NORTHWEST FEDERAL
CREDIT UNION AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015
(With Independent Auditor's Report Thereon)

NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY

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INDEPENDENT AUDITOR'S REPORT

To the Supervisory Committee of
Northwest Federal Credit Union and Subsidiary

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Northwest Federal Credit Union and Subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2016 and 2015, and the related consolidated statements of earnings, 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. 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.

Auditor's Responsibility (Continued)

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 Subsidiary as of December 31, 2016 and 2015, 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.

Doeren Mayhew

Troy, Michigan
March 3, 2017

NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2016 AND 2015

Assets	2016	2015
	(dollars in thousands)	
Cash and cash equivalents	$ 139,169	$ 120,907
Investment securities (note 2):		
Available-for-sale	754,821	919,308
Loans held-for-sale	-	26,564
Loans to members, net of allowance for loan losses (note 3)	2,109,211	1,893,585
Accrued interest receivable	9,850	9,877
Prepaid and other assets	34,143	31,328
FHLB participation stock	7,035	15,148
Property and equipment (note 4)	46,432	50,076
Goodwill (note 1)	5,715	6,840
Share insurance deposit	21,986	20,146
Total assets	$ 3,128,362	$ 3,093,779
Liabilities and Members' Equity		
Liabilities:		
Members' shares and savings accounts (note 6)	$ 2,668,892	$ 2,471,951
Borrowed funds (note 5)	100,000	300,000
Accrued interest and dividends payable	32	31
Accrued expenses and other liabilities	57,851	46,674
Total liabilities	2,826,775	2,818,656
Commitments and contingent liabilities (note 9)		
Members' equity - substantially restricted (note 7)	301,587	275,123
Total liabilities and members' equity	$ 3,128,362	$ 3,093,779

See accompanying notes to consolidated financial statements

NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF EARNINGS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
	(dollars in thousands)	
Interest income:		
Loans receivable	$ 84,504	$ 75,021
Investment securities	15,912	9,731
Total interest income	100,416	84,752
Interest expense:		
Members' shares and savings accounts	18,012	14,384
Interest on borrowed funds	1,023	580
Total interest expense	19,035	14,964
Net interest income	81,381	69,788
Provision for loan losses	14,830	10,748
Net interest income after provision for loan losses	66,551	59,040
Non-interest income:		
Fees and service charges	34,874	32,560
Gain on sale of loans, net	8,436	8,745
Rental income	1,419	2,023
Gain on sale of investments	424	476
Total non-interest income	45,153	43,804
Non-interest expenses:		
Compensation and employee benefits	46,550	45,289
Operating and occupancy expenses	27,296	25,226
Advertising and promotion expenses	2,494	2,661
Loan servicing expenses	5,031	5,533
Legal and professional services expense	4,011	4,480
Education, travel and officials expense	2,480	2,262
Other expenses	931	1,041
Total non-interest expenses	88,793	86,492
Net earnings	$ 22,911	$ 16,352

See accompanying notes to consolidated financial statements

NORTHWEST FEDERAL CREDIT UNION
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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
	(dollars in thousands)	
Net earnings	$ 22,911	$ 16,352
Other comprehensive income (loss):		
Net changes in unrealized holding losses on investments classified as available-for-sale arising during the period	3,977	(2,152)
Reclassification adjustments for investment gains included in net earnings	(424)	(476)
Other comprehensive income (loss)	3,553	(2,628)
Comprehensive income	$ 26,464	$ 13,724

See accompanying notes to consolidated financial statements

NORTHWEST FEDERAL CREDIT UNION
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CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2016 AND 2015

	Regular Reserves	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
		(dollars in thousands)		
Members' equity - January 1, 2015	$ 18,008	$ 253,756	$ (10,365)	$ 261,399
Comprehensive income (loss)	-	16,352	(2,628)	13,724
Members' equity - December 31, 2015	18,008	270,108	(12,993)	275,123
Comprehensive income	-	22,911	3,553	26,464
Members' equity - December 31, 2016 (note 7)	$ 18,008	$ 293,019	$ (9,440)	$ 301,587

