823	809,699	86,703,755	1,603,634
Automobile	107,362,899	772,508	109,767	128,512	108,373,686	1,010,787
Credit card	42,990,974	124,210	-	-	43,115,184	124,210
Other consumer	26,148,362	190,861	11,716	-	26,350,939	202,577
	$ 468,458,039	$ 1,552,691	$ 519,555	$ 1,281,486	$ 471,811,771	$ 3,353,732
2014						
First mortgage	$ 186,705,619	$ 200,451	$ 193,523	$ 295,312	$ 187,394,905	$ 689,286
HELOC and other mortgage	78,456,349	269,218	471,689	385,994	79,583,250	1,126,901
Automobile	98,406,155	231,930	93,001	88,610	98,819,696	413,541
Credit card	39,300,360	130,139	-	-	39,430,499	130,139
Other consumer	26,035,128	146,727	-	-	26,181,855	146,727
	$ 428,903,611	$ 978,465	$ 758,213	$ 769,916	$ 431,410,205	$ 2,506,594

The credit union did not have any loans over 60 days delinquent that were still accruing interest as of December 31, 2015 and 2014.

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

Impaired Loans: Impaired loans individually evaluated for impairment and the related amounts of interest income recognized during the period the loans were impaired are as follows. The average balances were calculated based on the year-end balances of the loans for the period reported.

	December 31, 2015			Year Ended December 31, 2015	
	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
With no specific allowance recorded:					
First mortgage	$ 838,338	$ 840,386	$ -	$ 1,185,407	$ 30,364
HELOC and other mortgage	1,675,725	1,676,304	-	1,495,988	24,767
Automobile	34,375	34,375	-	34,375	1,374
With an allowance recorded:					
First mortgage	1,099,360	1,096,449	257,268	1,217,233	18,804
HELOC and other mortgage	624,039	624,039	114,908	791,468	6,136
Automobile	140,731	140,731	69,737	192,237	1,950
Other consumer	41,109	41,109	41,109	41,109	-
Total:					
First mortgage	1,937,698	1,936,835	257,268	2,402,640	49,168
HELOC and other mortgage	2,299,764	2,300,343	114,908	2,287,456	30,903
Automobile	175,106	175,106	69,737	226,612	3,324
Other consumer	41,109	41,109	41,109	41,109	-
	$ 4,453,677	$ 4,453,393	$ 483,022	$ 4,957,817	$ 83,395

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

	December 31, 2014			Year Ended December 31, 2014	
	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
With no specific allowance recorded:					
First mortgage	$ 1,530,428	$ 1,528,412	$ -	$ 1,480,897	$ 89,398
HELOC and other mortgage	1,315,671	1,315,533	-	1,246,488	38,612
With an allowance recorded:					
First mortgage	1,338,017	1,338,602	385,468	1,880,343	36,402
HELOC and other mortgage	958,896	958,671	268,332	1,172,566	25,586
Automobile	243,743	243,743	138,308	166,868	15,297
Other consumer	-	-	-	25,192	-
Total:					
First mortgage	2,868,445	2,867,014	385,468	3,361,240	125,800
HELOC and other mortgage	2,274,567	2,274,204	268,332	2,419,054	64,198
Automobile	243,743	243,743	138,308	166,868	15,297
Other consumer	-	-	-	25,192	-
	$ 5,386,755	$ 5,384,961	$ 792,108	$ 5,972,353	$ 205,295

TDRs: Loans modified as TDRs during the years ended December 31, 2015 and 2014, and the type of concession granted, presented by class, are as follows:

	Type of Concession				
2015	Interest Rate	Maturity Date	Principal Reduction	Other	Total
First mortgage	$ 220,148	$ -	$ -	$ -	$ 220,148
2014					
Other consumer	$ 20,446	$ -	$ -	$ -	$ 20,446

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

Loans modified as TDRs during the years ended December 31, 2015 and 2014, presented by class, and those restructurings for which there was a payment default subsequent to the restructuring, but within 12 months of the restructuring, are as follows:

	TDRs			TDRs That Subsequently Defaulted	
2015	Number of Loans	Principal Balance	Allowance Impact	Number of Loans	Principal Balance
First mortgage	1	$ 220,148	$ 13,800	-	$ -
Other consumer	-	-	-	1	14,856
	1	$ 220,148	$ 13,800	1	$ 14,856
2014					
First mortgage	-	$ -	$ -	2	$ 429,928
HELOC and other mortgage	-	-	-	1	49,538
Other consumer	1	20,446	9,528	3	35,106
	1	$ 20,446	$ 9,528	6	$ 514,572

NOTE 4 – LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balance of loans serviced for Fannie Mae totaled $59,789,550 and $68,099,000 at December 31, 2015 and 2014, respectively. Mortgage servicing rights totaled $320,592 and $446,444 as of December 31, 2015 and 2014, respectively.

