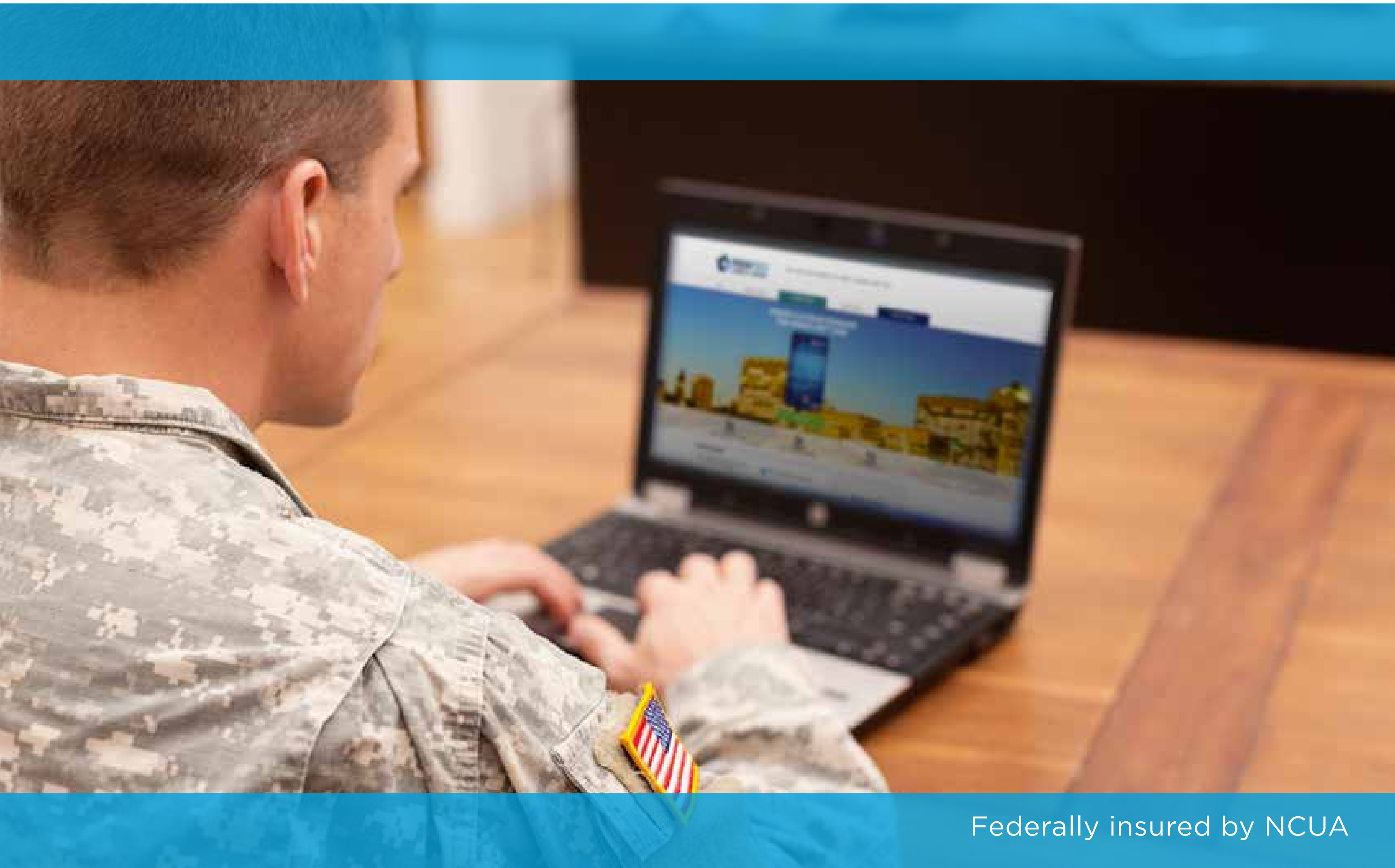
PENFED CREDIT UNION

2015 ANNUAL REPORT

Helping Our Members, Employees and Communities “Do Better”



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PENFED: WHO WE ARE

We are America's member-owned, growth-oriented financial leader providing competitive pricing, digital convenience and exemplary service to those who serve.

THE PENFED MISSION

Our Mission is to provide superior financial services, responsive to members' needs, in a cost-effective manner.

OUR PURPOSE

PenFed is a member-owned financial cooperative, democratically controlled by its members and for its members. Unlike a bank, all benefits derived from the institution are returned directly to the members through best-in-class rates, superior products and the peace of mind only the safest financial institutions can provide.

We operate for the purpose of promoting thrift, providing credit and savings at competitive rates and delivering superior financial services to our members located around the world.

We exist to serve those who serve and those who support them. And we provide credit where credit is due, contributing to the financial strength, growth and wellbeing of our nation's defenders.

OUR CORE VALUES

At PenFed our core values reflect our overarching beliefs for how we serve our members, operate our credit union, and lead in the financial services industry. We are an organization of strong character and strength, achieved by these shared guiding principles. It is through these values that we will achieve our mission, our vision and our purpose.

We are **Collaborative, Inspirational and Results-Driven**. We believe in the power and goodness of our members, our staff and our leaders, embracing our philosophy: **Be kind with no surprises, striving to take perfect care of our members and take perfect care of our employees.**

LETTER FROM THE CHAIRMAN

As a board member with over 30 years experience, and as your chairman, I want to tell you that I am proud and excited about what's taking place within PenFed Credit Union. Everywhere I look, I see an enthusiastic team that is goal-oriented and delivering results that are powering PenFed's ability to *help our members DO Better.*

At 81 years young, PenFed Credit Union is a remarkable American success story. PenFed is one of the nation's largest credit unions. We were established in 1935 by a total of ten share subscribers, who, between them, held 40 dollars in shares. This past year, we reached 1.4 million members and $20 billion in assets. Even over a period of 81 years, it may seem like magic, but truth be told, PenFed's success is owed to something much more simple—our ability to focus on our mission.

Our mission is to provide superior financial services and be responsive to members' needs in a cost effective manner. Understanding and focusing on this simple, yet important mission resulted in $2 billion of safe, sound growth over the past year. Hi-tech branches were strategically placed in areas to serve our membership and attract new members—Fort Walton Beach in Florida, Guam and Puerto Rico. The year of robust growth was also punctuated by 3 mergers in 2015 with institutions that serve our core field of membership—our nation's defenders and those who support them.

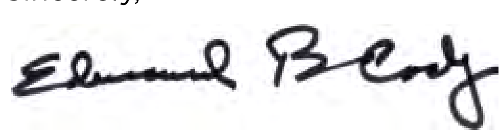
Recognizing that the member experience is at the heart of PenFed's ability to sustain growth, your Board of Directors is committed to ensuring that you have the very best rates and service across all of PenFed's delivery channels—whether you reach out to us via the Web, on a mobile device, by phone call, or a visit to one of our branches.

Our institution is also known for its generosity in giving back to the communities in which we serve. But our individual employees who volunteer their own time help to establish the all-important human connection. They have made significant contributions in moving our philanthropic efforts forward. And, every PenFed member can help. For those who desire to help others but just can't manage to meet the time commitment, there is an easy way to assist military families. Please consider contributing to the PenFed Foundation with as little as a dollar a month. Your donation can be claimed on your annual tax return and because the credit union underwrites the foundation's operational expenses and most of its administrative costs, the majority of each dollar you donate goes directly toward helping our military, veterans, and their families.

Whether you've been with PenFed for many years or you're one of our newest members, one thing is clear—PenFed has been blessed with great people who have embraced the credit union ethos of people helping people. As we move forward, our goals remain constant: to deliver a superb member experience, grow safely and soundly, be a model employer, support the communities we serve, and remain financially strong.

I have been honored and privileged to serve as your Chairman of the Board and to be a member of a team that is focused on helping you meet your financial goals.

Sincerely,



Ed Cody,
Chairman, Board of Directors

PRESIDENT'S REPORT

As PenFed Credit Union's President and CEO, my mission is simple, leading our entire team to focus on delivering best in class member experiences as our foundation for ensuring that we achieve all of our goals. Our drive to $75 billion in assets by 2025 continues. Success does not occur by happenstance. It is a result of our entire team working together — Board Members, Management, and our Employees.

This past year at PenFed has been one of continuous growth and development, both internally and externally. We have recently crossed a significant milestone by surpassing $20 billion in assets and 1.4 million members – no small feat. As we continue on this trajectory of sustained growth, I pledge that as an institution, we will not lose sight of the fact that our members continue to remain our most important asset. Based on our strong membership growth, high retention numbers and leading financial performance, we are confident we are making a significant difference in the lives of our members.

Member experience drives engagement and retention. In our relentless pursuit of delivering best-in-class member experiences, we have launched a comprehensive member feedback initiative. By directly soliciting member feedback, we not only identify moments that really matter for our members, but we also capture insights that allow us the opportunity to innovate our future product and service offerings from the most important point of view of all — our members'.