See accompanying notes to consolidated financial statements

NORTHWEST FEDERAL CREDIT UNION
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CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
	(dollars in thousands)	
Cash flows from operating activities:		
Net earnings	$ 22,911	$ 16,352
Adjustments:		
Provision for loan losses	14,830	10,748
Depreciation and amortization	5,191	5,132
Net amortization of premiums/discounts on investment securities	10,747	15,861
Amortization on mortgage servicing rights	3,584	2,447
Capitalization of mortgage servicing rights	(2,352)	(2,989)
Amortization of goodwill	1,125	1,141
Gain on sale of loans, net	(8,436)	(8,745)
Proceeds from loans sold	730,314	489,769
Loans originated for sale	(695,314)	(507,588)
Gain on sale of investments	(424)	(476)
Changes in assets and liabilities (net):		
Accrued interest receivable	27	468
Prepaid and other assets	(4,047)	3,650
Accrued interest and dividends payable	1	31
Accrued expenses and other liabilities	11,177	5,094
Total adjustments	66,423	14,543
Net cash provided from operating activities	89,334	30,895

See accompanying notes to consolidated financial statements

NORTHWEST FEDERAL CREDIT UNION
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CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
	(dollars in thousands)	
Cash flows from investing activities:		
Increase in loans to members (net)	$ (230,456)	$ (269,637)
Proceeds from maturities, sales and repayment of available-for-sale investments	338,650	403,748
Purchase of available-for-sale investments	(180,933)	(461,396)
Increase in share insurance deposit	(1,840)	(525)
Redemption (acquisition) of FHLB participation stock	8,113	(9,899)
Acquisition of property and equipment	(1,547)	(7,302)
Net cash used in investing activities	(68,013)	(345,011)
Cash flows from financing activities:		
Increase in members' shares and savings accounts (net)	196,941	185,355
Proceeds from borrowed funds	100,000	600,000
Repayment of borrowed funds	(300,000)	(375,000)
Net cash (used in) provided from financing activities	(3,059)	410,355
Net increase in cash and cash equivalents	18,262	96,239
Cash and cash equivalents - beginning	120,907	24,668
Cash and cash equivalents - ending	$ 139,169	$ 120,907

Supplemental Information

Interest paid	$ 19,035	$ 14,964

See accompanying notes to consolidated financial statements

Note 1 - Nature of Business and Significant Accounting Policies

Nature of Business

Northwest Federal Credit Union (the "Credit Union") is a cooperative association holding a corporate charter under 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 that qualify for membership. The field of membership is defined in the Credit Union's bylaws.

Principles of Consolidation

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

Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates that are particularly susceptible to change relate to the determination of the allowance for loan losses (ALL) and the fair value of securities. The significant accounting principles and policies used in the preparation of these consolidated financial statements, together with certain related information, are summarized below.

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. The Credit Union believes no significant concentration of credit risk exists with respect to these cash investments.

Continued

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Investment Securities

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 sales of available-for-sale securities are determined using the specific-identification method. Premiums are amortized and discounts are accreted as an adjustment to interest income on investments over the terms of the investment by a method which approximates the interest method.

Declines in the fair value of available-for-sale securities below their cost that are other-than-temporary are reflected as realized losses. In estimating other-than-temporary impairment, management considers: (1) the Credit Union's intent to sell the debt security prior to recovery and (2) whether it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When the Credit Union does not intend to sell a security, and it is more likely than not, the Credit Union will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in accumulated other comprehensive income (loss).

Loans Held-for-Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated market value. Mortgage loans are sold without recourse; however, the Credit Union may be required to contractually repurchase loans for violation of a representation or warranty made in connection with the sale of the loan.

Federal Home Loan Bank Participation Stock

As a member of the Federal Home Loan Bank (FHLB) system, the Credit Union is required to maintain an investment in capital stock of the FHLB. The 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 stock is a restricted investment security, carried at cost, and evaluated for impairment on an annual basis. No ready market exists for the FHLB stock, and it has no quoted market value.

Continued

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Loans to Members

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

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in the process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Direct loan origination costs are recognized in expense when incurred; however, real estate loan origination points and fees and dealer reserve fees are deferred over the average life of the loan as an adjustment to loan yield using a method that approximates the interest method.

Allowance for Loan Losses

Management has an established methodology to determine the adequacy of the ALL that assesses the risk 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 factor, including industry trends, general trends of real estate values, the trends of existing borrower 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.

Continued

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

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 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 characteristics. As of December 31, 2016 and 2015, the historical loss time frame for each class was 12 months.

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.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

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 characteristics. As of December 31, 2016 and 2015, 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 consumer 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 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 impaired loans.