NOTE 5 – PROPERTY AND EQUIPMENT

The composition of property and equipment is summarized as follows:

	2015	2014
Land	$ 1,110,140	$ 1,110,140
Building	3,958,345	3,958,345
Furniture and equipment	4,426,926	4,339,111
Data processing equipment	10,525,696	10,158,351
Leasehold improvements	2,942,591	2,941,491
	22,963,698	22,507,438
Accumulated depreciation and amortization	(16,703,222)	(15,499,157)
	$ 6,260,476	$ 7,008,281

NOTE 6 – MEMBERS' SHARE ACCOUNTS

A summary of members' share accounts by type is as follows:

	2015	2014
Regular share	$ 208,087,400	$ 191,977,724
Share draft	118,355,062	101,187,934
Money market	278,939,043	271,581,623
Individual retirement account	12,022,875	11,818,349
Certificates of deposit	277,959,194	278,581,309
	$ 895,363,574	$ 855,146,939

Dividend rates are set by the Board of Directors, and dividends are charged to operations. The aggregate amounts of time deposits in denominations that met or exceeded the NCUSIF insurance limit were $35,654,502 and $34,576,006 at December 31, 2015 and 2014, respectively.

A summary of share certificate accounts by maturity at December 31, 2015 is as follows:

Years Ending December 31,	
2016	$ 179,335,727
2017	47,309,336
2018	17,101,354
2019	12,113,959
2020	15,871,966
Thereafter	6,226,852
	$ 277,959,194

NOTE 7 – BORROWED FUNDS

The credit union utilizes a demand loan agreement with Mid-Atlantic Corporate Federal Credit Union. The terms of this agreement call for the pledging of all assets not already pledged as collateral under other borrowing agreements as security for any and all obligations taken by the credit union. The agreements provide for a credit limit of $5,000,000 with interest charged at a rate determined by the lender on a periodic basis. At December 31, 2015 and 2014, there were no borrowings under these agreements. The agreement is annually reviewed for continuation by the lender and the credit union.

In addition, the credit union has a repurchase agreement with Raymond James & Associates for a line of $50,000,000. As of December 31, 2015 and 2014, the credit union did not have any securities repurchased.

The credit union also has a secured borrowing arrangement through the FRB discount window. The credit union is required to provide evidence of its collateral to the FRB in order to access the line of credit. As of December 31, 2014, the credit union was unable to report its collateral to the FRB due to system conversion issues and, as a result, was unable to access the line of credit. In 2015, the reporting issues were resolved and the line of credit was restored. The credit union has pledged certain HELOC loans as collateral for any and all obligations of the credit union. The borrowing capacity is determined as a percentage of pledged collateral. As of December 31, 2015, the credit union pledged HELOC loans with a collateral value of $26,611,144 as collateral for this borrowing arrangement. As of December 31, 2015, there were no borrowings under this arrangement.

NOTE 8 – LEASE COMMITMENTS

The credit union leases three offices. The operating leases contain renewal options and provisions requiring the credit union to pay property taxes and operating expenses over base period amounts. All rental payments are dependent only upon the lapse of time. Minimum rental payments under operating leases with initial or remaining terms of one year or more at December 31, 2015 are as follows:

Years Ending December 31,	
2016	$ 1,270,892
2017	1,248,024
2018	1,238,795
2019	406,568
	$ 4,164,279

Rent expense totaled $1,168,000 and $1,143,000 for the years ended December 31, 2015 and 2014, respectively.

NOTE 9 – OFF-BALANCE-SHEET ACTIVITIES

The credit union is party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit, which include first mortgage and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated financial statements. The credit union's exposure to credit loss is represented by the contractual notional amount of these instruments. The credit union uses the same credit policies in making commitments as it does for loans recorded in the consolidated financial statements.

The credit union had $745,000 and $1,303,000 in outstanding loan commitments at December 31, 2015 and 2014, respectively.

The following financial instruments were outstanding whose contract amounts represent credit risk:

	2015	2014
HELOC	$ 99,285,136	$ 91,370,785
Lines of credit	50,995,517	52,179,189
Credit card	57,417,983	56,814,213
Courtesy pay program	1,054,010	1,076,720
	$ 208,752,646	$ 201,440,907

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 creditworthiness 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 of the member. Collateral held generally consists of certificates of deposit, share accounts, automobiles and real estate.

NOTE 9 – OFF-BALANCE-SHEET ACTIVITIES (CONTINUED)

Unfunded commitments under revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing members. These lines of credit are uncollateralized, usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the credit union is committed.

NOTE 10 – LEGAL CONTINGENCIES

The credit union is party to various legal actions normally associated with financial institutions, the aggregate effect of which, in the opinion of management and legal counsel, would not be material to the financial condition of the credit union.

NOTE 11 – CONCENTRATION OF CREDIT RISK

At December 31, 2015, the credit union had no account balances at a financial institution that exceeded federally insured limits.

NOTE 12 – RELATED PARTY TRANSACTIONS

Loans to credit union officials and deposits held by credit union officials were treated the same with regard to rates, terms and requirements as loans and deposits of other members with similar circumstances. Loans to officials totaled $2,360,784 and $1,574,000 at December 31, 2015 and 2014, respectively.

