WHY DO I Northwest?

2014 ANNUAL REPORT

FEDERALLY INSURED BY NCUA

NORTHWEST
FEDERAL CREDIT UNION

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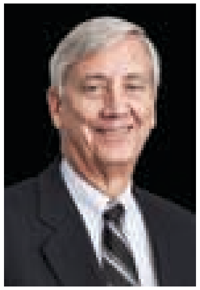
REPORT FROM THE
CHAIRMAN



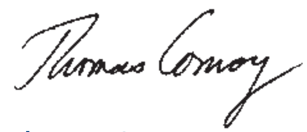
2014 was another strong year for Northwest Federal Credit Union. We have maintained our commitments to stability and growth, and we have put in place infrastructure changes that will enable us to introduce innovative and in-demand services to our members.

This past year was one of transformation and repositioning. We moved aggressively to increase our loan portfolio and to diversify our balance sheet to broaden our assets. We acquired Park Place Equity, a company which exclusively works with borrowers to secure loans guaranteed by the Small Business Administration (SBA). These loans are considered desirable because they are federally guaranteed and have an adjustable interest rate. By the end of the year, the Park Place Equity team originated more than $50 million in SBA loans to our members. Another major push was in automobile loans. While always a staple of our portfolio, we began marketing loans to a wider area where we could increase our margin while remaining competitive. The result was an increase in automobile loan originations of more than $353 million.

The year also saw the successful implementation of new operational and product platforms to increase our efficiency and improve the quality of products for our members. We merged the database and call center for the REALTORS® Federal Credit Union, a Division of Northwest Federal Credit Union. These conversions enabled us to more fully serve our REALTORS® division members with a more integrated service and infrastructure architecture that provides an exceptional experience to all our Northwest Federal members. We also converted our credit card portfolio to a new provider allowing us to offer credit cards to the entire membership and positioned ourselves to begin offering chip cards later this year. We believe that this conversion will enhance the security of member cards and reduce the too frequent credit freezes our previous provider imposed when they questioned charges. We expanded our branch footprint with the new Village Center branch in Herndon, which opened early 2015. This new branch is designed to introduce a more streamlined, modern-minded experience to our members with the same great personal service that defines Northwest Federal.

We reexamined and refocused on the member experience across the entire Northwest Federal enterprise using focus groups with our members, the board, and the executive team. We refreshed logos so that as an organization, all of our brands were more easily recognizable. The Northwest Federal Experience is now being recognized by the community and members when interacting with the Northwest Federal Credit Union Foundation, closing a mortgage through the Northwest Title & Escrow, or signing up for a student loan through Northwest Federal Credit Union. We also launched our "Why Do I Northwest?" campaign where we began sharing the gratifying stories and testimonials from our members stating why they have chosen Northwest Federal as their lifetime financial partner. All of these stories are examples of Northwest Federal living its core values of: Service – Integrity – Excellence.

2014 was a period of transformation. Our financial health and strength allowed us to begin shifting the balance sheet for long-term growth and earnings stability. We invested in key areas of operations to ensure service to our members would be more effective and more efficient in the future, and we could adopt technologies and products more rapidly moving forward. Regardless of what was changing, the focus remained on the Northwest Federal Experience. Excellent, high quality, and secure service are what has built this great organization. Our team of hardworking and loyal staff works daily to meet the high expectations our members have for the Northwest Federal exceptional member service.



Thomas Conroy
Chairman, Board of Directors

WHY DO I
Northwest?

"Northwest Federal processed my paperwork with the best available interest rate in no time. I am grateful and appreciative of the caring people there."

Faye

REPORT FROM THE

PRESIDENT

The Northwest Federal Credit Union dedicated team of employees remains committed to delivering value and excellent service to you. In 2014 we again met that pledge.

During this past year, we not only expanded our portfolio of financial products, we strengthened our capital and grew the membership base all while striving for excellent member service. 2014 was also transformative in many areas. As the Chairman noted, the most notable difference is in the balance sheet where our asset mix has been reshaped. Past strategies focused on optimizing earnings to ensure immediate stability but sacrificed long-term goals. Like most organizations coming out of a financial downturn, it was the appropriate strategy for the time. Consequently, this past year we began to deliberately and systematically convert many investment options into loans which will serve us better, and provide a much more stable earnings stream. The addition of more Small Business Administration (SBA) loans to the mix and then net increase in consumer loans all point to stronger earnings going forward.

Organizational operations were also transformed in a number of areas. For example, to accommodate the doubling of phone calls we've replaced our phone system, and added more features such as a call-back option and more self-service alternatives. We also completed the combination of our electronic core data system for our REALTORS® division members. Our data system for legacy Northwest Federal members was converted in the prior year, and with the integration of the REALTORS® division, we now can provide faster and better service to everyone.

Information security and integrity is always a top priority and 2014 was no exception. We made major changes in our contingency systems to add redundancy in areas well removed from the Washington region. We also expanded our electronic connectivity for our staff so that services can be effectively provided even in the unlikely event of a failure or restricted access to our facility. Additionally, we are constantly redesigning and enhancing our IT security infrastructure to incorporate multiple levels of security to protect member data.

In order to serve more members, we invested in the design and construction of a new branch which opened in early 2015. Located in Herndon's Village Center shopping center, it provides our members another drive-through option. We also welcomed Park Place Equity into our family of brands to generate SBA loans to our membership with more loan options as they expand their businesses. Additionally, we consolidated and dedicated a new Business Services Group to ensure that the corresponding deposit products were available to this increasingly important segment of our enterprise.

To match the increased pace of product and program development, we made a major investment in staff development. As examples, we standardized career paths for all positions, instituted leadership and training programs for all levels of management, and refocused staff time on understanding and living our brand promises to the membership. The exceptional member experience that has been our collective strength is too important to leave to chance, so we have codified all of the lessons from our 'Core Values' of Service – Integrity – Excellence to our 'Member Service Promises.' The results have been confirmed and are being reaffirmed through member testimonials in our new "Why Do I Northwest?" campaign. These tributes are inspiring and reaffirm that we are delivering exceptional member service. I am very proud of our team.

Thank you for your continued support and loyalty to this extraordinary institution. We are honored to be your financial partner.

Chris McDonald

Chris McDonald
President/Chief Executive Officer

WHY DO I

Northwest?

"Every Northwest Federal employee I've dealt with has been nothing but courteous and quick to respond to any inquiry, transaction, etc. Thank you so much!"