Continued

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

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 non-productive 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.

Servicing Rights

Servicing assets are recognized as separate assets when rights are acquired through purchase or through the sale of financial assets. Fair value is based on market prices for comparable mortgage servicing contracts and Small Business Administration (SBA) contracts when available, or alternatively, is based on a valuation model that calculates the present value estimates 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. Servicing 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.

 Continued

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Property and Equipment

Land is carried at cost. Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are stated at cost, less accumulated amortization. Amortization is completed on the straight-line method over the length of the lease term, or the estimated life of the asset, whichever is less. Assets classified as construction-in-process are not depreciated until the asset has been completed and placed into service. 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.

NCUSIF Deposit

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with the National Credit Union Administration's (NCUA) regulations, which require 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 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. The NCUSIF deposit is required to be reviewed for impairment, including consideration of the refundability of the deposit.

Goodwill

The Credit Union has elected to amortize the goodwill over a period of 7 years in accordance with FASB Accounting Standards Update 2014-02, *Intangibles - Goodwill and Other*.

Members' Shares and Savings Accounts

Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' shares 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' shares accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Continued

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Income Taxes

The Credit Union is exempt, by statute, from Federal, state and local income taxes under the provisions of the Internal Revenue Code and state tax laws. The Income Taxes Topic of FASB ASC clarifies accounting for uncertainty in income taxes reported in the consolidated financial statements. The interpretation provides criteria for assessment of individual 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.

Reclassification and Presentation

Certain balances in the 2015 presentation have been reclassified to conform to the 2016 presentation.

Subsequent Events

The date to which events occurring after December 31, 2016, the date of the most recent consolidated statement of financial condition, have been evaluated for possible adjustment to the consolidated financial statements or disclosure is March 3, 2017, which is the date the consolidated financial statements were available to be issued.

Continued

(IN THOUSANDS)

Note 2 - Investment Securities

The carrying amounts of investment securities as shown in the consolidated statements of financial condition of the Credit Union and their approximate fair values at December 31, 2016 and 2015 are as follows:

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available-for-sale:				
U.S. Treasuries	$ 66,153	$ -	$ (835)	$ 65,318
SBA loan pools	304,181	700	(2,771)	302,110
Agency securities	71,862	9	(774)	71,097
Mortgage-backed securities	261,726	7	(4,611)	257,122
Mutual funds	28,444	7	(484)	27,967
Equity securities	11,240	93	(196)	11,137
Municipal bonds	3,435	14	(122)	3,327
Corporate bonds	17,219	35	(511)	16,743
Total securities available-for-sale	$ 764,259	$ 865	$ (10,303)	$ 754,821

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available-for-sale:				
U.S. Treasuries	$ 106,022	$ 369	$ (646)	$ 105,745
SBA loan pools	388,839	212	(6,927)	382,124
Agency securities	97,557	62	(729)	96,890
Mortgage-backed securities	247,567	66	(1,995)	245,638
Mutual funds	55,111	-	(2,467)	52,644
Equity securities	20,602	1,846	(1,558)	20,890
Municipal bonds	1,755	5	(50)	1,710
Corporate bonds	14,850	32	(1,215)	13,667
Total securities available-for-sale	$ 932,303	$ 2,592	$ (15,587)	$ 919,308

Continued

(IN THOUSANDS)

Note 2 - Investment Securities (Continued)

The Credit Union is generally restricted from investing in certain security types as defined in the NCUA Rules and Regulations under 12 CFR Sec 703. The Credit Union has invested in otherwise non-permissible securities for the purposes of benefit prefunding and charitable contributions in accordance with 12 CFR Sec 701.19(c) and Sec 721.3(2). All investments in mutual funds, equity securities, municipal bonds, and corporate bonds were acquired for the purposes of benefit prefunding and charitable contributions.

The amortized cost and estimated market value of debt securities, at December 31, 2016, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Available-for-Sale	
	Amortized Cost	Fair Value
Due in less than one year	$ 7,183	$ 7,186
Due from one year to less than five years	123,222	121,923
Due from five years to less than ten years	24,072	23,338
Due in more than ten years	4,193	4,038
SBA loan pools	304,181	302,110
Mortgage-backed securities	261,725	257,122
Mutual funds	28,444	27,967
Equity securities	11,240	11,137
Total	$ 764,259	$ 754,819

The proceeds from the sale of investment securities classified as available-for-sale approximated $236,891 and $434,077 during the years ended December 31, 2016 and 2015, respectively. Gross gains of $4,946 and $3,437 were realized from these sales during the years ended December 31, 2016 and 2015, respectively. Gross losses of approximately $4,522 and $2,975 were realized from these sales during the years ended December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, investment securities with a fair value of approximately $370,795 and $425,136 were pledged as security for the Credit Union's borrowed funds with the FHLB.