I am very proud of our family of employees who are all dedicated to serving you. As a CEO, I know that in order for our employees to take perfect care of you, our leaders at PenFed need to take perfect care of them. Hence, continuing to provide personal growth and professional development opportunities to our employees is a vital investment in the journey for us to be known as a destination employer.

Many of you serve as our nation's defenders while others support the national defense community in a variety of roles. Our entire team is committed to you, and we will continue to challenge ourselves to provide increased value each and every day. At our core, is our focus on the national defense community and all who support them. PenFed continues to be a leader in providing support through many channels for our nation's defenders and giving back to those who need our help.

I thank you all for the continued trust and confidence that you place in all of us at PenFed Credit Union. I pledge to keep our traditions of caring leadership, outstanding member service and cost-effective operations while leveraging technology to become a true industry leader. We will continue to move at a rapid pace to stay on target to reach our goals; however, you can be sure, we will do so at the highest levels of financial safety and soundness.

Please know how much we appreciate your membership and look forward to continuing to serve you for many years to come.

Sincerely,

James Schenck
President/CEO

BOARD OF DIRECTORS

Your board members and supervisory committee members are volunteers who serve without compensation. In addition to their service to the credit union, they spend hundreds of hours from their personal lives on credit union business and activities in the interest of our esteemed members.

Mr. Edward B. Cody, Chairman

LTC (Ret.) Bill R. Vinson, Vice Chairman

COL (Ret.) Lonnie L. Stith, Treasurer

Ms. Sandra L. Patricola, Secretary

COL (Ret.) James F. Quinn

COL (Ret.) Ronald P. Hudak

The Honorable Frederick F.Y. Pang

Lt Col (Ret.) John A. Rolando

LTC (USAR) Philip Romanelli

COL (Ret.) Robert W. Siegert, III

The Honorable Douglas W. Webster

The Honorable Bruce E. Kasold

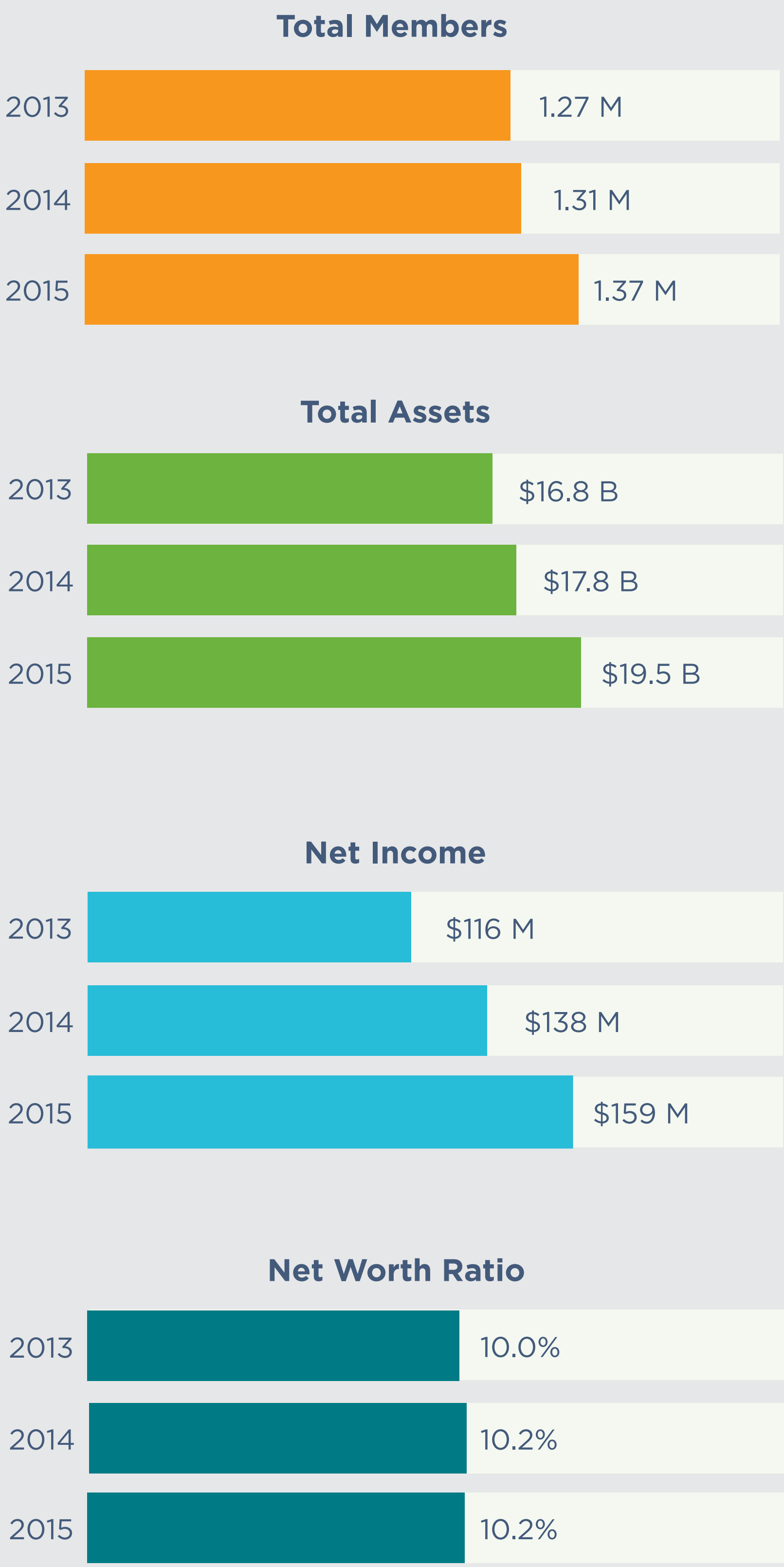
Mr. Walter P. Fairbanks

EXECUTIVE TEAM

2016 executive team from left to right

Mrs. Tamara C. Darvish, EVP & COO • **Mr. Russell A. Rau,** Chief Audit Executive **Ms. Kevyn Myers,** EVP, Mergers & Acquisition Integration & President, Card Services **Mr. Shashi B. Vohra,** EVP & President, Affiliated Businesses • **Ms. Denise B. McGlone** EVP & CFO • **Mr. James R. Schenck,** President/CEO • **Mrs. Lisa N. Jennings,** Senior EVP **Mr. Joseph Thomas,** EVP & CIO • **Mrs. Deborah Ames Naylor,** EVP & President, Mortgage Banking • **Mr. Roderick B. Mitchell,** EVP, Global Fixed Assets • **Mr. Scott E. Lind,** EVP & General Counsel

FINANCIAL HIGHLIGHTS



THE PENFED DIFFERENCE

Award-winning Credit Cards

Market-leading Mortgages

Innovative Auto Loans

Secure and Accessible Checking Accounts

2015 SUPERVISORY COMMITTEE REPORT

In accordance with the Federal Credit Union Act, your Supervisory Committee—appointed by PenFed's Board of Directors—is given the responsibility to provide assurance that the operations of the credit union are carried out in accordance with the Act, the regulations of the National Credit Union Administration (NCUA) and otherwise in a safe and sound manner.

We meet regularly with PenFed's Audit Services Department, NCUA examiners and our external auditors to monitor and evaluate internal controls that help ensure that your assets are safeguarded and that PenFed is operating effectively and efficiently. This year, the Committee engaged the services of the certified public accounting firm of Grant Thornton LLP to audit the financial statements of the credit union. As noted in this report, Grant Thornton LLP issued an opinion that the credit union's financial statements as of and for the year ended December 31, 2015 are presented fairly in all material respects.

Based on the activity of our external and internal auditors and examiners, as well as our own observations, we can report that PenFed continues to maintain a high level of financial safety and soundness.

PenFed continues to be a leader in the financial services it provides to members and an asset to the global credit union community. All of us on the Supervisory Committee are proud to volunteer our time to serve the members of PenFed as liaisons between you and your credit union.

If ever you need assistance or experience difficulties which cannot be resolved through normal channels, I encourage you to contact us. We are always available to answer questions or review comments regarding credit union activities. The Supervisory Committee is here for your benefit.

Theresa M Grafenstine

Theresa Grafenstine
Chairwoman
Supervisory Committee

AUDITED FINANCIAL STATEMENTS

PENTAGON FEDERAL CREDIT UNION AND SUBSIDIARIES

FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Years Ended December 31, 2015 and 2014

PENFED
CREDIT UNION

PENTAGON FEDERAL CREDIT UNION AND SUBSIDIARIES
FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
Years Ended December 31, 2015 and 2014

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Supervisory Committee and Members of
Pentagon Federal Credit Union

We have audited the accompanying consolidated financial statements of Pentagon Federal Credit Union (a federally chartered credit union) and subsidiaries, which comprise the consolidated statements of financial condition as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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 Pentagon Federal Credit Union and subsidiaries as of December 31, 2015 and 2014, 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.