Lois

NORTHWEST FEDERAL CREDIT UNION
BOARD OF DIRECTORS

BACK ROW, LEFT TO RIGHT:

Chuck Molina
Treasurer

David Eldred
Director

Thomas Conroy
Chairman

Bob Goldberg
Associate Director

Martin Edwards
Director

FRONT ROW, LEFT TO RIGHT:

Jeannette Moore
Director

Jeanne Tisinger
Director

Dawn Eilenberger
Secretary

Leo Cardillo
Vice Chairman

Mary Corrado
Director

Lisa Miller
Associate Director

NORTHWEST FEDERAL CREDIT UNION
EXECUTIVE TEAM

BACK ROW, LEFT TO RIGHT:

Chris McDonald
President/Chief Executive Officer

Michael Kapfer
Senior Vice President/
Chief Information Officer

Kevin Walrath
Senior Vice President of Retail Sales and Marketing

Jeff Bentley
Senior Vice President of Lending

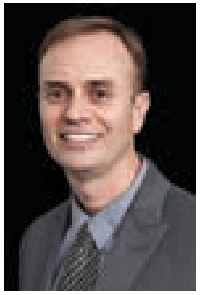
FRONT ROW, LEFT TO RIGHT:

Kristin Shultz
Senior Vice President of Operations

Phyllis Ziakas
Senior Vice President of Human Resources and Organizational Development

REPORT FROM THE

TREASURER & FINANCIAL MANAGEMENT COMMITTEE



2014 continued a period of focused success for Northwest Federal Credit Union. The year represented a period of transition from a core focus on long term investments to a long term strategy of growth in lending. During the year, key hires were made to strengthen the credit union and prepare for an upcoming phase of strategic growth in services and product offerings for members.

As the United States economy, labor, and real estate markets continued to improve in 2014, we positioned ourselves to successfully respond to the borrowing needs of our members. Our lending capabilities broadened in the consumer, commercial, real estate, and small business markets. We positioned ourselves to successfully deliver a full platform of lending services to our members.

During the year, we continued our investment in financial systems, processes, growth opportunities, and risk management disciplines that are required for credit unions of our size. Such operational investments are essential as we transition away from a focus on investments to a strategy that includes an expanding asset base, growth in electronic services, and product offerings responsive to increasing member mobility and diversity.

Northwest Federal's asset quality remained strong with credit losses again totaling less than 0.4% of total loans. With continued low loan losses and good earnings performance, we strengthened our capital base to a net worth ratio that exceeded 10% by year end.

Looking ahead, we are positioning ourselves for long-term growth, while we continue to be cognizant of the many challenges presented to a credit union of our size. Particularly, we are closely monitoring the current low interest rate and regulatory environment. We are preparing our balance sheet to be responsive to both increases in deposit and lending rates. We continue to monitor potential changes in the regulatory environment that could impact our financial performance and delivery of services to our members. We believe our focus on enterprise risk management is necessary to continue to grow and provide more services, value and convenience to our growing number of members.

Thank you for your continued support of Northwest Federal Credit Union.

Chuck Molina

Chuck Molina
Treasurer, Board of Directors
Chairman, Financial Management Committee

WHY DO I

Northwest?

"I Northwest because they provide excellent customer service. Whenever I go into a branch I am always greeted with a smile and the representatives are always willing to help."

Dana

WHY DO I

Northwest?

"I Northwest because the service has been amazing compared to any other bank I've been with. I'm very glad I am with them and shall continue to be for years to come."

Stephen

REPORT FROM THE
SUPERVISORY COMMITTEE

Your Supervisory Committee (the Committee) is a Board-appointed volunteer organization that works on your behalf as members, to monitor the financial health of the Credit Union as well as the internal control environment that is in place to mitigate financial, operational, and compliance risks facing the Credit Union.

The Committee meets regularly to execute, coordinate, review, and assess the effectiveness of its responsibilities. The Committee performs the following key activities on behalf of the members:

- **Internal Audit (IA)** – The Committee oversees and meets regularly with the Director of IA to review the risk assessment and internal audit planning process, the results of ongoing and completed audits, progress on activities, management's responses addressing IA's recommendations, and the adequacy of the resources, executive support, and training the IA function needs to execute its mission.

- **External Audits and Examinations** – The Committee engages an independent audit firm, Orth, Chakler, Murnane and Company, CPAs, to conduct an annual audit of the Credit Union's financial statements. In addition, the National Credit Union Administration (NCUA) conducts regular examinations of the Credit Union. NCUA's most recent examination completed during December 2014, as well as our FY2014 financial statement audit, confirm the Credit Union's proper focus on maintaining its sound financial condition and internal control environment.

- **Special Focus Areas** – The Committee regularly meets with the Board and management to identify emerging initiatives, issues, and challenges that could impact the Credit Union's internal control environment and warrant ongoing Committee and/or IA attention and monitoring.

- **Continuous Learning and Improvement** – In order to maintain and improve its effectiveness, Committee members regularly participate in credit union industry-related training opportunities. In addition, the Committee receives regular briefings from Credit Union management to better learn about and understand the various operations and activities within the Credit Union.

The Committee would like to thank you, the members, for supporting Northwest Federal Credit Union. Likewise, we commend the Credit Union's volunteer Board for their diligence and guidance in the oversight of the Credit Union as well as their support of the Committee and its activities. I would also like to use this opportunity to thank my colleagues, who proudly volunteer their time with me on the Committee, for their dedication and hard work—Maureen Wingfield, Sandera Oliver, Christine Perritt, Margaret Augustine, and Cedric Deal—as well as Ed Hollingsworth, Director of Internal Audit, and his Internal Audit team.

Your Supervisory Committee is working for the best interest of you, the Northwest Federal Credit Union members. If you have a question relating to the financial soundness or management of this organization, please do not hesitate to contact us. We are here for your benefit.

David McCue
Chairman, Supervisory Committee

WHY DO I
Northwest?

"The employees at the branch are outstanding! They go out of their way to help me every time and call me by name."

Susie

REPORT FROM THE
INDEPENDENT AUDITOR

Orth, Chakler, Murnane & Company, CPAs
A Professional Association

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John J. Murnane, CPA

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

INDEPENDENT AUDITOR'S REPORT

March 27, 2015

To the Supervisory Committee of
Northwest Federal Credit Union

We have audited the accompanying consolidated financial statements of Northwest Federal Credit Union and its subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2014 and 2013, and the related 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 Consolidated 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 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 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 consolidated financial position of Northwest Federal Credit Union and its subsidiary as of December 31, 2014 and 2013, and the results of their consolidated operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Orth, Chakler, Murnane & Co.

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

CONSOLIDATED STATEMENTS OF
FINANCIAL CONDITION

Dollars in Thousands

ASSETS

	As of December 31, 2014	2013
Cash and cash equivalents	$ 24,668	$ 45,747
Investments:		
Available-for-sale	879,673	1,052,342
Loans held for sale	—	55,589
Loans to members, net of allowance for loan losses	1,634,696	1,313,584
Accrued interest receivable	10,345	9,767
Prepaid and other assets	34,436	31,441
FHLB stock	5,249	5,272
Property and equipment	47,906	49,601
Intangible assets	7,981	—
NCUSIF deposit	19,621	19,140
Total assets	$2,664,575	$2,582,483

LIABILITIES AND MEMBERS' EQUITY

	As of December 31, 2014	2013
LIABILITIES:		
Members' share and savings accounts	$2,286,596	$2,248,331
Borrowed funds	75,000	50,000
Accrued expenses and other liabilities	41,580	29,757
Total liabilities	2,403,176	2,328,088
Commitments and contingent liabilities		
MEMBERS' EQUITY:		
Regular reserve	18,008	18,008
Undivided earnings	253,756	244,095
Accumulated other comprehensive income/(loss)	(10,365)	(7,708)
Total members' equity	261,399	254,395
Total liabilities and members' equity	$2,664,575	$2,582,483