Continued

(IN THOUSANDS)

Note 2 - Investment Securities (Continued)

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.

	Continuing Unrealized Losses for Less Than 12 Months		Continuing Unrealized Losses for 12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasuries	$ 65,076	$ (829)	$ 241	$ (6)	$ 65,317	$ (835)
SBA loan pools	216,347	(2,771)	-	-	216,347	(2,771)
Agency securities	58,300	(774)	-	-	58,300	(774)
Mortgage-backed securities	248,685	(4,611)	-	-	248,685	(4,611)
Mutual funds	27,967	(484)	-	-	27,967	(484)
Equity securities	11,137	(196)	-	-	11,137	(196)
Municipal bonds	2,173	(114)	550	(8)	2,723	(122)
Corporate bonds	13,911	(511)	-	-	13,911	(511)
	$ 643,596	$ (10,290)	$ 791	$ (14)	$ 644,387	$ (10,304)

The securities in an unrealized loss position as of December 31, 2016 were temporarily impaired due to the current interest rate environment and not due to increased credit risk. Market changes in interest rates and market changes in credit spreads will cause normal fluctuations in the market price of securities and the possibility of temporary unrealized losses. Investments in federal agency securities and mortgage-backed securities are issued by the U.S. Government agencies and U.S. Government sponsored enterprises. The Credit Union reviews all of its securities for impairment at least quarterly. The Credit Union has determined there was no OTTI related to these securities as of December 31, 2016.

Continued

(IN THOUSANDS)

Note 3 - Loans to Members

The composition of loans to members is as follows:

	2016	2015
Consumer:		
New vehicle	$ 607,341	$ 526,529
Used vehicle	473,211	437,217
Unsecured	101,655	102,856
Credit cards	90,461	87,607
Other secured	397	1,356
Total consumer	1,273,065	1,155,565
Real estate:		
First mortgages	560,456	437,375
Second mortgages	35,683	39,380
Home equity	102,602	106,428
Total real estate	698,741	583,183
Commercial:		
Real estate	63,523	76,672
Industrial and other	29,451	38,907
SBA and USDA	62,179	57,605
Total commercial	155,153	173,184
Total	2,126,959	1,911,932
Less: allowance for loan losses	17,748	18,347
Total loans to members	$ 2,109,211	$ 1,893,585

Continued

(IN THOUSANDS)

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses and Recorded Investment in Loans

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method at December 31, 2016 and 2015:

	December 31, 2016			
	Consumer	Real Estate	Commercial	Total
Allowance for loan losses:				
Beginning balance	$ 11,562	$ 2,239	$ 4,546	$ 18,347
Charge-offs	(2,138)	(281)	(15,951)	(18,370)
Recoveries	2,667	274	-	2,941
Provision	1,666	(1,604)	14,768	14,830
Ending balance	13,757	628	3,363	17,748
Ending balance individually evaluated for impairment	-	464	542	1,006
Ending balance collectively evaluated for impairment	$ 13,757	$ 164	$ 2,821	$ 16,742
Loans:				
Ending balance individually evaluated for impairment	$ -	$ 5,214	$ 1,113	$ 6,327
Ending balance collectively evaluated for impairment	1,273,065	693,527	154,040	2,120,632
Total recorded investment in loans	$ 1,273,065	$ 698,741	$ 155,153	$ 2,126,959

Continued

(IN THOUSANDS)

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses and Recorded Investment in Loans (Continued)

	December 31, 2015			
	Consumer	Real Estate	Commercial	Total
Allowance for loan losses:				
Beginning balance	$ 9,482	$ 3,863	$ 2,749	$ 16,094
Charge-offs	(9,760)	(470)	(138)	(10,368)
Recoveries	1,472	166	235	1,873
Provision	10,368	(1,320)	1,700	10,748
Ending balance	11,562	2,239	4,546	18,347
Ending balance individually evaluated for impairment	928	1,904	2,809	5,641
Ending balance collectively evaluated for impairment	$ 10,634	$ 335	$ 1,737	$ 12,706
Loans:				
Ending balance individually evaluated for impairment	$ 1,856	$ 6,435	$ 5,915	$ 14,206
Ending balance collectively evaluated for impairment	1,153,709	576,748	167,269	1,897,726
Total recorded investment in loans	$ 1,155,565	$ 583,183	$ 173,184	$ 1,911,932

Continued

Note 3 - Loans to Members (Continued)

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 collateral, less selling costs, when foreclosure is probable, instead of discounted cash flows. If management determined that the fair 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.