Grant Thornton LLP

New York, York
April 20, 2016

PENTAGON FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands)

	December 31, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	$ 232,517	$ 321,890
Investment securities		
Available-for-sale (cost $925,355 and $759,829)	914,764	754,472
Federal Home Loan Bank stock and other	174,758	103,139
Loans, net of allowance of $47,023 and $44,730	17,386,141	16,229,386
Loans held for sale, net	77,259	41,095
Accrued interest receivable	43,181	39,487
NCUSIF deposit	127,549	125,083
Property and equipment, net	257,866	79,943
Other assets	246,407	101,924
Total assets	$19,460,442	$ 17,796,419
LIABILITIES AND MEMBERS' EQUITY		
Members' accounts:		
Regular shares	$ 1,622,969	$ 1,423,640
Checking accounts	1,040,707	851,050
Money market shares	2,098,392	2,122,256
Share certificates	8,221,394	7,108,642
IRA shares	207,675	204,863
IRA certificates	2,130,266	2,234,768
Total members' accounts	15,321,403	13,945,219
Borrowed funds	1,948,903	1,850,206
Accrued interest on members' accounts	9,076	9,380
Other liabilities	257,820	227,672
Total liabilities	17,537,202	16,032,477
Members' equity:		
Regular reserves	90,900	90,900
Undivided earnings	1,890,829	1,731,457
Accumulated other comprehensive loss	(58,489)	(58,415)
Total members' equity	1,923,240	1,763,942
Total liabilities and members' equity	$19,460,442	$ 17,796,419

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

PENTAGON FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands)

	Years Ended December 31, 2015	Years Ended December 31, 2014
Interest income		
Loans	$ 589,962	$ 558,533
Investment securities	16,892	20,431
Total interest income	606,854	578,964
Interest expense		
Members' accounts	206,040	223,920
Borrowed funds	53,554	53,931
Total interest expense	259,594	277,851
Net interest income	347,260	301,113
Provision for loan losses	53,758	39,974
Net interest income after provision for loan losses	293,502	261,139
Non-interest income		
Fees and charges	44,322	44,083
Credit card and debit card interchange	28,730	26,285
Gains on sales of loans	20,187	10,986
Gains on sales of investment securities	180	1,834
Other	38,742	20,611
Total non-interest income	132,161	103,799
Non-interest expense		
Compensation and benefits	131,487	109,134
Office operations	40,365	32,412
Loan servicing	22,270	29,045
Occupancy	13,222	12,004
Education and promotional	21,936	17,520
Professional and outside services	14,669	7,655
Other	22,342	19,279
Total non-interest expense	266,291	227,049
Net income	$ 159,372	$ 137,889

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

PENTAGON FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)

	Years Ended December 31,	
	2015	**2014**
Net income	$ 159,372	$ 137,889
Other comprehensive income/(loss)		
Change in net unrealized (losses) gains on investment securities during the year	(5,414)	911
Adjustment for realized gains on investment securities included in income	180	1,834
Change in pension and postretirement liabilities	5,160	(16,005)
Other comprehensive loss, net of reclassification adjustments	(74)	(13,260)
Comprehensive income	$ 159,298	$ 124,629

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

PENTAGON FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
Years Ended December 31, 2015 and 2014
(dollars in thousands)

	Regular Reserves	Undivided Earnings	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2014	$ 90,900	$ 1,588,547	$ (45,155)	$ 1,634,292
Net income	-	137,889	-	137,889
Cumulative adjustment- measuring mortgage servicing rights under fair value method	-	5,021	-	5,021
Other comprehensive loss, net of reclassification adjustments	-	-	(13,260)	(13,260)
Balance, December 31, 2014	90,900	1,731,457	(58,415)	1,763,942
Net income	-	159,372	-	159,372
Other comprehensive loss, net of reclassification adjustments	-	-	(74)	(74)
Balance, December 31, 2015	$ 90,900	$ 1,890,829	$ (58,489)	$ 1,923,240

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

PENTAGON FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Years Ended December 31, 2015	2014
Cash flows from operating activities:		
Net income	$ 159,372	$ 137,889
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	53,758	39,974
Depreciation and amortization	13,365	10,459
Net amortization of premiums and accretion of discounts	3,440	6,779
Gains on sales of loans	(20,187)	(10,986)
Gains on sales of investment securities	(180)	(1,834)
Loans originated and sold	(1,155,062)	(887,776)
Proceeds from sales of loans held for sale	1,200,132	923,174
Changes in:		
Accrued interest receivable	(3,694)	(2,654)
Other assets- Credit Union owned life insurance	(125,000)	-
Other assets	1,142	(6,155)
Other liabilities	29,844	10,865
Net cash provided by operating activities	156,930	219,735
Cash flows from investing activities:		
Proceeds from maturities of investment securities	192,928	699,984
Purchases of investment securities	(437,835)	(1,060,967)
Increase in Federal Home Loan Bank stock and other	(71,619)	(10,431)
Proceeds from sales of investment securities	76,121	501,926
Net increase in loans	(1,287,025)	(1,431,913)
Net, purchase of property and equipment	(191,288)	(21,956)
Increase in NCUSIF deposit	(2,466)	(6,932)
Net cash used in investing activities	(1,721,184)	(1,330,289)
Cash flows from financing activities:		
Repayment of borrowings	(3,251,303)	(1,651,785)
Proceeds from borrowings	3,350,000	1,950,000
Increase in members' accounts, net	1,376,184	516,849
Net cash provided by financing activities	1,474,881	815,064
Net decrease in cash and cash equivalents	(89,373)	(295,490)
Cash and cash equivalents at beginning of year	321,890	617,380
Cash and cash equivalents at end of year	$ 232,517	$ 321,890
Additional cash flow information:		
Interest paid	$ 259,104	$ 279,171
Transfers of loans, net to other real estate owned	11,117	4,457

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

NOTE 1 – NATURE OF BUSINESS AND ORGANIZATION

Pentagon Federal Credit Union (the "Credit Union") is headquartered in Alexandria, Virginia and was organized and chartered on March 25, 1935 as a federal credit union under the provisions of the Federal Credit Union Act of 1934 for the purpose of promoting thrift among its members and creating a source of credit for provident or productive purposes. The principal common bond shared by the Credit Union's members is their affiliation with the United States defense sector. Participation in the Credit Union is limited to those individuals who qualify for membership as defined in its charter and bylaws.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statements Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and predominant practices within the banking industry. The consolidated financial statements and accompanying notes to the financial statements include the accounts of Pentagon Federal Credit Union and its wholly-owned subsidiaries, PenFed Realty, LLC - which provides real estate brokerage services to the Credit Union's members and the general public, and PenFed Title, LLC - which provides real estate settlement title services to the Credit Union's members. All significant intercompany accounts and transactions have been eliminated. The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Business Combinations and Acquisitions

Business combinations and acquisitions had previously allowed the pooling of interest method, which for credit unions would include the ability to add a credit unions total members' equity when it merged with another credit union (along with assets and liabilities as of the merger date). Within FAS 141 - Business Combinations (amended in 2007), the pooling method was no longer allowed. Therein, under the purchase method, after the fair value determinations for acquired assets and liabilities, the resulting merger equity is recognized in the income statement of the acquirer as a bargain purchase gain. Therefore, the Credit Union accounts for mergers under the applicable provisions of Accounting Standards Codification ("ASC") 805, "Business Combinations" and the operations of the merged entities are included with the Credit Union's consolidated balances as of the effective dates of each individual acquisition. There were no mergers in 2014 and 3 credit union mergers in the 4th quarter of 2015.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The three mergers in the aggregate had total assets of approximately $162 million, with total liabilities acquired of approximately $144 million, and a resulting bargain purchase gain recognized in other income of approximately $18 million. The remaining disclosures for these 2015 mergers were omitted due to materiality. The effects of this transaction on the consolidated statements of cash flows were included in the respective line items. Total Goodwill was approximately $13.5 million and $12.4 million as of December 31, 2015 and 2014, respectively, with increases in 2015 from smaller-based acquisitions in PenFed Realty, LLC. The remaining disclosures for the 2015 and 2014 asset acquisitions, goodwill and other acquisition intangibles were omitted due to materiality.

Recent Accounting Pronouncements

In January 2014, FASB ASU No. 2014-04, amended ASC Sub-Topic 310-40 "Receivables—Troubled Debt Restructurings by Creditors." The amendments clarify that an in substance repossession or foreclosure occurs, and the Credit Union is considered to have received physical possession of residential real estate property collateralizing a mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The amendments in this update are effective for the annual periods beginning on or after December 15, 2014 and an entity can elect to adopt the amendments in this update using either a modified retrospective transition method or a prospective transition method as allowed in ASU No. 2014-04. The implementation of ASU No. 2014-04 in 2015 did not have a material effect on the Credit Union's consolidated financial statements.