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

CONSOLIDATED STATEMENTS OF
INCOME & COMPREHENSIVE INCOME

Dollars in Thousands

CONSOLIDATED STATEMENTS OF INCOME

	For the years ended December 31, 2014	2013
INTEREST INCOME:		
Loans to members	$ 57,945	$ 57,282
Investments	15,611	22,419
Total interest income	73,556	79,701
INTEREST EXPENSE:		
Members' accounts and savings accounts	15,015	16,297
Interest on borrowed funds	51	69
Total interest expense	15,066	16,366
Net interest income	58,490	63,335
PROVISION FOR LOAN LOSSES	6,415	5,650
Net interest income after provision for loan losses	52,075	57,685
NON-INTEREST INCOME:		
Fees and service charges	26,052	25,320
Gain on sale of mortgage loans, net	3,793	8,708
Other non-operating income	1,218	2,459
Gain on sale of investments	1,129	2,097
Total non-interest income	32,192	38,584
	84,267	96,269
NON-INTEREST EXPENSE:		
Comprehensive and employee benefits	37,116	35,065
Other expenses	22,163	22,882
Operating and occupancy expenses	15,327	14,017
Total non-interest expense	74,606	71,964
Net income	$ 9,661	$ 24,305

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the years ended December 31, 2014	2013
NET INCOME	$ 9,661	$ 24,305
OTHER COMPREHENSIVE INCOME:		
Net unrealized holding losses on available-for-sale investments arising during the period	(1,528)	(15,629)
Reclassification of adjustments for gains included in net income	(1,129)	(2,097)
Other comprehensive loss	(2,657)	(17,726)
Comprehensive income	$ 7,004	$ 6,579

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

CONSOLIDATED STATEMENTS OF
MEMBERS' EQUITY

Dollars in Thousands

	For the Years Ended December 31, 2014 and 2013			
	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive (Loss)/Income	Total
Balance, December 31, 2012	$ 18,008	$ 219,790	$ 10,018	$ 247,816
Net income	—	24,305	—	24,305
Other comprehensive loss	—	—	(17,726)	(17,726)
Balance, December 31, 2013	18,008	244,095	(7,708)	254,395
Net income	—	9,661	—	9,661
Other comprehensive loss	—	—	(2,657)	(2,657)
Balance, December 31, 2014	$ 18,008	$ 253,756	$ (10,365)	$ 261,399

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

CONSOLIDATED STATEMENTS OF
CASH FLOWS

Dollars in Thousands

	For the years ended December 31, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 9,661	$ 24,305
Adjustments:		
Provision for loan losses	6,415	5,650
Depreciation and amortization	4,977	4,060
Amortization/accretion of premiums and discounts	13,067	11,704
Amortization of servicing rights	2,497	284
Capitalization of servicing rights	(3,260)	(8,010)
Gain on sale of mortgage loans, net	(533)	(698)
Gain on sale of investments	(1,129)	(2,097)
Changes in operating assets and liabilities:		
Loans held for sale	—	(6,992)
Accrued interest receivable	(578)	(616)
Prepaid and other assets	(2,232)	(2,418)
Interest payable	—	(2,041)
Accrued expenses and other liabilities	8,823	(2,305)
Net cash provided by operating activities	37,708	20,826
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities, sales and repayment of available-for-sale investments	253,169	262,682
Purchase of available-for-sale investments	(95,095)	(333,836)
Change in FHLB stock	23	27
Net change in loans, net of charge-offs	(272,588)	(90,307)
Recoveries on loans charged off	1,183	1,090
Expenditures for property and equipment	(3,282)	(3,495)
Excess entity value over new assets of acquired entity	(4,981)	—
Change in NCUSIF deposit	(481)	(1,106)
Net cash used in investing activities	(122,052)	(164,945)

CASH FLOWS (continued)

	For the years ended December 31, 2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in members' share and savings accounts	38,265	77,204
Proceeds from borrowings	75,000	445,500
Prepayments of borrowings	(50,000)	(460,500)
Net cash provided by financing activities	63,265	62,204
Net change in cash and cash equivalents	(21,079)	(81,915)
Cash and cash equivalents at beginning of year	45,747	127,662
Cash and cash equivalents at end of year	$ 24,668	$ 45,747
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Interest paid	$ 15,066	$ 18,407
SCHEDULE OF NON-CASH TRANSACTIONS:		
Other comprehensive loss	$ (2,657)	$ (17,726)
Transfers from loans held for sale to loans to members	$ 55,589	$ —
Unfunded purchase price of acquired entity	$ 3,000	$ —

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

NOTES TO THE
CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

Northwest Federal Credit Union (the Credit Union) is a cooperative association organized in accordance with the provisions of the Federal Credit Union Act for the purpose of promoting thrift among, and creating a source of credit for, its members. The principal operations of the Credit Union are located in the Washington, D.C. metropolitan area. Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined in the Credit Union's Charter and Bylaws.

Consolidated Financial Statements/Use of Estimates

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Credit Union and its wholly owned Credit Union Service Organization (CUSO), Northwest Capital Management, LLC. The CUSO provides insurance and financial services to Credit Union members. All significant intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, due from banks, due from corporate credit unions and federal funds sold. Amounts due from banks and corporate credit unions may, at times, exceed federally insured limits.

Investments

Investments are classified as available-for-sale. Investment securities classified as available-for-sale are measured at fair value as of the consolidated statement of financial condition date. Unrealized gains and losses for available-for-sale investments are reported as a separate component of members' equity. Realized gains and losses on disposition, if any, are computed using the specific identification method. Investments are adjusted for the amortization of premiums and accretion of discounts as an adjustment to interest income on investments over the terms of the investment by a method which approximates the interest method.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost of estimated market value in aggregate. All sales are made without recourse.

Federal Home Loan Bank (FHLB) Stock

As a member of the FHLB of Atlanta, the Credit Union is required to invest in stock of the FHLB. The Credit Union's minimum stock investment is based on a formula developed by the FHLB that considers the Credit Union's total assets and outstanding advances from the FHLB. The FHLB stock is carried at cost and its disposition is restricted. No ready market exists for the FHLB stock, and it has no quoted market value.

Loans to Members and Allowance for Loan Losses

Loans to members are stated at the amount of unpaid principal, net of an ALL and certain deferred loan origination fees and costs. The ALL is increased by a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). The ALL is maintained at a level considered adequate to provide for incurred loan losses in the loan portfolio by applying a historical loan loss rate to loan pools which have similar risk characteristics. Management's periodic evaluation of the adequacy of the ALL also considers such factors as changes in the nature and volume of the loan portfolio, review of specific problem loans, and current economic conditions that may affect the borrower's ability to repay. Loans are charged against the ALL when management believes that collection of principal is unlikely.