Continued

(IN THOUSANDS)

Note 3 - Loans to Members (Continued)

Impaired Loans (Continued)

The following tables summarize key information for impaired loans:

	December 31, 2016			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no allowance recorded:				
Real estate:				
First mortgages	$ 1,824	$ 1,824	$ -	$ 912
Second mortgages	560	560	-	280
Home equity	184	184	-	92
With an allowance recorded:				
Real estate:				
First mortgages	2,299	2,299	274	3,500
Second mortgages	289	289	159	880
Home equity	58	58	31	161
Commercial:				
Real estate	-	-	-	584
Other secured	1,113	1,113	542	1,173
Totals:				
Real estate	$ 5,214	$ 5,214	$ 464	$ 5,825
Commercial	$ 1,113	$ 1,113	$ 542	$ 1,757

Continued

(IN THOUSANDS)

Note 3 - Loans to Members (Continued)

Impaired Loans (Continued)

	December 31, 2015			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With an allowance recorded:				
Consumer:				
New auto	$ 175	$ 175	$ 87	$ 144
Used auto	750	750	375	764
Unsecured	931	931	466	1,059
Real estate:				
First mortgages	4,701	4,701	1,223	6,123
Second mortgages	1,470	1,470	588	1,320
Home equity	264	264	93	348
Commercial:				
Real estate	2,337	2,337	783	1,744
Other secured	3,578	3,578	2,026	1,863
Totals:				
Consumer	$ 1,856	$ 1,856	$ 928	$ 1,967
Real estate	$ 6,435	$ 6,435	$ 1,904	$ 7,791
Commercial	$ 5,915	$ 5,915	$ 2,809	$ 3,607

Continued

(IN THOUSANDS)

Note 3 - Loans to Members (Continued)

Age of Past Due Loans

The following tables provide an age analysis of past due loans by class:

	December 31, 2016					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans
Consumer:						
New auto	$ 8,898	$ 2,373	$ 2,561	$ 13,832	$ 593,509	$ 607,341
Used auto	9,048	2,207	2,236	13,491	459,720	473,211
Unsecured	1,085	578	775	2,438	99,217	101,655
Credit cards	767	451	271	1,489	88,972	90,461
Other secured	2	2	-	4	393	397
Total	19,800	5,611	5,843	31,254	1,241,811	1,273,065
Real estate:						
First mortgages	5,872	469	1,424	7,765	552,691	560,456
Second mortgages	919	386	44	1,349	34,334	35,683
Home equity	737	133	-	870	101,732	102,602
Total	7,528	988	1,468	9,984	688,757	698,741
Commercial:						
Real estate	215	219	-	434	63,089	63,523
Industrial and other	-	223	172	395	29,056	29,451
SBA and USDA	-	175	133	308	61,871	62,179
Total	215	617	305	1,137	154,016	155,153
Grand total	$ 27,543	$ 7,216	$ 7,616	$ 42,375	$ 2,084,584	$ 2,126,959

Continued

(IN THOUSANDS)

Note 3 - Loans to Members (Continued)

Age of Past Due Loans (Continued)

	December 31, 2015					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans
Consumer:						
New auto	$ 6,764	$ 1,288	$ 2,731	$ 10,783	$ 515,746	$ 526,529
Used auto	7,143	1,407	2,235	10,785	426,432	437,217
Unsecured	1,035	381	332	1,748	101,108	102,856
Credit cards	540	402	394	1,336	86,271	87,607
Other secured	5	-	-	5	1,351	1,356
Total	15,487	3,478	5,692	24,657	1,130,908	1,155,565
Real estate:						
First mortgages	3,514	1,280	1,134	5,928	431,447	437,375
Second mortgages	1,199	443	180	1,822	37,558	39,380
Home equity	320	216	112	648	105,780	106,428
Total	5,033	1,939	1,426	8,398	574,785	583,183
Commercial:						
Real estate	354	-	279	633	76,039	76,672
Industrial and other	248	-	250	498	38,409	38,907
SBA and USDA	1,902	-	22	1,924	55,681	57,605
Total	2,504	-	551	3,055	170,129	173,184
Grand total	$ 23,024	$ 5,417	$ 7,669	$ 36,110	$ 1,875,822	$ 1,911,932