In January 2015, FASB ASU No. 2015-01, eliminates ASC Sub-Topic 225-20 "Income Statement-Extraordinary and Unusual Items." This update eliminates from GAAP the concept of extraordinary items. Subtopic 225-20, Income Statement—Extraordinary and Unusual Items, required that an entity separately classify, present, and disclose extraordinary events and transactions. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. Eliminating the concept of extraordinary items will save time and reduce costs by not having to assess whether a particular event or transaction is extraordinary. The amendments in this update are effective for fiscal years beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The effective date is the same for both public business entities and all other entities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In September 2015, FASB ASU No. 2015-16, amends ASC Topic 805 "Business Combinations." This update requires an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period of a business combination. Specifically, an acquirer should record the effect on earnings from a change in provisional amounts as if the accounting was completed on the acquisition date, with disclosures on the face of the income statements or in the notes to the financial statements. The amendments in this update are effective for the annual periods beginning after December 15, 2016. The implementation of ASU No. 2015-16 is not expected to have a material effect on the Credit Union's consolidated financial statements.

In January 2016, FASB ASU No. 2016-01, amends ASC Sub-Topic 825-10 "Financial Instruments-Overall." This update amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. Specifically, among other amendments, this update eliminates the disclosure of fair value of financial instruments that are at amortized cost, while requiring separate presentation of financial assets and liabilities by measurement category and form of financial assets on the balance sheet or in the notes to financial statements. The amendments in this update are effective for the annual periods beginning after December 15, 2018. The implementation of ASU No. 2016-01 is not expected to have a material effect on the Credit Union's consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, shares in other credit unions, and demand deposits in other financial institutions. Amounts due from financial institutions may, at times, exceed federally insured limits.

Investment Securities

Investment securities that management has the ability and intent to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for amortization of premiums and accretion of discounts using the interest method. Other investment securities are classified as available-for-sale and are carried at fair value. Unrealized gains and losses on investment securities available-for-sale are excluded from earnings and reported in accumulated other comprehensive loss in members' equity. Purchase premiums and discounts are recognized in interest income using the interest method over the term of the securities purchased. Gains and losses on dispositions of investment securities are computed using the specific identification method. Unrealized gains (losses) for the years 2015 and 2014 were $(5,234) and $2,745, respectively, and were recognized in accumulated other comprehensive loss, net of reclassification adjustments of $180 and $1,834, respectively, for gains recognized in net income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Federal Home Loan Bank-Atlanta stock and other securities have no readily available markets and thus do not have a quoted market value. Therefore, Federal Home Loan Bank stock and other securities are carried at cost and tested annually for impairment. At December 31, 2015 and 2014, Federal Home Loan Bank stock and other securities were not impaired.

Loans and Allowance for Loan Losses

Loans which management intends to hold until maturity are stated at the amount of unpaid principal, net of deferred loan origination costs and fees, and the allowance for loan losses. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding. Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income over the term of the loans. Prepayments on loans are estimated based on the Credit Union's experience with similar loans, with the recognition period for the related net loan origination costs adjusted accordingly. The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb probable losses inherent in the loan portfolio.

The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, and trends in historical loss experience, specific impaired loans, and economic conditions. The Credit Union's loan portfolio is comprised primarily of large groups of smaller balance homogeneous loans that are collectively evaluated for impairment. First trust and home equity real estate loans that are generally 90 days or more past due are identified individually for impairment. The allowance is increased by a provision for loan losses, which is charged to expense, and the allowance is reduced by loan related charge-offs, net of recoveries. Changes in the estimated allowance are charged to the provision for loan losses. Due to the nature of uncertainties related to any estimation process, management's estimate of credit losses inherent in the loan portfolio and the related allowance may change in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

As a matter of policy, the Credit Union generally places impaired loans in nonaccrual status and recognizes interest income on such loans only on a cash basis, upon receipt of interest payments from the borrower/member. Accrual of interest is discontinued on a loan when management believes, after considering economic factors, business conditions, and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful, or after three months of nonpayment, whichever occurs first. Uncollectible interest previously accrued is reversed against interest income. Income is subsequently recognized only to the extent cash payments are received until, in management's judgment, the borrower's ability to make periodic interest and principal payments is resumed, in which case the loan is returned to an accrual status.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Loans Held for Sale, Net

Loans held for sale are carried at the lower of cost or estimated fair value, applied on a loan-by-loan basis. Net unrealized losses are recognized through a valuation allowance by charges to other non-interest expense. Loans held for sale are sold with the mortgage servicing rights retained by the Credit Union, and are generally sold without recourse, subject to customary representations and warranties. The Credit Union recognizes the sale of loans or other financial assets when the transferred assets are legally isolated from the Credit Union's creditors and the appropriate accounting criteria are met for recognition of a sale of an asset. At December 31, 2015 and 2014, the Credit Union had $77,259 and $41,095, respectively, of loans held for sale, net, which were previously committed for sale prior to the respective year-end periods, with these commitments having unrealized losses at December 31, 2015 and 2014 of $14 and $0, respectively. The Credit Union had outstanding commitments to sell loans (net of loans held for sale) of $140 million and $109 million in outstanding commitments to sell loans at December 31, 2015 and 2014, respectively.

Mortgage Servicing Rights

Mortgage servicing rights are recognized as separate assets when mortgage loans are sold in the secondary market and the right to service these loans is retained for a fee. These rights are initially recognized at fair value determined by a valuation model that calculates the present value of estimated future net servicing income. The valuation model utilizes assumptions that market participants would use in estimating future net servicing income, such as contractual servicing fee income, costs to service, discount rates, ancillary income, prepayment speeds, and default rates. This model is highly sensitive to changes in certain assumptions. If actual experience differs from the anticipated rates used in the Credit Union's model, this difference could result in a material change in the value of mortgage servicing rights.

In 2014, the Credit Union adopted the fair value method for mortgage servicing rights effective January 1, 2014 as permitted in ASC 860-50-35-3d, and is irrevocable under U.S. GAAP. At January 1, 2014, the difference in the amortization method and the fair value method of mortgage servicing rights was $5,021 and was recorded to members' equity at adoption as a cumulative-effect adjustment in accordance with ASC 860-50-35-3e. The Credit Union uses assumptions and estimates in determining fair value of capitalized mortgage servicing rights. These assumptions include prepayment speeds and discount rates commensurate with the risks involved and comparable to assumptions used by market participants to value and bid servicing rights available for sale in the market.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Specifically, at year end 2015 and 2014, the Credit Union utilized assumptions in conditional prepayment rates of 9.3% and 9.0%, respectively, and also utilized a discount rate of 9.9% for 2015 and 10.2% for 2014, in determining the fair value of capitalized mortgage servicing rights. At December 31, 2015 and 2014, the mortgage servicing rights balance was $52,037 and $47,689, respectively. During 2015 and 2014, the Credit Union sold mortgage loans with proceeds from sales of loans totaling $1,200,132 and $923,174, respectively, and recognized net gains on sales of loans totaling $20,187 and $10,986, respectively, which were recorded as non-interest income.

Other Real Estate Owned

The Credit Union records real estate acquired through foreclosure ("real estate owned") at fair value on the date of acquisition, plus certain capitalized costs, net of estimated disposal costs. Carrying costs such as interest and maintenance are expensed as incurred. The balances of such assets are included in other assets in the consolidated statements of financial condition. Due to changing market conditions (and the fair value and disposal cost assumptions for real estate owned), the amounts ultimately realized from the sale of real estate owned may differ from the amounts reflected in the consolidated financial statements. At December 31, 2015 and 2014, the Credit Union had real estate owned with gross balances of $9,748 and $6,418, respectively, and related valuation allowance balances of $1,799 and $1,239, respectively.

Property and Equipment

Property and equipment are stated at cost, including interest capitalized during the period of construction, less accumulated depreciation and amortization. Purchased software is capitalized if certain criteria are met. Depreciation and amortization are recognized using the straight-line method over the estimated useful lives of the assets. Land is stated at cost. Expenditures for maintenance and repairs are charged to operations as incurred. The cost and related accumulated depreciation are eliminated from the accounts when assets are disposed. Any resulting gain or loss is reflected in the results of operations. Leasehold improvements are amortized over the lesser of the estimated economic life of the improvements or the remaining term of the lease.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Members' Accounts

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

Members' Equity

The Credit Union is required by regulation to maintain statutory reserves ("regular reserves"), representing a regulatory restriction of members' equity and thus these regular reserves are not available for the payment of interest on share accounts. Other appropriated members' equity amounts may be established or transferred at the discretion of the Board of Directors.