NOTE 13 – EMPLOYEE BENEFIT PLANS

Multiple Employer Pension Plan: The credit union participates in a multiple employer retirement plan. Employees age 21 and older who have been employed by the credit union for three consecutive months are eligible to participate in the plan. The profit sharing portion of the plan is discretionary and non-contributory. The credit union makes a 3% profit sharing contribution to all eligible employees for each payroll period. All amounts contributed to the plan are deposited into a trust fund administered by independent trustees.

The 401(k) portion of the plan allows eligible employees to defer a portion of their salary into the plan. The employer match for the 401(k) plan is $1 for every $1 deferred up to 5% of the eligible employee's compensation. All matching contributions to the 401(k) plan are 100% vested. The contribution to the profit sharing and 401(k) plan for the years ended December 31, 2015 and 2014 totaled $454,000 and $479,000, respectively.

Deferred Compensation Plan: In March 2012, the credit union established a nonqualified deferred compensation plan for certain executives under IRC Section 457(f). To support the deferred compensation plan, the credit union has elected to purchase credit union-owned variable life insurance. The surrender value of these investments included in other assets was $2,273,000 and $2,207,000 as of December 31, 2015 and 2014, respectively. The accrued liability for the deferred compensation included in accrued expenses and other liabilities was $120,000 and $84,000 as of December 31, 2015 and 2014, respectively.

NOTE 14 – FAIR VALUE

Prior to January 2016, GAAP required the disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial condition. In January 2016, the FASB issued ASU No. 2016-01—*Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. (See Note 1, Recent Accounting Pronouncements.) Entities that are not public business entities are no longer required to disclose the fair value of financial instruments carried at amortized cost. The credit union chose to adopt this update as of December 31, 2015. The disclosure is still required as of December 31, 2014 and is shown in the table below.

The fair value of a financial instrument 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 is best determined based on quoted market prices. However, in many instances, there are no quoted market prices for the credit union's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. GAAP excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the credit union.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate fair value:

Cash and Cash Equivalents: The carrying amount is a reasonable estimate of fair value based on the current availability of funds.

Securities Available for Sale: Fair values of marketable securities are based on quoted market prices, where available. If quoted market prices were not available, fair values are based on quoted market prices of comparable instruments or on discounted cash flow models on the expected payment characteristics of underlying mortgage instruments.

Other Investments: The carrying amount is a reasonable estimate of fair value based on current interest rate and maturities.

Loans to Members: Fair value is estimated by discounting the future cash flows using the current average rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Accrued Interest Receivable: The carrying amount is a reasonable estimate of fair value based on nearness to collectibility.

Members' Share Accounts: The fair value of regular shares, share draft and money market accounts is the carrying amount. The fair value of fixed maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.

Off-Balance-Sheet Instruments: The fair value of off-balance-sheet commitments is estimated based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the members. The estimated value of these commitments is not significant.

NOTE 14 – FAIR VALUE (CONTINUED)

The estimated fair values of the credit union's financial instruments as of December 31, 2014 are as follows:

	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 29,946,000	$ 29,946,000
Securities available for sale	482,085,000	482,085,000
Other investments	250,000	250,000
Loans to members	429,496,000	433,502,000
Accrued interest receivable	3,025,000	3,025,000
Financial liabilities:		
Members' share accounts	855,147,000	856,112,000

NOTE 15 – REGULATORY CAPITAL

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

Quantitative measures established by regulation to ensure capital adequacy require the credit union to maintain minimum amounts and ratios (set forth in the table below) of net worth (as defined) to assets (as defined). The credit union is also required to calculate a risk-based net worth (RBNW) ratio that establishes whether the credit union will be considered "complex" under the regulatory framework. The credit union's RBNW ratio as of December 31, 2015 and 2014 was 7.24% and 7.86%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes, as of December 31, 2015, that the credit union meets all capital adequacy requirements to which it is subject.

NOTE 15 – REGULATORY CAPITAL (CONTINUED)

As of December 31, 2015, the most recent call reporting period, the NCUA categorized the credit union as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the credit union must maintain a minimum net worth ratio of 7% of assets and meet any applicable RBNW requirement. There are no conditions or events since that notification which management believes have changed the credit union’s category.

	Actual		To Be Adequately Capitalized under Prompt Corrective Action Provisions		To Be Well Capitalized under Prompt Corrective action Provisions	
2015	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net worth	$118,956,595	11.74%	$60,801,324	6.00%	$70,934,877	7.00%
RBNW requirement	73,366,930	7.24%	N/A	N/A	N/A	N/A
2014						
Net worth	$107,753,853	11.84%	$57,972,086	6.00%	$67,634,100	7.00%
RBNW requirement	75,943,432	7.86%	N/A	N/A	N/A	N/A

Because the RBNW requirement is less than the net worth ratio, the credit union retains its original category.

NOTE 16 – SUBSEQUENT EVENT

In January 2016, the credit union entered into an advances and security agreement with the FHLB – San Francisco, providing for a credit line of up to 25% of total assets. Collateral for advances consist of substantially all assets of the credit union.

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