Continued

Note 3 - Loans to Members (Continued)

Age of Past Due Loans (Continued)

The Credit Union places loans on nonaccrual 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 was approximately $7,616 and $7,669 as of December 31, 2016 and 2015, respectively. There were no loans 90 days or more past due and still accruing interest as of December 31, 2016 and 2015.

Troubled Debt Restructurings

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 a subsequent default when the TDR is 90 days past due, the member fails to complete six consecutive payments, or the member files bankruptcy.

Continued

(IN THOUSANDS)

Note 3 - Loans to Members (Continued)

Troubled Debt Restructurings (Continued)

The following tables present the activity on TDRs:

	TDRs Approved During the Audit Period	
	2016	**2015**
Consumer:		
New auto	$ -	$ 17
Used auto	-	365
Unsecured	-	171
Real estate:		
First mortgages	673	-
Second mortgages	154	152
Home equity	53	97
Total	$ 880	$ 802

	TDRs Charged-off During the Audit Period	
	2016	**2015**
Consumer:		
New auto	$ -	$ -
Used auto	-	65
Unsecured	-	27
Real estate:		
First mortgages	-	-
Second mortgages	42	99
Home equity	29	-
Total	$ 71	$ 191

Continued

Note 3 - Loans to Members (Continued)

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 allowance for loan losses 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 the 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 lower risk factors 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 to 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

Continued

(IN THOUSANDS)

Note 3 - Loans to Members (Continued)

Real Estate Credit Quality Indicators (Continued)

The table below summarizes key information for real estate credit quality:

	Real Estate Credit Quality Indicators **As of December 31, 2016**			
	First Mortgages	Second Mortgages	Home Equity	Total
800 and above	$ 99,785	$ 1,413	$ 4,621	$ 105,819
750 to 799	239,636	5,516	12,773	257,925
650 to 749	155,837	7,990	13,027	176,854
600 to 649	18,915	1,479	1,920	22,314
599 and below	8,896	150	32	9,078
No score	37,387	19,135	70,229	126,751
	$ 560,456	$ 35,683	$ 102,602	$ 698,741

	Real Estate Credit Quality Indicators **As of December 31, 2015**			
	First Mortgages	Second Mortgages	Home Equity	Total
800 and above	$ 73,990	$ 1,001	$ 3,397	$ 78,388
750 to 799	163,391	3,400	8,193	174,984
650 to 749	123,362	5,953	7,932	137,247
600 to 649	19,344	1,055	1,309	21,708
599 and below	9,797	-	35	9,832
No score	47,491	27,971	85,562	161,024
	$ 437,375	$ 39,380	$ 106,428	$ 583,183

Continued

Note 3 - Loans to Members (Continued)

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 credit is a strong loan 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 or market 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.

Special Mention. A Special Mention credit is a loan that has potential weaknesses that deserve managements close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the loan 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 upon receiving board approval.

Continued

(IN THOUSANDS)

Note 3 - Loans to Members (Continued)

Commercial Credit Quality Indicators (Continued)

The following table summarizes the credit risk profile of the commercial loan portfolio by class:

Commercial Credit Quality Indicators
As of December 31, 2016

Credit Grade	Real Estate	Industrial and Other	SBA and USDA	Total
Pass	$ 60,502	$ 26,925	$ 47,486	$ 134,913
Watch	1,311	1,422	13,485	16,218
Special mention	-	-	-	-
Substandard	855	661	272	1,788
Doubtful	675	271	175	1,121
Loss	180	172	761	1,113
	$ 63,523	$ 29,451	$ 62,179	$ 155,153