National Credit Union Share Insurance Fund ("NCUSIF") Deposit

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

Fair Value of Assets and Liabilities

Fair value is a market-based measurement, not an entity-specific measurement, and the hierarchy gives the highest priority to quoted prices in active markets. Fair value measurements are disclosed by level within the fair value hierarchy. 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. Valuation techniques are to be consistent with the market approach, the income approach, and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset/liability or unobservable, meaning those that reflect the entity's own assumptions developed based on the best information available in the circumstances.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The fair value hierarchy is as follows:

Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from 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 - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions. Level 3 valuations have certain assumptions and projections which require significant management judgment or estimation in determining the fair value assigned to such assets or liabilities.

Advertising Costs

Advertising costs are included in education and promotional expense and are expensed as incurred. Advertising expense for 2015 and 2014 was $21,936 and $17,520, respectively.

Income Taxes

The Credit Union is exempt from federal and state income taxes in accordance with Section 122 of the Federal Credit Union Act.

Comprehensive (Loss)/Income

Accounting principles generally require revenue, expenses, gains and losses to be included in Net Income. Certain changes in assets and liabilities, such as unrealized gains and losses on investment securities and pension related adjustments are reported as a separate component of members' equity in the Statements of Financial Condition.

Reclassifications

Certain account reclassifications have been made to the 2014 consolidated financial statements in order to conform to classifications used in the current year.

(dollars in thousands)

NOTE 3 – INVESTMENT SECURITIES

The amortized cost and fair values of investment securities available-for-sale, with gross unrealized gains and losses, are summarized as follows:

	December 31, 2015			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Securities available-for-sale				
Federal agency securities	$ 446,967	$ 434	$ (1,501)	$ 445,900
Federal agency securities-MBS	478,388	289	(9,813)	468,864
Total securities available-for-sale	$ 925,355	$ 723	$ (11,314)	$ 914,764

	December 31, 2014			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Securities available-for-sale				
Federal agency securities	$ 470,919	$ 1,885	$ (1,554)	$ 471,250
Federal agency securities-MBS	288,910	1	(5,689)	283,222
Total securities available-for-sale	$ 759,829	$ 1,886	$ (7,243)	$ 754,472

At December 31, 2015 and 2014, fair value losses totaling approximately $11 million and $7 million, respectively, included $200 million in securities that were purchased within the first half of 2013 and had unrealized losses of approximately $7 million and $6 million, respectively, at year end 2015 and 2014.

Credit Union management evaluates investments for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer as well as 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. The unrealized losses for 2015 and 2014 related predominately to purchases within the last 24 months, or current year additions, and were the result of changes in interest rates after these investment securities were purchased, and thus are not an indication of impairment.

(dollars in thousands)

NOTE 3 – INVESTMENT SECURITIES, CONTINUED

The contractual maturities at December 31, 2015 and 2014 are detailed in the following table (actual maturities may differ from contractual maturities as certain security issuers have the right to call or prepay obligations without penalty):

	December 31 , 2015		December 31 , 2014	
Investment securities available-for-sale	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 50,467	$ 50,351	$ -	$ -
Due after one year through five years	201,500	200,422	559,820	552,877
Due after five years through ten years	297,761	297,877	100,009	100,820
Due after ten years	375,627	366,114	100,000	100,775
Total investment securities available-for-sale	$ 925,355	$ 914,764	$ 759,829	$ 754,472

NOTE 4 – LOANS, NET

Major classifications of loans to members are summarized as follows:

	December 31,	
	2015	2014
First trust mortgages	$ 11,262,407	$ 10,337,793
Term home equity	881,843	1,039,254
Equity lines of credit	851,227	759,755
Total real estate loans	12,995,477	12,136,802
Credit card loans, primarily unsecured	1,593,170	1,604,489
Vehicle loans	2,382,610	2,100,959
Unsecured consumer loans	186,894	164,609
Thrifty credit services	85,694	79,920
Loans secured by members' shares	9,909	9,045
Other	113,303	119,526
Total vehicle and other loans	2,778,410	2,474,059
Net unamortized deferred fees and costs	66,107	58,766
Total loans, net of fees and costs	17,433,164	16,274,116
Less allowance for loan losses	(47,023)	(44,730)
Loans, net	$ 17,386,141	$ 16,229,386

(dollars in thousands)

NOTE 4 – LOANS, NET, CONTINUED

The Credit Union holds deeds of trust/mortgages on underlying real estate to collateralize all first trust mortgage, term home equity and equity line of credit loans ("real estate loans"). Approximately 34% of real estate loans at December 31, 2015 and 36% at December 31, 2014 are collateralized by residential real estate located in the District of Columbia metropolitan area.

Nonperforming loans include nonaccrual loans in addition to loans that are contractually past due 90 days or more as to interest or principal, but have not been put on nonaccrual status. At December 31, 2015 and 2014, nonperforming loans were as follows:

	December 31,	
	2015	2014
Nonaccrual loans-- real estate loans	$ 16,904	$ 16,406
Nonaccrual loans-- vehicle and other loans	7,407	6,185
Total nonaccrual loans	24,311	22,591
Credit card loans contractually past due 90 days or more and still accruing	16,403	14,026
Total nonperforming loans	$ 40,714	$ 36,617
Total nonperforming loans as % of net loans receivable	0.23%	0.23%

In addition, the following tables provide past due and aging information for the loan portfolio at 2015 and 2014 year end, as follows:

December 31, 2015	30-59 days Past Due	60-89 days Past Due	Non-Performing	Total Past Due	Current	Total
Real estate loans	$ 6,746	$ 2,064	$ 16,904	$ 25,714	$ 13,035,870	$ 13,061,584
Vehicle and other loans	4,041	2,535	7,407	13,983	2,764,427	2,778,410
Credit card loans	6,524	5,154	16,403	28,081	1,565,089	1,593,170
Total loans	$ 17,311	$ 9,753	$ 40,714	$ 67,778	$ 17,365,386	$ 17,433,164

December 31, 2014	30-59 days Past Due	60-89 days Past Due	Non-Performing	Total Past Due	Current	Total
Real estate loans	$ 4,356	$ 1,438	$ 16,406	$ 22,200	$ 12,173,368	$ 12,195,568
Vehicle and other loans	3,423	2,282	6,185	11,890	2,462,169	2,474,059
Credit card loans	6,879	4,259	14,026	25,164	1,579,325	1,604,489
Total loans	$ 14,658	$ 7,979	$ 36,617	$ 59,254	$ 16,214,862	$ 16,274,116

(dollars in thousands)

NOTE 4 – LOANS, NET, CONTINUED

The amount of interest income that would have been recognized on nonperforming loans under the original contractual terms of these loans was approximately $2.4 million and $2.3 million for the years ended December 31, 2015 and 2014, respectively. The amount actually recognized on nonperforming loans as interest income on loans was approximately $1.2 million and $1.0 million in December 31, 2015 and 2014, respectively, and thus the foregone interest lost was approximately $1.2 million and $1.3 million for December 31, 2015 and 2014, respectively.

The following table provides a summary of loans that continue to accrue interest under restructured terms and outstanding restructured loans that are on nonaccrual status:

	December 31,	
	2015	2014
Restructured loans-- real estate loans	$ 41,339	$ 45,232
Restructured loans-- non-real estate/other loans	6,913	8,385
Total restructured loans-- current	48,252	53,617
Restructured loans-- nonaccrual	2,361	1,938
Total restructured loans	$ 50,613	$ 55,555

The remaining disclosures related to restructured loans for the years presented were omitted due to materiality.

Changes in the allowance for loan losses for the 2015 and 2014 years were as follows:

December 31, 2015	Real Estate	Credit Card	Vehicle & Other	Total
Balance, beginning of year	$ 12,380	$ 24,955	$ 7,395	$ 44,730
Provision for loan losses	293	39,515	13,950	53,758
Loan losses charged to the allowance	(4,696)	(39,355)	(14,402)	(58,453)
Recoveries credited to the allowance	1,134	4,365	1,489	6,988
Balance, end of year	$ 9,111	$ 29,480	$ 8,432	$ 47,023

December 31, 2014	Real Estate	Credit Card	Vehicle & Other	Total
Balance, beginning of year	$ 18,910	$ 25,185	$ 7,727	$ 51,822
Provision for loan losses	(1,362)	32,300	9,036	39,974
Loan losses charged to the allowance	(6,034)	(37,171)	(11,203)	(54,408)
Recoveries credited to the allowance	866	4,641	1,835	7,342
Balance, end of year	$ 12,380	$ 24,955	$ 7,395	$ 44,730

(dollars in thousands)

NOTE 4 – LOANS, NET, CONTINUED

The Credit Union's allowance for loan loss balance evaluation is predominately based on a collective review for impairment, except for real estate loans that are on nonaccrual status, which are reviewed individually for impairment on a monthly basis. Factors considered in the review for impairment included (but are not limited to) the review of payment history, updated credit status, collateral value, economic factors, among others.