Interest on loans to members is recognized over the terms of the loans and is calculated on principal amounts outstanding. The accrual of interest is discontinued when a loan exceeds 90 days delinquent or when management believes that collection of interest is doubtful. Direct loan origination costs are recognized in expense when incurred; however, real estate loan origination fees are deferred over the average life of the loan as an adjustment to loan yield using a method that approximates the interest method. Credit card fees are recognized as fee income when assessed. This is not materially different from fees and expenses that would have been recognized under the provisions of the Nonrefundable Fees and Other Costs Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

ALL Methodology

Management has an established methodology to determine the adequacy of the ALL that assesses the risks and losses inherent in the loan portfolio. Management applies judgment to develop its own view of loss probability within that range, using both external and internal parameters, with the objective of establishing an ALL inherent within the portfolio as of the reporting date. This amount is the result of the Credit Union's judgment or risks inherent in the portfolio, economic uncertainties, historical loss experience and other subjective factors, including industry trends, general trends of real estate values, the trends of existing borrower's FICO scores and other data incorporated into the Credit Union's judgment of the adequacy of the ALL which is intended to better reflect management's view of risk in each loan portfolio. No single statistic or measurement determines the adequacy of the ALL.

For purposes of determining the ALL, the Credit Union has segmented certain loans in the portfolio by product type. Loans are divided into the following segments: Consumer, Real Estate and Commercial. The Credit Union also disaggregates these segments into classes based on the associated risks within those segments. Consumer loans are divided into five classes: New Vehicle, Used Vehicle, Unsecured, Credit Cards and Other Secured. Real estate loans are divided into three classes: First Mortgages, Second Mortgages, and Home Equity Loans. Commercial loans are divided into the following four classes: Real Estate, Industrial and Other, Construction, and SBA/USDA loans. Each class of loans requires significant judgment to determine the estimation method that fits the credit risk characteristics of its portfolio segment. The Credit Union uses an internally developed model in the process. Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions used to determine the ALL are independently validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented. The following is how management determines the balance of the ALL for each segment or class of loans.

Consumer Portfolio Segment ALL Methodology

For consumer loans not identified as impaired, the Credit Union determines the ALL on a collective basis utilizing historical and forecasted losses to represent the best estimate of inherent losses at the measurement date. Loans are pooled, generally by loan types with similar risk characteristics. As of December 31, 2014 and 2013, the historical loss time frame for each class was 12 months.

NOTES TO THE
CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 *(continued)*

The consumer ALL model primarily uses historic delinquency and default experience, loss severity, unemployment trends, and other key economic variables that may influence the frequency and severity of losses for each class of loan within the consumer segment. The consumer ALL also includes an amount for the estimated losses on individually evaluated impaired loans.

Real Estate Portfolio Segment ALL Methodology

For real estate loans not identified as impaired, the Credit Union determines the ALL on a collective basis utilizing historical and forecasted losses to represent the best estimate of inherent losses at the measurement date. Loans are pooled, generally by loan types with similar risk characteristics. As of December 31, 2014 and 2013, the historical loss time frame for each class was 12 months.

The real estate ALL model primarily uses historic delinquency and default experience, loss severity, home price trends, unemployment trends, and other key economic variables that may influence the frequency and severity of losses for each class of loan within the real estate segment. The real estate ALL also includes an amount for the estimated losses on individually evaluated impaired loans.

Commercial Portfolio Segment ALL Methodology

Upon being originated, or in the case of loan participations, when they are purchased, commercial loans are evaluated assessed and graded based on their estimated risk of potential loss. Periodically, the evaluation of these loans is updated and the loan's grade is affirmed or changed as dictated by current information analyzed in the periodic review.

Based on credit risk assessment and management's analysis of leading predictors of losses, additional loss multipliers are applied to loan balances. These loss estimates are adjusted as appropriate based on additional analysis of long-term average loss experience compared to previously forecasted losses, external loss data or other risks identified from current economic conditions and credit quality trends. The commercial ALL also includes an amount for the estimated losses on individually evaluated impaired loans.

Loan Charge-Off Policies

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

Consumer, real estate and commercial loans are generally charged off when:

- A loan is deemed uncollectible, where additional collection efforts are nonproductive regardless of the number of days delinquent.
- A non-performing loan is more than 180 days past due.
- Management judges the asset to be uncollectible.
- A loan is classified as a "skip" and the Credit Union has had no contact for 90 days.
- The Credit Union has repossessed, but not yet sold, collateral on hand.
- A loss is determined on the loan of a deceased person.
- The asset has been classified as a loss by either the internal loan review process or external examiners.

Mortgage Servicing Rights

Servicing assets are recognized as separate assets when rights are acquired through the sale of financial assets. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on 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 the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Service fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Property and Equipment

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

National Credit Union Share Insurance Fund (NCUSIF) Deposit

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

Members' Share and Savings 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 on members' share accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Borrowed Funds

As of December 31, 2014 and 2013, the Credit Union maintained borrowed funds from the FHLB, which are collateralized by eligible loans and certain investment securities. As of December 31, 2014, the Credit Union also maintained borrowed funds from PNC Bank.

Regular Reserve

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

Federal and State Tax Exemption

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

NOTE 1 *(continued)*

Subsequent Events

Management has evaluated subsequent events through March 27, 2015, the date the financial statements were available to be issued. Management had not identified any items requiring recognition or disclosure.

NOTE 2: INVESTMENTS

The amortized cost and estimated fair value of investments are as follows (*dollars in thousands*):

Available-for-sale:	As of December 31, 2014 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SBA pools	$ 726,459	$ 107	$ (12,899)	$ 713,667
Mutual funds	100,267	4,029	(1,979)	102,317
Federal agency securities	63,312	438	(61)	63,689
	$ 890,038	$ 4,574	$ (14,939)	$ 879,673

Available-for-sale:	As of December 31, 2013 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SBA pools	$ 940,836	$ 730	$ (10,157)	$ 931,409
Mutual funds	85,370	2,630	(1,428)	86,572
Federal agency securities	33,844	873	(356)	34,361
	$1,060,050	$ 4,233	$ (11,941)	$1,052,342

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

Available-for-sale: (dollars in thousands)	As of Dec. 31, 2014 Amortized Cost	Fair Value
1 to 5 years	$ 52,222	$ 52,616
No maturity	100,267	102,317
Mortgage-backed securities	11,090	11,073
SBA pools	726,459	713,667
	$ 890,038	$ 879,673

The proceeds from the sale of investments classified as available-for-sale approximated $132,022,000 and $115,712,000 during the years ended December 31, 2014 and 2013, respectively. Gross gains of approximately $1,782,000 and $2,441,000 were realized from these sales during the years ended December 31, 2014 and 2013, respectively. Gross losses of approximately $653,000 and $344,000 were realized from these sales during the years ended December 31, 2014 and 2013.

As of December 31, 2014 and 2013, investment securities with a fair value of approximately $158,794,000 and $210,956,000 were pledged as security for the Credit Union's borrowed funds with the FHLB.

The following tables show the gross unrealized losses and fair value of investments, aggregated by length of time individual securities have been in a continuous unrealized loss position (*dollars in thousands*).