Commercial Credit Quality Indicators
As of December 31, 2015

Credit Grade	Real Estate	Industrial and Other	SBA and USDA	Total
Pass	$ 72,150	$ 33,338	$ 56,977	$ 162,465
Watch	2,185	2,620	-	4,805
Special mention	-	-	-	-
Substandard	2,072	1,367	628	4,067
Doubtful	-	110	-	110
Loss	265	1,472	-	1,737
	$ 76,672	$ 38,907	$ 57,605	$ 173,184

Continued

(IN THOUSANDS)

Note 4 - Property and Equipment

The principal categories of property and equipment may be summarized as follows:

	2016	2015
Land and improvements	$ 15,840	$ 15,632
Building and improvements	38,258	38,240
Computer equipment	27,443	26,008
Furniture and equipment	6,882	6,932
Leasehold improvements	13,732	13,311
Total cost	102,155	100,123
Less accumulated depreciation	(55,723)	(50,047)
Undepreciated cost	$ 46,432	$ 50,076

Note 5 - Borrowed Funds

As of December 31, 2016 and 2015, in aggregate, the Credit Union maintained $70,000 in unsecured line-of-credit agreements with Sun Trust, Wells Fargo, and PNC Bank. No amount was outstanding on these line-of-credit agreements as of December 31, 2016 and 2015.

As of December 31, 2016 and 2015, in aggregate, the Credit Union maintained $50,000, in a line-of-credit agreement with Sun Trust 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, 2016 and 2015.

Continued

(IN THOUSANDS)

Note 5 - Borrowed Funds (Continued)

As of December 31, 2016 and 2015, the Credit Union had access to a pre-approved line-of-credit for $359,671 and $412,382, respectively, from the FHLB, secured by investment securities, as defined in the FHLB Statement of Credit Policy. As of December 31, 2016 and 2015, the Credit Union has advanced $100,000 and $300,000, respectively, under the terms of this agreement. The following summarizes the borrowed funds as of December 31, 2016:

	Interest Rate	Maturity Date	Amount
FHLB	0.68%	2/14/2017	$ 100,000

Note 6 - Members' Shares and Savings Accounts

	2016	2015
Share draft accounts	$ 360,811	$ 328,151
Shares and equivalents	509,049	458,165
Money market accounts	935,488	928,766
Individual retirement accounts (IRA) shares	68,246	68,481
Share and IRA certificates of deposit	795,298	688,388
Total members' shares and savings accounts	$ 2,668,892	$ 2,471,951

Continued

(IN THOUSANDS)

Note 6 - Members' Shares and Savings Accounts (Continued)

At December 31, 2016, scheduled maturities of share and IRA certificates of deposit are as follows:

2017	$ 393,820
2018	200,626
2019	37,297
2020	49,236
2021	114,319
Total	$ 795,298

The aggregate amount of members' time deposit accounts in denominations of $250 or more at December 31, 2016 and 2015 is approximately $239,314 and $149,377, respectively.

Note 7 - Regulatory Capital

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet the minimum regulatory capital requirements can initiate certain mandatory, and possible additional discretionary actions by regulators, that if undertaken, could have a direct material effect on the Credit Union's consolidated financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines involving quantitative measures of the Credit Union's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. 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 of net worth to total assets. 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 ratio as of December 31, 2016 and 2015 was 5.72% and 5.68%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6.0%.

Continued

(IN THOUSANDS)

Note 7 - Regulatory Capital (Continued)

As of December 31, 2016 and 2015, the Credit Union was categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized", the Credit Union must maintain a minimum net worth as follows:

	Actual		To Be Well Capitalized Under the Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio
December 31, 2016				
Net worth	$ 311,027	9.94%	$ 218,985	7.00%
December 31, 2015				
Net worth	$ 288,116	9.31%	$ 216,565	7.00%

Note 8 - Related Party Transactions

The majority of employees and all members of the Board of Directors have member accounts at the Credit Union, including share, deposit and loan accounts. The terms of transactions involving these accounts (i.e., rates charged and paid) are comparable to other members.

Included in loans receivable at December 31, 2016 and 2015 are loans of approximately $1,984 and $4,246, respectively, to directors and officers of the Credit Union. Such loans are made in the ordinary course of business at normal credit terms including interest rates and collateralization.

Continued

(IN THOUSANDS)

Note 9 - Commitments and Contingent Liabilities

The principal commitments of the Credit Union are as follows:

Lease Commitments

At December 31, 2016 and 2015, the Credit Union had outstanding commitments under noncancellable operating leases for office space for several branch locations. Net rent expenses under the operating leases, included in expenses, were $653 and $524 for the years ended December 31, 2016 and 2015, respectively.