At December 31, 2015 and 2014, the allowance for loan loss balances included the following relative to the method for determining the allowance for loan losses:

	Allowance for Loan Losses		Loans, Net	
December 31, 2015	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate loans	$ 1,780	$ 7,331	$ 4,809	$ 13,056,775
Vehicle and other loans	-	8,432	-	2,778,410
Credit card loans	-	29,480	-	1,593,170
Total	$ 1,780	$ 45,243	$ 4,809	$ 17,428,355

	Allowance for Loan Losses		Loans, Net	
December 31, 2014	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate loans	$ 2,649	$ 9,731	$ 10,008	$ 12,185,560
Vehicle and other loans	-	7,395	-	2,474,059
Credit card loans	-	24,955	-	1,604,489
Total	$ 2,649	$ 42,081	$ 10,008	$ 16,264,108

In 2015, net loan balance additions to impairments totaled $5,476 and net charge offs totaled $10,675, with 2014 having net loan balance additions to impairments of $10,929 and net charge offs of $12,244. The average outstanding loan balance for impaired loans in 2015 and 2014 were $7,263 and $12,590, respectively. At December 31, 2015 and 2014, there were no impaired loans that did not have a related allowance. During the year ended December 31, 2015, the Credit Union recorded - based on the appraised value of the underlying collateral - net reductions/recoveries of $869 on impaired loans and net losses of $560 related to write-downs of foreclosed real estate. During the year ended December 31, 2014, the Credit Union recorded-based on the appraised value of the underlying collateral - net reductions/recoveries of $624 on impaired loans and net losses of $1,328 related to write-downs of foreclosed real estate. Remaining disclosures related to impaired loans were omitted due to materiality.

(dollars in thousands)

NOTE 5 – PROPERTY AND EQUIPMENT, NET

Property and equipment are summarized as follows:

	Estimated useful life	December 31, 2015	December 31, 2014
Land		$ 34,702	$ 4,716
Buildings and improvements	5 to 50 years	189,969	50,966
Furniture and fixtures	3 to 8 years	23,905	21,629
Computer equipment	3 to 5 years	38,703	35,479
Computer software	3 to 10 years	72,088	63,212
Leasehold improvements	1 to 5 years	14,419	6,544
		373,786	182,546
Accumulated depreciation		(115,920)	(102,603)
Property and equipment, net		$ 257,866	$ 79,943

Depreciation and amortization expense for the years ended December 31, 2015 and 2014, was approximately $13,365 and $10,459, respectively, and is included in occupancy expense.

NOTE 6 – MEMBERS' ACCOUNTS

Share and deposit amounts up to $250 per ownership interest are federally insured through the National Credit Union Share Insurance Fund. Individual deposit account balances exceeding $250 at December 31, 2015 and 2014, totaled $1,957,717 and $1,485,602, respectively.

At December 31, 2015, scheduled maturities of members' accounts are as follows:

2016	$ 4,656,485
2017	1,685,147
2018	1,449,189
2019	1,962,226
2020	221,981
Thereafter	376,632
No contractual maturity	4,969,743
	$ 15,321,403

Interest expense on members' accounts for the 2015 and 2014 year end are as follows:

	December 31, 2015	December 31, 2014
Regular shares	$ 1,305	$ 937
Money market shares	2,621	2,646
Share certificates	150,979	161,466
IRA shares	111	135
IRA certificates	51,024	58,736
	$ 206,040	$ 223,920

(dollars in thousands)

NOTE 7 – BORROWED FUNDS

Borrowed funds are summarized as follows:

	December 31, 2015	December 31, 2014
Federal Home Loan Bank advances	$ 1,946,000	$ 1,846,000
Other borrowings	2,903	4,206
	$ 1,948,903	$ 1,850,206

The Credit Union borrowed funds from the Federal Home Loan Bank of Atlanta ("FHLB") secured by a blanket lien on the Credit Union's first trust mortgage portfolio. Other borrowings are comprised of aged participation loan agreements accounted for as secured borrowings, with additional disclosures being omitted due to materiality.

The scheduled maturities of and applicable interest rates for FHLB borrowed funds at December 31, 2015 are as follows:

Years Ending December 31	Interest Rate	December 31, 2015 Amount
2016	0.30%	200,000
2016	0.34%	50,000
2016	0.38%	100,000
2016	0.40%	50,000
2016	0.41%	100,000
2016	0.45%	100,000
2016	0.52%	100,000
2017	3.63%	150,000
2018	3.37%	80,000
2018	3.94%	130,000
2018	4.30%	130,000
2020	3.12%	240,000
2021	5.35%	100,000
2022	3.06%	150,000
2022	3.16%	100,000
2024	5.80%	33,000
2024	6.05%	33,000
2026	4.67%	50,000
2031	4.94%	50,000
		$ 1,946,000
Weighted Average %		2.62%

NOTE 8 – EMPLOYEE BENEFIT PLANS

Overview of Plans

The Credit Union sponsors a trustee, noncontributory, defined-benefit pension plan (the "Plan") covering eligible employees. Benefits under the Plan are primarily based on years of service and the employees' compensation during the last five years of employment. The Credit Union's policy is to make annual contributions to the Plan equal to the amount required to maintain the Plan in sound condition and to satisfy minimum funding requirements. Eligibility requirements of the Plan were modified in December 2006 to exclude employees hired or rehired after December 31, 2006 from participating in the Plan.

The Credit Union also established a Supplemental Retirement Plan, covering certain Credit Union executives, on July 26, 2005.

The Credit Union also sponsors a defined benefit postretirement plan. Eligibility requirements of the defined benefit postretirement plan were modified in December 2012 to exclude employees hired or rehired on or after December 1, 2012 from participating. The Plan covers eligible employees providing medical, life insurance and sick leave benefits. The Plan is contributory for retirees who retired after January 1, 1995. For these retirees, effective April 1, 2006, retiree medical contributions were set at 70% for retirees age 65 or above, and 90% for retirees age 55 to 65. Effective April 1, 2007, the Plan includes an increase in the contribution level for retirees age 65 and above to 90% of the premium. The 70% and 90% contribution provisions do not apply to employees who retired before January 1, 1995, for whom the Credit Union pays 100% of the premiums.

In accordance with ASC 715, "Compensation-Retirement Benefits" the funding status of each benefit plan is reflected as an asset or liability in the statement of financial position and the associated transition adjustment is recognized through accumulated other comprehensive loss. ASC 715 requires an employer to recognize the overfunded or underfunded status of defined benefit pension and other postretirement plans, measured solely as the difference between the fair value of plan assets and the benefit obligation, as an asset or liability on the balance sheet. Unrecognized actuarial gains and losses, unrecognized prior service costs, and unrecognized transition obligation remaining from the adoption of earlier pronouncements in ASC 715 are included as a component of accumulated other comprehensive loss.

Actuarial gains and losses and prior service costs and credits that arise during a period, are included in other comprehensive income to the extent they are not included in net periodic pension cost (a component of compensation and benefits expense).

(dollars in thousands)

NOTE 8 – EMPLOYEE BENEFIT PLANS, CONTINUED

The following table sets forth changes in the benefit obligations and plan assets:

	Retirement Plan		Supplemental Retirement		Postretirement Benefits	
	2015	2014	2015	2014	2015	2014
Change in benefit obligation						
Benefit obligation at beginning of year	$ 121,859	$ 95,235	$ 5,301	$ 4,481	$ 5,639	$ 5,217
Service cost	5,051	5,052	74	147	164	139
Interest cost	4,472	4,308	173	158	166	187
Plan participants' contributions	-	-	-	-	231	232
Amendments	-	-	-	511	-	(170)
Actuarial (gain) loss	(8,911)	25,565	1,421	4	(1,664)	553
Benefits paid/Settlements	(5,815)	(8,301)	(1,095)	-	(361)	(519)
Benefit obligation at end of year	$ 116,656	$ 121,859	$ 5,874	$ 5,301	$ 4,175	$ 5,639
Change in plan assets						
Fair value of assets at beginning of year	$ 103,351	$ 98,020	$ -	$ -	$ -	$ -
Actual return on plan assets	(2,722)	13,632	-	-	-	-
Employer contribution	-	-	1,095	-	130	287
Plan participants' contributions	-	-	-	-	231	232
Benefits paid/Settlements	(5,815)	(8,301)	(1,095)	-	(361)	(519)
Fair value of assets at end of year	$ 94,814	$ 103,351	$ -	$ -	$ -	$ -

The amounts recognized in the Credit Union's statement of financial condition at December 31, 2015 and 2014 are presented in the following table:

	Retirement Plan		Supplemental Retirement		Postretirement Benefits	
	2015	2014	2015	2014	2015	2014
Amounts recognized in the statement of financial condition consist of:						
Prepaid benefit cost	$ -	$ -	$ -	$ -	$ -	$ -
Accrued benefit liability	(21,842)	(18,507)	(5,874)	(5,301)	(4,175)	(5,639)
Accumulated other comprehensive loss (gain)	45,560	50,694	2,773	2,228	(1,152)	136
Net amount recognized	$ 23,718	$ 32,187	$ (3,101)	$ (3,073)	$ (5,327)	$ (5,503)
Noncurrent assets	$ -	$ -	$ -	$ -	$ -	$ -
Current liabilities	-	-	(1,149)	(1,149)	(190)	(206)
Noncurrent liabilities	(21,842)	(18,507)	(4,725)	(4,152)	(3,985)	(5,433)
Net amount recognized	$ (21,842)	$ (18,507)	$ (5,874)	$ (5,301)	$ (4,175)	$ (5,639)
Amounts recognized in accumulated other comprehensive loss consist of:						
Net actuarial loss (gain)	$ 45,633	$ 50,792	$ 1,486	$ 645	$ (450)	$ 1,214
Prior service cost (credit)	(73)	(98)	1,287	1,583	(702)	(1,078)
Total	$ 45,560	$ 50,694	$ 2,773	$ 2,228	$ (1,152)	$ 136

(dollars in thousands)

NOTE 8 – EMPLOYEE BENEFIT PLANS, CONTINUED

The following table presents a reconciliation of the funded status of the plans and the weighted average assumptions used in the accounting for the plans:

	Retirement Plan		Supplemental Retirement		Postretirement Benefits	
	2015	2014	2015	2014	2015	2014
Reconciliation of funded status						
Funded status	$ (21,842)	$ (18,507)	$ (5,874)	$ (5,301)	$ (4,175)	$ (5,639)
Unrecognized net actuarial loss (gain)	45,633	50,792	1,486	645	(450)	1,214
Unrecognized prior service cost	(73)	(98)	1,287	1,583	(702)	(1,078)
Prepaid (accrued) benefit cost	$ 23,718	$ 32,187	$ (3,101)	$ (3,073)	$ (5,327)	$ (5,503)
Obligations and assets						
Projected benefit obligation	$ 116,656	$ 121,859	$ 5,874	$ 5,301		
Accumulated benefit obligation	94,277	97,856	2,952	3,040		
Fair value of plan assets	94,814	103,351	-	-		
Weighted-average assumptions to determine benefit obligations at measurement date						
Discount rate	4.10%	3.75%	3.30%	2.95%	4.25%	3.90%
Expected long-term rate of return on plan assets	6.00%	6.00%	N/A	N/A	N/A	N/A
Rate of compensation increase	4.00%	4.00%	5.00%	5.00%	N/A	N/A
Current year healthcare cost trend rate[1]	N/A	N/A	N/A	N/A	7.00%	7.50%
Percentage of the fair value of total plan assets held in each major category of plan assets						
Equity securities	26%	26%	N/A	N/A	N/A	N/A
Debt securities	74%	74%	N/A	N/A	N/A	N/A
Other securities	0%	0%	N/A	N/A	N/A	N/A

[1] The healthcare cost trend rate is assumed to decrease annually until it reaches an ultimate rate of 5.0% in 2021.

The Credit Union's target asset allocation at December 31, 2015 and 2014 was 65%-75% for debt securities (Level 1 and Level 2) and 25%-35% for equity securities (Level 1). The Credit Union's investment policy includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by participants. The investment guidelines consider a broad range of economic conditions. Central to the policy are target allocation ranges (as shown above) by major asset categories. The objectives of the target allocation are to maintain investment portfolios that diversify risk through prudent asset allocation parameters, achieve asset returns that meet or exceed the Plan's actuarial assumptions, and achieve asset returns that are competitive with like institutions employing similar investment strategies. The investment policy is reviewed and administered by the Pension Committee (the "Committee") appointed by the Board of Directors of the Credit Union. The Committee's responsibilities include, but are not limited to, oversight of the investment management's decisions. The investment policy is established and administered in a manner so as to comply at all times with applicable government regulations.

(dollars in thousands)

NOTE 8 – EMPLOYEE BENEFIT PLANS, CONTINUED

The Credit Union's expected long-term return on plan assets assumption is based on a periodic review and modeling of the plan's asset allocation and liability structure over a long-term horizon. Expectations of returns for each asset class are the most important assumptions used in the review and modeling and are based on comprehensive reviews of the historical data and economic/financial market theory. The expected long-term rate of return on assets was selected from within the reasonable range of rates determined by (a) historical real returns, net of inflation, for the asset classes covered by investment policy, and (b) projections of inflation over the long-term period during which benefits are payable to plan participants.

The following table sets forth for the years indicated, the amount of periodic benefit cost recognized, showing all contributing components; the amounts in accumulated other comprehensive loss expected to be recognized as components of net periodic benefit cost over 2015; and the weighted average assumptions used to determine net periodic cost:

	Retirement Plan		Supplemental Retirement		Postretirement Benefits	
	2015	2014	2015	2014	2015	2014
Net periodic benefit cost						
Service cost	$ 5,985	$ 5,052	$ 74	$ 147	$ 164	$ 139
Interest cost	4,472	4,308	173	158	166	187
Expected return on plan assets	(6,030)	(5,746)	-	-	-	-
Amortization of prior service cost (credit)	(25)	(64)	296	223	(376)	(423)
Recognized net actuarial loss	4,066	2,765	581	69	-	-
Net periodic benefit cost	$ 8,468	$ 6,315	$ 1,124	$ 597	$ (46)	$ (97)
Recognized in earnings	$ 8,468	$ 6,315				
Other changes in plan assets and benefit obligations recognized in other comprehensive income						
Net actuarial (gain) loss	$ (1,093)	$ 17,678	$ 1,421	$ 4	$ (1,664)	$ 553
Recognized actuarial (loss)	(4,066)	(2,765)	(581)	(69)	-	-
Prior service cost (credit)	-	-	-	511	-	(171)
Recognized prior service (cost) credit	25	64	(296)	(223)	376	423
Total recognized in other comprehensive (income) loss	$ (5,134)	$ 14,977	$ 544	$ 223	$ (1,288)	$ 805
Total recognized in net benefit cost and other comprehensive (income) loss	$ 3,334	$ 21,292	$ 1,668	$ 820	$ (1,334)	$ 708
Amounts expected to be recognized into net periodic cost in the coming year						
Loss (Gain) recognition	$ 3,688		$ 150		$ (2)	
Prior service cost (credit) recognition	(25)		296		(63)	
Weighted-average assumptions used to determine net periodic cost						
Discount rate	3.75%	4.60%	2.95%	3.40%	3.90%	4.70%
Expected return on plan assets	6.00%	6.00%	N/A	N/A	N/A	N/A
Rate of compensation increase	4.00%	4.00%	5.00%	5.00%	N/A	N/A
Corridor	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
Average future working lifetime	9.56	9.67	7.00	5.88	13.92	14.25

(dollars in thousands)

NOTE 8 – EMPLOYEE BENEFIT PLANS, CONTINUED

The estimated benefit payments and contributions for fiscal years 2016 through 2025 are as follows:

Estimated Future Benefit Payments	Retirement Plan		Supplemental Retirement		Postretirement Benefits	
2016	$	5,003	$	1,149	$	190
2017		4,819		-		188
2018		5,509		-		205
2019		6,181		224		203
2020		6,905		444		193
2021-2025		41,380		3,954		911
Estimated Contributions for 2016	$	-	$	1,149	$	190

The Credit Union estimates that it will not make any contributions to the retirement plan in 2016. For measurement purposes, a 7.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for the 2016 fiscal year. The rate is assumed to decrease annually until it reaches 5.0% in 2021 and remains at that level thereafter. Assumptions for health care cost trend rates have a significant effect on the amounts reported for the postretirement benefits plan. A one-percentage point change in assumed health care cost trend rates would have the following effects:

		2015		2014
1-percentage point increase in healthcare cost trend				
Effect on total of service and interest cost components	$	71	$	63
Effect on accumulated postretirement benefit obligation		659		1,024
1-percentage point decrease in healthcare cost trend				
Effect on total of service and interest cost components	$	(54)	$	(49)
Effect on accumulated postretirement benefit obligation		(520)		(797)

Merger Pension Plan

The mergers in the 4th quarter of 2015 included one small pension plan that had approximately $1 million in net pension assets and $717 in other losses recognized in accumulated other comprehensive loss. This small plan had net pension cost of $44 in 2015 and projected $8 in 2016.

401(k) Plan

The Credit Union has a 401(k) plan that provides for contributions by employees and the employer, with the employer contributions consisting of a 100% matching of the employees' contributions up to the first 4% of the employees' salaries, subject to federal limitations. The Plan is available to substantially all employees of the Credit Union. The expense related to this plan for 2015 and 2014 was $2,704 and $2,690, respectively.

(dollars in thousands)

NOTE 9 – CAPITAL REQUIREMENTS

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under generally accepted accounting principles. 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 in the regulations) to total assets (as defined). Credit unions are also required to calculate a Risk-Based Net Worth ("RBNW") requirement, which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNW ratio was 5.85% at December 31, 2015 and 2014. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes at December 31, 2015 and 2014, the Credit Union meets all capital adequacy requirements to which it is subject. At December 31, 2015, the most recent call reporting period, NCUA categorized the Credit Union as "well capitalized" under the prompt corrective action regulatory framework. 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. Management believes that there are no conditions or events since that notification that would change the Credit Union's category.