	As of December 31, 2014					
	Less than 12 Months		12 Months or Longer		Total	
Available-for-sale:	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
SBA pools	$ 70,857	$ 430	$ 614,282	$ 12,469	$ 685,139	$ 12,899
Mutual funds	60,606	1,678	4,361	301	64,967	1,979
Federal agency securities	3,048	—	4,310	61	7,358	61
	$ 134,511	$ 2,108	$ 622,953	$ 12,831	$ 757,464	$ 14,939

	As of December 31, 2013					
	Less than 12 Months		12 Months or Longer		Total	
Available-for-sale:	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
SBA pools	$ 602,051	$ 6,692	$ 200,108	$ 3,465	$ 802,159	$ 10,157
Mutual funds	16,068	765	12,481	663	28,549	1,428
Federal agency securities	10,645	231	5,438	125	16,083	356
	$ 628,764	$ 7,688	$ 218,027	$ 4,253	$ 846,791	$ 11,941

Unrealized losses on securities issued by the U.S. Government and its Agencies have not been recognized into income because the principal balances of these securities are guaranteed by the U.S. Government. Additionally, the decline in these fair values are expected to be recovered as these securities approach their maturity dates. Management has the ability and intent to hold these securities to recovery of fair value, which may be maturity.

NOTE 3: LOANS TO MEMBERS

The composition of loans to members is as follows (*dollars in thousands*):

	As of December 31, 2014	2013
Consumer:		
New vehicle	$ 227,949	$ 82,364
Used vehicle	357,225	283,387
Unsecured	95,880	105,415
Credit cards	84,791	90,546
Other secured	3,056	4,685
Total consumer	768,901	566,397
Real estate:		
First mortgage	417,335	336,812
Second mortgage	43,476	48,466
Home equity	103,977	82,702
Total real estate	564,788	467,980

NOTES TO THE

CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 *(continued)*

	As of December 31, 2014	As of December 31, 2013
Commercial:		
Real estate	85,577	46,659
Industrial and other	19,626	47,298
Construction	—	3,000
SBA and USDA	211,898	197,551
Total commercial	317,101	294,508
Total loans	1,650,790	1,328,885
Less ALL	(16,094)	(15,301)
	$1,634,696	$1,313,584

A summary of the activity in the ALL by portfolio segment is as follows (*dollars in thousands*):

For the years ended December 31, 2014 and 2013	Consumer	Real Estate	Commercial	Total
Balance, December 31, 2012	$ 5,331	$ 6,561	$ 3,677	$ 15,569
Provision for loan losses	3,287	881	1,482	5,650
Recoveries	956	117	17	1,090
Loans charged off	(4,574)	(1,734)	(700)	(7,008)
Balance, December 31, 2013	5,000	5,825	4,476	15,301
Provision for loan losses	9,160	(1,004)	(1,741)	6,415
Recoveries	1,061	108	14	1,183
Loans charged off	(5,739)	(1,066)	—	(6,805)
Balance, December 31, 2014	$ 9,482	$ 3,863	$ 2,749	$ 16,094

As of December 31, 2014	Consumer	Real Estate	Commercial	Total
Ending balance	$ 9,482	$ 3,863	$ 2,749	$ 16,094
Individually evaluated for impairment	$ 1,040	$ 2,832	$ 645	$ 4,517
Collectively evaluated for impairment	$ 8,442	$ 1,031	$ 2,104	$ 11,577

As of December 31, 2013	Consumer	Real Estate	Commercial	Total
Ending balance	$ 5,000	$ 5,825	$ 4,476	$ 15,301
Individually evaluated for impairment	$ 1,001	$ 4,096	$ 642	$ 5,739
Collectively evaluated for impairment	$ 3,999	$ 1,729	$ 3,834	$ 9,562

A summary of the recorded investment in loans by portfolio segment is as follows (*dollars in thousands*):

As of December 31, 2014	Consumer	Real Estate	Commercial	Total
Ending balance	$ 768,901	$ 564,788	$ 317,101	$1,650,790
Individually evaluated for impairment	$ 2,079	$ 9,146	$ 1,300	$ 12,525
Collectively evaluated for impairment	$ 766,822	$ 555,642	$ 315,801	$1,638,265

As of December 31, 2013	Consumer	Real Estate	Commercial	Total
Ending balance	$ 566,397	$ 467,980	$ 294,508	$1,328,885
Individually evaluated for impairment	$ 2,002	$ 10,675	$ 3,779	$ 16,456
Collectively evaluated for impairment	$ 564,395	$ 457,305	$ 290,729	$1,312,429

Impaired Loans

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

The following tables include the recorded investment and unpaid principal balances for impaired loans with the associated ALL amount, if applicable. Also presented are the average recorded investments in the impaired loans. The average balances are calculated based on the quarter end balances of the loans for the period reported. Payments received on impaired loans are recorded as a reduction of principal or as interest income depending on the modified terms of the loan.

The tables below summarizes key information for impaired loans (*dollars in thousands*):

	As of December 31, 2014			For the Year Ended Dec. 31, 2014
With an allowance recorded	Recorded Investment	Unpaid Principal Balance	Specific Allowance	Average Recorded Investment
Consumer:				
New auto	$ 114	$ 114	$ 57	$ 101
Used auto	$ 782	$ 782	$ 391	$ 805
Unsecured	$ 1,183	$ 1,183	$ 592	$ 1,134
Real estate:				
First mortgage	$ 7,545	$ 7,545	$ 1,931	$ 8,161
Second mortgage	$ 1,344	$ 1,344	$ 811	$ 767
Home equity	$ 257	$ 257	$ 90	$ 982
Commercial:				
Real estate	$ 1,151	$ 1,151	$ 623	$ 1,537
Other secured	$ 149	$ 149	$ 22	$ 1,003
Totals:				
Consumer	$ 2,079	$ 2,079	$ 1,040	$ 2,040
Real estate	9,146	9,146	2,832	9,910
Commercial	1,300	1,300	645	2,540
	$ 12,525	$ 12,525	$ 4,517	$ 14,490

NOTE 3 *(continued)*

With an allowance recorded	As of December 31, 2013 Recorded Investment	Unpaid Principal Balance	Specific Allowance	For the Year Ended Dec. 31, 2013 Average Recorded Investment
Consumer:				
New auto	$ 88	$ 88	$ 44	$ 148
Used auto	$ 828	$ 828	$ 414	$ 856
Unsecured	$ 1,086	$ 1,086	$ 543	$ 1,524
Real estate:				
First mortgage	$ 8,777	$ 8,777	$ 2,861	$ 8,390
Second mortgage	$ 191	$ 191	$ 95	$ 992
Home equity	$ 1,707	$ 1,707	$ 1,140	$ 1,524
Commercial:				
Real estate	$ 1,922	$ 1,922	$ 96	$ 3,447
Other secured	$ 1,857	$ 1,857	$ 546	$ 2,890
Totals:				
Consumer	$ 2,002	$ 2,002	$ 1,001	$ 2,528
Real estate	10,675	10,675	4,096	10,906
Commercial	3,779	3,779	642	6,337
	$ 16,456	$ 16,456	$ 5,739	$ 19,771

The tables below provide an age analysis of past due loans by class (*dollars in thousands*):