The Credit Union's actual capital amounts and ratios are presented below:

	Actual		To Be Adequately Capitalized Under Prompt Corrective Action Provisions		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2015						
Net Worth to Total Assets	$ 1,981,729	10.2%	≥ $ 1,167,627	≥ 6.0%	≥ $ 1,362,231	≥ 7.0%
December 31, 2014						
Net Worth to Total Assets	$ 1,822,357	10.2%	≥ $ 1,067,785	≥ 6.0%	≥ $ 1,245,749	≥ 7.0%

In performing its calculation of total assets, the Credit Union used the quarter-end balance option, as permitted by regulation. Because the RBNW requirement for the Credit Union is less than the actual net worth ratio, the Credit Union is not considered "complex" under the RBNW requirements.

(dollars in thousands)

NOTE 10 – FINANCIAL INSTRUMENTS-COMMITMENTS WITH OFF-BALANCE SHEET RISK

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

The Credit Union's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Credit Union uses the same credit policies in making commitments as it does for on-balance-sheet instruments.

A summary of the Credit Union's commitments at December 31, 2015 is as follows:

	Fixed Rate	Variable Rate	Total Contract or Notional Amount
Thrifty credit services lines of credit	$ 401,612	$ -	$ 401,612
Equity lines of credit	-	1,107,378	1,107,378
Credit cards	-	6,088,493	6,088,493
First trust mortgages	632,138	378,623	1,010,761
	$ 1,033,750	$ 7,574,494	$ 8,608,244

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 counterparty. Collateral held varies but may include real estate and other tangible personal property. In the majority of cases, lines of credit established for credit card and thrifty credit service accounts are unsecured.

(dollars in thousands)

NOTE 11 – RELATED PARTY TRANSACTIONS

Members of the Board of Directors ("the Board"), Supervisory Committee, and executive officers of the Credit Union have outstanding loans and deposits at the Credit Union.

At December 31, 2015, the aggregate balances included 115 loans totaling $6,701, and deposits totaling $8,033 for 30 individuals. At December 31, 2014, the aggregate balances included 116 loans totaling $7,004 and deposits totaling $6,361 for 31 individuals.

All loans were made at the same rates and terms as those available to all other members of the Credit Union. Deposit accounts earned interest at the same rates provided to all other members of the Credit Union. Members of the Board of Directors and Supervisory Committee, serve as volunteers without compensation.

The following table provides additional information regarding related party loan transactions:

	December 31, 2014	Disbursements	Repayments	December 31, 2015
First trust mortgages	$ 5,982	$ 2,997	$ (3,190)	$ 5,789
Equity lines of credit	157	55	(173)	39
Term home equity	395	58	(149)	304
Vehicle loans	223	271	(167)	327
Credit card loans	220	162	(157)	225
All other loans	27	2	(12)	17
	$ 7,004	$ 3,545	$ (3,848)	$ 6,701

(dollars in thousands)

NOTE 12 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value on a Recurring Basis - the following table summarizes financial assets measured at fair value on a recurring basis as of December 31, 2015 and 2014, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	December 31, 2015			
	Total	(Level 1)	(Level 2)	(Level 3)
Federal agency securities	$ 445,900	$ -	$ 445,900	$ -
Federal agency securities-MBS	468,864	-	468,864	-
Mortgage servicing rights	52,037	-	-	52,037
	$ 966,801	$ -	$ 914,764	$ 52,037

	December 31, 2014			
	Total	(Level 1)	(Level 2)	(Level 3)
Federal agency securities	$ 471,250	$ -	$ 471,250	$ -
Federal agency securities-MBS	283,222	-	283,222	-
Mortgage servicing rights	47,689	-	-	47,689
	$ 802,161	$ -	$ 754,472	$ 47,689

There were no transfers between Level 1 or Level 2 financial assets.

The table below presents the reconciliation for the years ended December 31, 2015 and 2014, for all Level 3 assets that are measured at fair value on a recurring basis.

	Fair Value Measurements Using Significant Unobservable Inputs	
	December 31, 2015	**December 31, 2014**
Mortgage servicing rights at beginning of year	$ 47,689	$ 41,552
Total realized and unrealized gains or losses	(8,876)	128
Purchases and issuances	13,224	6,009
Transfers in and/or out of Level 3	-	-
Mortgage servicing rights at end of year	$ 52,037	$ 47,689

(dollars in thousands)

NOTE 12 – FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

Fair Value on a Non-Recurring Basis - certain assets and liabilities are measured at fair value on a non-recurring basis that are subject to fair value adjustments in certain circumstances; such as loans with evidence of impairment and other real estate owned. Specifically, other real estate owned is recorded at the lower of the principal balance of the loan or fair value of the property less estimated selling expenses. Certain assumptions and unobservable inputs are currently being used by the appraisers of collateral for other real estate owned, therefore, qualifying these assets as Level 3.

The following table presents the assets and liabilities carried on the Statements of Financial Condition by caption and by level within the valuation hierarchy as described above for which a non-recurring change in fair value has been recorded.

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Loans, net- identified as impaired	$ 3,029	$ -	$ -	$ 3,029
Other real estate owned, net	7,949	-	-	7,949
	$ 10,978	$ -	$ -	$ 10,978

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
Loans, net- identified as impaired	$ 7,359	$ -	$ -	$ 7,359
Other real estate owned, net	5,179	-	-	5,179
	$ 12,538	$ -	$ -	$ 12,538

These methodologies may result in a significant portion of the fair value being derived from unobservable data. The Credit Union did not have any liabilities measured at fair value on a recurring basis. Remaining disclosures related to measurement of fair value, transfers between asset levels and Level 3 valuations have been omitted due to materiality.

(dollars in thousands)

NOTE 12 – FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

The fair values of the Credit Union's financial instruments are summarized as follows:

	December 31, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 232,517	$ 232,517	$ 321,890	$ 321,890
Investment securities	1,082,611	1,082,611	857,611	857,611
Loans, net	17,386,141	17,547,049	16,229,386	16,363,329
Loans held for sale, net	77,259	77,259	41,095	41,095
Mortgage servicing rights	52,037	52,037	47,689	47,689
	$ 18,830,565	$ 18,991,473	$ 17,497,671	$ 17,631,614
Financial liabilities:				
Members' accounts	$ 15,321,403	$ 15,453,186	$ 13,945,219	$ 14,260,315
Borrowed funds	1,948,903	2,060,112	1,850,206	1,980,799
	$ 17,270,306	$ 17,513,298	$ 15,795,425	$ 16,241,114

The specific estimation methods and assumptions used can have a substantial impact on the resulting fair values of financial instruments. Following is a brief summary of the significant methods and assumptions used in the above table. Changes to such assumptions could significantly affect those fair values.

Cash and cash equivalents - The carrying amounts of cash and cash equivalents approximate their fair value based on the short-term nature of the assets.

Investment securities - For marketable, fixed-maturity securities, fair values are based on quoted market prices or dealer quotes. For other securities held, fair value equals quoted market price, if available. If a quoted market price is not available, fair values are estimated using quoted market prices for similar securities or by discounting expected future cash flows using a current market rate applicable to the yield, credit quality, and maturity of the investments. Federal Home Loan Bank stock and other securities are redeemable at par and thus the carrying values approximate the fair value.

Loans, net and loans held for sale, net - The fair value of loans is estimated by discounting the future cash flows using the current interest rates at which similar loans would be made to borrowers/members with similar credit ratings and for similar maturities.

NOTE 12 – FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

Mortgage servicing rights - The fair value of mortgage servicing rights is determined by a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as contractual servicing fee income, costs to service, discount rates, ancillary income, prepayment speeds, and default rates.

Members' accounts - The fair value of regular shares, IRA shares, money market shares, and checking accounts is the amount payable on demand at the reporting date. The fair value of share certificates and IRA certificates is estimated by discounting future cash flows using the rates currently offered for deposits of similar maturities.

Borrowed funds - The fair value of borrowed funds is estimated by discounting the future cash flows using current market rates for similar maturities.

NOTE 13 – SUBSEQUENT EVENTS

The Credit Union evaluated subsequent events through April 20, 2016, the date the financial statements were available to be issued. On February 1, 2016, the Credit Union merged with Fort Gordon Community Credit Union, which has approximately $64 million in assets and $58 million in liabilities. Also, the Credit Union has a pending merger with Belvoir Federal Credit Union, an entity with more than $300 million in assets and a similar amount of liabilities, and an anticipated merger date of May 1, 2016. The Credit Union is not aware of any additional subsequent events which require recognition or disclosure in the audited consolidated financial statements.




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