As of December 31, 2014

	Days Delinquent 30–59	Days Delinquent 60–89	Days Delinquent 90 or more	Total Delinquent Loans	Total Current Loans	Average Total Loans
Consumer:						
New auto	$ 1,291	$ 353	$ 324	$ 1,968	$ 225,981	$ 227,949
Used auto	3,951	1,267	1,059	6,277	350,948	357,225
Unsecured	1,326	394	343	2,063	93,817	95,880
Credit cards	761	409	133	1,303	83,488	84,791
Other secured	26	—	—	26	3,030	3,056
Total	7,355	2,423	1,859	11,637	757,264	768,901
Real estate:						
First mortgage	1,358	1,443	1,890	4,691	412,644	417,335
Second mortgage	2,096	398	339	2,833	40,643	43,476
Home equity	878	78	176	1,132	102,845	103,977
Total	4,332	1,919	2,405	8,656	556,132	564,788
Commercial:						
Real estate	—	—	—	—	85,577	85,577
Industrial and other	—	—	690	690	18,936	19,626
Construction	—	—	—	—	—	—
SBA and USDA	149	—	—	149	211,749	211,898
Total	149	—	690	839	316,262	317,101
Grand total	$ 11,836	$ 4,342	$ 4,954	$ 21,132	$1,629,658	$1,650,790

As of December 31, 2013

	Days Delinquent 30–59	Days Delinquent 60–89	Days Delinquent 90 or more	Total Delinquent Loans	Total Current Loans	Average Total Loans
Consumer:						
New auto	$ 274	$ 29	$ 23	$ 326	$ 82,038	$ 82,364
Used auto	2,506	588	499	3,593	279,794	283,387
Unsecured	1,012	283	181	1,476	103,939	105,415
Credit cards	1,009	368	329	1,706	88,840	90,546
Other secured	8	—	—	8	4,677	4,685
Total	4,809	1,268	1,032	7,109	559,288	566,397
Real estate:						
First mortgage	7,148	3,710	757	11,615	325,197	336,812
Second mortgage	1,447	414	320	2,181	46,285	48,466
Home equity	836	406	32	1,274	81,428	82,702
Total	9,431	4,530	1,109	15,070	452,910	467,980
Commercial:						
Real estate	—	—	—	—	46,659	46,659
Industrial and other	—	—	—	—	47,298	47,298
Construction	—	—	—	—	3,000	3,000
SBA and USDA	—	—	—	—	197,551	197,551
Total	—	—	—	—	294,508	294,508
Grand total	$ 14,240	$ 5,798	$ 2,141	$ 22,179	$1,306,706	$1,328,885

The Credit Union places loans on non-accrual status when the loan reaches 90 days past due or when the collection of interest or principal becomes uncertain. Loans on which the accrual of interest has been discontinued or reduced approximated $4,954,000 and $2,141,000 as of December 31, 2014 and 2013, respectively. There were no loans 90 days or more past due and still accruing interest as of December 31, 2014 or 2013.

Troubled Debt Restructuring

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

When the Credit Union modifies a loan, management evaluates impairment using the current fair value of the collateral, less selling costs. The loan is further analyzed for consideration of the risk of re-default. If management determines that the value of the modified loan is less than the recorded investment in the loan, impairment is recognized by segment or class of loan, as applicable, through the ALL.

The following tables include the recorded financial impact of TDRs. Below is the recorded investment in TDRs modified within the last year and those that subsequently defaulted in the current reporting period. The Credit Union defines a TDR as subsequent default when the TDR is 90 days past due, the member fails to complete six consecutive payments, or the member files bankruptcy.

NOTE 3 *(continued)*

The following tables present the activity on TDRs (*dollars in thousands*).

	TDRs approved during the period
Consumer:	
New auto	$ 84
Used auto	343
Unsecured	283
Real estate:	
First mortgage	327
Second mortgage	373
Home equity	74
Total	$ 1,484

	TDRs approved during the period
Consumer:	
New auto	$ 13
Used auto	197
Unsecured	179
Real estate:	
First mortgage	224
Second mortgage	91
Home equity	20
Total	$ 724

Consumer Credit Quality Indicators

Consumer credit quality is measured, assessed and quantified through analysis of current delinquencies and credit losses within each segment of the consumer loan portfolio as well as on the portfolio as a whole. Additionally, historical loss trends are factored into management's evaluation of credit performance along with local and regional economic trends and other external variables that may impact portfolio performance. The adequacy of the ALL allocated to the consumer loan portfolio is then evaluated on these various sets of data.

Real Estate Credit Quality Indicators

The following tables represent real estate credit exposures by credit score. The use of creditworthiness categories to grade loans permits management to estimate a portion of credit risk. Category ratings are reviewed each quarter, at which time management analyzes the resulting scores, as well as other external statistics and factors, to track loan performance. Loans that trend upward toward higher levels generally have a lower risk factor associated. Whereas, loans that migrate toward lower rating generally will result in a higher risk factor being applied to those related loan balances.

The Credit Union's internal risk ratings are as follows:

- 800 and above – Member poses little or no risk.
- 750 to 799 – Member poses a nominal risk of loss.
- 650 to 749 – Member poses an average risk of loss.
- 600 to 649 – Member is experiencing some degree of financial difficulty.
- 599 and below – Member is showing above average risk.
- No score – No credit score was available.

The table below summarizes key information for real estate credit quality (*dollars in thousands*):

Real Estate Credit Quality Indicators As of December 31, 2014	First Mortgage	Second Mortgage	Home Equity	Total
800 and above	$ 158,972	$ 12,416	$ 38,695	$ 210,083
750 to 799	104,922	11,185	20,836	136,943
650 to 749	116,533	14,520	19,596	150,649
600 to 649	14,319	2,864	3,206	20,389
599 and below	12,153	1,560	2,487	16,200
No score	10,436	931	19,157	30,524
	$ 417,335	$ 43,476	$ 103,977	$ 564,788

Real Estate Credit Quality Indicators As of December 31, 2013	First Mortgage	Second Mortgage	Home Equity	Total
800 and above	$ 95,072	$ 13,517	$ 33,595	$ 142,184
750 to 799	67,502	12,175	21,518	101,195
650 to 749	63,998	17,298	20,814	102,110
600 to 649	10,059	3,059	3,670	16,788
599 and below	9,773	2,340	1,663	13,776
No score	90,408	77	1,442	91,927
	$ 336,812	$ 48,466	$ 82,702	$ 467,980

Commercial Credit Quality Indicators

The Credit Union categorizes commercial loans into risk categories based on relevant information about the ability of the borrowers to service their debt such as: current financial information, historical payment experience, credit documentation and current economic trends among other factors. These credit quality indicators are used to assign a risk rating to each individual credit. The risk ratings can be grouped into six major categories, defined as follows:

Pass. A pass loan is a strong credit with no existing or known potential weaknesses deserving management's close attention.

Watch. A watch credit is a loan that otherwise meets the definition of a standard or minimum acceptable quality loan, but which requires more than normal attention due to any of the following items: deterioration of borrower financial condition less severe than those warranting more adverse grading, deterioration of repayment ability and/or collateral value, increased leverage, adverse effects from a downturn in the economy, local market or industry, adverse changes in local or regional employer, management changes (including illness, disability, and death), and adverse legal action. Payments are current per the terms of the agreement. If conditions persist or worsen, a more severe risk grade may be warranted.

NOTE 3 *(continued)*

Special Mention. A special mention credit is a loan that has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the credit or in the Credit Union's position at some future date. Special Mention credits are not adversely classified and do not expose the Credit Union to sufficient risk to warrant adverse classification.

Substandard. A substandard credit is a loan that is not adequately protected by the current sound worth and paying capacity of the borrower or the value of the collateral pledged, if any. Credits classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Well defined weaknesses include a project's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time or a project's failure to fulfill economic expectations. They are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected.

Doubtful. Credits classified as doubtful are loans that have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbably.

Loss. Credits classified as loss are loans considered uncollectible and charged off immediately.

The following table summarizes the credit risk profile of the commercial loan portfolio by class (*dollars in thousands*):

Commercial Credit Quality Indicators
As of December 31, 2014

Credit Grade	Real Estate	Industrial and Other	Construction	SBA and USDA	Total
Pass	$ 69,642	$ 17,271	$ —	$ 211,749	$ 298,662
Watch	11,266	955	—	—	12,221
Special mention	1,563	1,400	—	—	2,963
Substandard	2,485	—	—	—	2,485
Doubtful	198	—	—	149	347
Loss	423	—	—	—	423
	$ 85,577	$ 19,626	$ —	$ 211,898	$ 317,101

Commercial Credit Quality Indicators
As of December 31, 2013

Credit Grade	Real Estate	Industrial and Other	Construction	SBA and USDA	Total
Pass	$ 44,737	$ 45,441	$ 3,000	$ 197,551	$ 290,729
Watch	1,922	580	—	—	2,502
Special mention	—	—	—	—	—
Substandard	—	153	—	—	153
Doubtful	—	1,124	—	—	1,124
Loss	—	—	—	—	—
	$ 46,659	$ 47,298	$ 3,000	$ 197,551	$ 294,508

Methodology Change

The Credit Union did not implement any changes to the ALL methodology during the year ended December 31, 2014.

NOTE 4: PROPERTY AND EQUIPMENT

A summary of the Credit Union's property and equipment is as follows (*dollars in thousands*):

	As of December 31, 2014	2013
Land	$ 15,632	$ 15,632
Buildings	38,416	38,239
Computer equipment	24,696	23,815
Furniture and equipment	6,392	6,242
Leasehold improvements	8,666	8,559
	93,802	92,487
Less accumulated depreciation and amortization	(45,896)	(42,886)
	$ 47,906	$ 49,601

NOTE 5: MEMBERS' SHARE AND SAVINGS ACCOUNTS

Members' share and savings accounts are summarized as follows (*dollars in thousands*):

	As of December 31, 2014	2013
Share drafts	$ 299,216	$ 273,594
Shares and equivalents	418,947	405,874
Money market	920,047	880,332
IRA shares	69,302	68,244
Share and IRA certificates	579,084	620,287
	$2,286,596	$2,248,331

The aggregate balance of members' individual time deposit accounts in denominations that meet or exceed $250,000 was approximately $106,464,000 and $112,768,000 as of December 31, 2014 and 2013, respectively. The aggregate balance of overdraft accounts reclassified to loans to members was approximately $271,000 and $308,000 as of December 31, 2014 and 2013, respectively.

Scheduled maturities of certificates are as follows (*dollars in thousands*):

	As of December 31, 2014
Within 1 year	$ 333,044
1 to 2 years	152,878
2 to 3 years	49,453
3 to 4 years	22,391
4 to 5 years	21,318
	$ 579,084

Share Insurance

Members' shares are generally insured by the NCUSIF to a maximum of $250,000 for each member. Individual Retirement Accounts are insured by the NCUSIF to a maximum of $250,000.

NOTE 6: EMPLOYEE BENEFITS

401(k) Profit Sharing Plan

Participation in the 401(k) profit sharing plan is available to all employees who are 21 years of age. Employee contributions to the plan are subject to certain limits established by the Internal Revenue Service. Participants are always 100% vested in their voluntary contributions. The Credit Union may make a discretionary matching contribution equal to a uniform percentage of an employee's salary deferral and/or a discretionary profit sharing contribution. Credit Union contributions vest at 33% after one year of service, 67% after two years of service and 100% after three years of service. During the years ended December 31, 2014 and 2013, the Credit Union contributed a matching contribution equal to 5% and 4% of employee contributions, respectively. The Credit Union's expense for the 401(k) profit sharing plan for the years ended December 31, 2014 and 2013 was approximately $1,318,000 and $1,090,000, respectively.

Deferred Compensation

As of December 31, 2012, the Credit Union maintained a deferred compensation plan for its President/CEO who retired during 2013. The deferred compensation was paid in 2013 in accordance with terms of the underlying agreement. The plan was funded via the earnings from investments made by the Credit Union specifically related to this plan.

NOTE 7: BORROWED FUNDS

The Credit Union is a member of the FHLB of Atlanta. As of December 31, 2014, the Credit Union had access to a pre-approved secured line of credit with the capacity to borrow up to a certain percentage of value of its eligible collateral comprised of 1–4 family first mortgage loans and investment securities, as defined in the FHLB Statement of Credit Policy. Additionally, as of December 31, 2014, the Credit Union maintained an unsecured line-of-credit agreement with PNC Bank.

The following table represents the FHLB and PNC advances outstanding (*dollars in thousands*):

Issuer	Interest Type	Interest Rate	Final Maturity Date	Payment Description	As of December 31, 2014	2013
PNC Bank	Fixed	0.45%	January 2, 2015	Maturity	$ 10,000	$ —
FHLB	Fixed	0.23%	January 16, 2015	Maturity	65,000	—
FHLB	Fixed	0.18%	January 17,2014	Maturity	—	50,000
					$ 75,000	$ 50,000

NOTE 8: COMMITMENTS AND CONTINGENT LIABILITIES

Lease Commitments

The Credit Union leases several branch offices. The minimum noncancellable lease obligations approximate the following as of December 31, 2014 (*dollars in thousands*):

Year ending December 31,	Amount
2015	$ 524
2016	298
Thereafter	698
	$ 1,520

Rental expense under operating leases was approximately $413,000 and $367,000 for the years ended December 31, 2014 and 2013, respectively.

Lines of Credit

As of December 31, 2014, in aggregate, the Credit Union maintained $70,000,000 in unsecured line-of-credit agreements with SunTrust, Wells Fargo and PNC Bank as of December 31, 2014. No amount was outstanding on these lines-of-credit agreements as of December 31, 2014.

As of December 31, 2014, the Credit Union maintained a $100,000,000 line of credit with SunTrust Robinson Humphrey, which is secured by a blanket security interest in the Credit Union's investment portfolio. No amount was outstanding on this line-of-credit agreement as of December 31, 2014.

As of December 31, 2014, the Credit Union had access to a pre-approved line-of-credit from the FHLB, secured by both investment securities and eligible 1–4 family first mortgage loans, as defined in the FHLB Statement of Credit Policy. The aggregate unused line of credit under this agreement was approximately $97,000,000 as of December 31, 2014.

Miscellaneous Litigation

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

NOTE 9: OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

Off-Balance-Sheet Risk

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

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

Unused lines of credit approximated the following (*dollars in thousands*):

	As of December 31, 2014
Credit card	$ 223,884
Home equity	97,550
Unsecured	20,674
Business	11,780
	$ 353,888

Concentrations of Credit Risk

The Credit Union may be exposed to credit risk from a regional economic standpoint, since a significant concentration of its borrowers work or reside in the Washington D.C. area. However, the loan portfolio is well diversified and the Credit Union does not have any significant concentrations of credit risk, except unsecured loans, when by their nature, increase the risk of loss compared to those loans that are collateralized.

NOTE 10: 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 actions, 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 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 NCUA's Regulations) to total assets (as defined in NCUA's Regulations). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR as of December 31, 2014 and 2013 was 5.42% and 5.33%, respectively. The minimum requirement to be considered complex under the regulatory framework is 6.00%. Management believes, as of December 31, 2014 and 2013, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2014, the most recent call reporting period, the NCUA categorized the Credit Union as *"well capitalized"* under the regulatory framework for prompt corrective action. To be categorized as *"well capitalized"* the Credit Union must maintain a minimum net worth ratio of 7.00% of assets. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

The Credit Union's actual and required net worth amounts and ratios are as follows (*dollars in thousands*):

	As of Dec. 31, 2014		As of Dec. 31, 2013	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Actual net worth	$ 271,764	10.20%	$ 262,103	10.15%
Amount needed to be classified as "adequately capitalized"	$ 159,875	6.00%	$ 154,949	6.00%
Amount needed to be classified as "well capitalized"	$ 186,520	7.00%	$ 180,774	7.00%

Because the RBNWR is less than the net worth ratio, the Credit Union retains its original category.

Further, in performing its calculation of total assets, the Credit Union used the quarter end option, as permitted by regulation.

NOTE 11: CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table presents the changes in accumulated other comprehensive income/(loss) during the year ended December 31, 2014:

	Unrealized Losses on Available-for-Sale Securities
Balance as of December 31, 2013	$ (7,708)
Other comprehensive loss before reclassification	(1,528)
Amounts reclassified from accumulated other comprehensive loss	(1,129)
Net other comprehensive loss	(2,657)
Balance as of December 31, 2014	$ (10,365)

Reclassifications Out of Accumulated Other Comprehensive Income

During the year ended December 31, 2014, the Credit Union realized gains on the sale of available-for-sale securities approximating $1,129,000. During the same period, these gains were reclassified from the balance of *Accumulated Other Comprehensive Income* to *Gain on Sale of Investments reported on the Consolidated Statements of Income.*

NOTE 12: LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances and the related custodial escrow balances in connection with the servicing of these loans approximated the following (*dollars in thousands*):

	As of December 31, 2014	2013
Mortgage loan portfolio serviced for:		
Federal National Mortgage Association	$1,437,000	$1,466,000
Custodial escrow balances	$ 5,100	$ 5,700

NOTE 13: MORTGAGE SERVICING RIGHTS

The components of capitalized mortgage servicing rights, included in prepaid and other assets are as follows (*dollars in thousands*):

	As of December 31, 2014	2013
Mortgage servicing rights:		
Balance, beginning of year	$ 12,645	$ 4,919
Additions	3,260	8,010
Amortization/market value adjustment	(2,497)	(284)
Balance, end of year	$ 13,408	$ 12,645
Fair value of mortgage servicing rights	$ 13,408	$ 15,036

NOTE 13 *(continued)*

As of December 31, 2014 and 2013, the fair value of servicing rights was determined by an independent third party using market value discount rates and prepayment speeds based on the specific characteristics of each pool of loans. The following assumptions were used to value the servicing rights:

	As of December 31, 2014	2013
Loan portfolio serviced for FNMA:		
Discount rate	8.00%–10.00%	8.00%–10.00%
Prepayment speeds	6.42%–22.26%	6.00%–22.14%

NOTE 14: FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

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

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

Certain assets and liabilities may be required to be measured at fair value on a non-recurring basis. These non-recurring fair value measurements usually result from the application of lower of cost or market accounting or the write-down of individual assets due to impairment. There were no items required to be measured on a non-recurring basis as of December 31, 2014 or 2013.

RECURRING BASIS

Available-for-Sale Securities
The Credit Union receives pricing for available-for-sale securities from a third-party pricing service. These securities are classified as a Level 1 and 2 in the fair value hierarchy. The following is a description of the valuation methodologies used for these securities;

SBA Pool – SBA pools are valued based on quoted market prices on similar assets in the marketplace and the vintage of the underlying collateral.

Federal Agency Securities – Federal agency securities are valued based on quoted market prices on similar assets in the marketplace and the vintage of the underlying collateral.

Mutual Funds – Mutual funds are valued based on quoted market prices.

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

	Assets at Fair Value as of December 31, 2014			
	Level 1	Level 2	Level 3	Total
Available for sale securities:				
SBA pools	$ 713,667	$ —	$ —	$ 713,667
Mutual funds	102,317	—	—	102,317
Federal agency securities	—	63,689	—	63,689
	$ 815,984	$ 63,689	$ —	$ 879,673

	Assets at Fair Value as of December 31, 2013			
	Level 1	Level 2	Level 3	Total
Available for sale securities:				
SBA pools	$ 927,740	$ 3,669	$ —	$ 931,409
Mutual funds	86,572	—	—	86,572
Federal agency securities	—	34,361	—	34,361
	$1,014,312	$ 38,030	$ —	$1,052,342

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

Cash and Cash Equivalents
The carrying amount is a reasonable estimation of fair value.

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NOTE 14 *(continued)*

Investments
Estimated fair values for investments are obtained from quoted market prices where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments, or on discounted cash flow models based on the expected payment characteristics of the underlying instruments.

Loans to Members
The fair value of loans to members was estimated by discounting the estimated cash flows using the current rate at which similar loans would be issued. The impact of delinquent loans on the estimation of the fair value is not considered to have a material effect and, accordingly, delinquent loans have been disregarded in the valuation methodologies used.

Loans Held for Sale
The carrying amount is a reasonable estimation of fair value.

Accrued Interest Receivable
The carrying amount is a reasonable estimation of fair value.

FHLB Stock
The carrying amount is a reasonable estimation of fair value.

Mortgage Servicing Rights
Fair values of mortgage servicing rights are obtained from an independent third party evaluation.

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

Borrowed Funds
The estimated fair value of borrowed funds was estimated by discounting the estimated cash flows using the current rate at which similar borrowings would be granted.

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

The carrying value and estimated fair value of the Credit Union's financial instruments are as follows (*dollars in thousands*):

	As of Dec. 31, 2014		As of Dec. 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash	$24,668	$24,668	$45,747	$45747
Investments:				
Available-for-sale	$879,673	$879,673	$1,052,342	$1,052,342
Loans held for sale	$—	$—	$55,589	$55,589
Loans to members, net	$1,634,696	$1,640,072	$1,313,584	$1,321,911
Accrued interest receivable	$10,345	$10,345	$9,767	$9,767
FHLB stock	$5,249	$5,249	$5,272	$5,272
Mortgage servicing rights	$13,408	$13,408	$12,645	$15,036
Financial liabilities:				
Members' share and savings accounts	$2,286,596	$2,285,131	$2,248,331	$2,247,711
Borrowed funds	$75,000	$75,000	$50,000	$50,003

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