The projected minimum rental payments under the terms of the leases at December 31, 2016 are as follows:

Year Ending December 31st:		
2017	$	571
2018		531
2019		468
2020		279
Total	$	1,849

At December 31, 2016 and 2015, the Credit Union has leased office space at its main office location under a noncancellable operating lease. Rental income under the operating leases, included in non-interest income, were $1,732 and $2,023 for the years ended December 31, 2016 and 2015, respectively.

The projected minimum rental payments under the terms of the leases at December 31, 2016 are as follows:

Year Ending December 31st:		
2017	$	1,662
2018		1,487
2019		1,052
2020		1,085
2021		1,123
Five years thereafter		3,763
Total	$	10,172

Continued

(IN THOUSANDS)

Note 9 - Commitments and Contingent Liabilities (Continued)

Loan Commitments

At December 31, 2016, the Credit Union had outstanding commitments for unused lines-of-credit that are not reflected in the accompanying consolidated financial statements, as follows:

Home equity lines-of-credit	$ 104,610
Unsecured lines-of-credit	41,369
Credit card	373,723
Commercial lines-of-credit	11,508
Total	$ 531,210

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. Those 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.

Financial instruments whose contract amounts represent credit risk:

Commitments to extend credit, generally unsecured	$ 415,092
Commitments to extend credit, home equity secured	104,610
Commitments to extend credit, commercial lending	11,508
Total	$ 531,210

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

Continued

Note 9 - Commitments and Contingent Liabilities (Continued)

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 - Employee Benefits

401(k) Savings Plan

Participation in the 401(k) savings plan is available to all employees who are 18 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 the voluntary contributions. The Credit Union may make discretionary matching contributions 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, 2016 and 2015, the Credit Union contributed a matching contribution up to 6.5% of employee compensation. The Credit Union's expense for the 401(k) savings plan for the years ended December 31, 2016 and 2015 was approximately $1,795 and $1,687, respectively.

Postretirement Plan

The Credit Union has a postretirement benefit plan in place for select retired employees to cover the period between the participants retirement age and their eligibility to receive Medicare. The Credit Union has recorded approximately $447 related to the accrued benefits under this plan as of December 31, 2016 and 2015.

Insurance

The Credit Union acts as a self-insurer and assumes liability for medical insurance. The Credit Union pays medical claims up to defined maximum limits; amounts paid in excess of these limits are covered by insurance. At year end, the Credit Union records an accrual for the Credit Union's exposure for claims incurred but not yet settled based on management's analysis of information received from its outside administrator. Medical insurance expenses for the years ended December 31, 2016 and 2015 amounted to approximately $3,722 and $4,174, respectively.

Continued

Note 11 - Fair Value Measurements

The accounting standards provide 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. 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:

Basis of Fair Value Measurements

Level 1 - Valuation is based on quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on 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 asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined by using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

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 method 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.

Continued

(IN THOUSANDS)

Note 11 - Fair Value Measurements (Continued)

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, 2016 and 2015.

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis at December 31, 2016 and 2015 are summarized as follows:

	Fair Value Measurements at December 31, 2016, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Carrying Value
Available-for-sale securities	$ 68,151	$ 686,670	$ -	$ 754,821

	Fair Value Measurements at December 31, 2015, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Carrying Value
Available-for-sale securities	$ 179,279	$ 740,029	$ -	$ 919,308

Note 12 - Servicing Portfolio

The Credit Union was servicing approximately $1,509,000 and $1,481,000 of unpaid Fannie Mae (FNMA) mortgage balances at December 31, 2016 and 2015, respectively.

Custodial funds in escrow represent member payments for principal and interest, as well as for taxes and insurance. These amounts are held in escrow, with a corresponding liability recorded until the date that such funds are released by the Credit Union for their intended purpose. As of December 31, 2016 and 2015, the Credit Union held $6,256 and $5,800 in escrow related to the loans serviced for FNMA.

Continued

(IN THOUSANDS)

Note 12 - Servicing Portfolio (Continued)

The Credit Union was servicing approximately $36,241 and $34,308 of unpaid Small Business Administration (SBA) loans at December 31, 2016 and 2015, respectively.

The Credit Union was servicing approximately $502,675 and $198,973 of unpaid indirect auto loan balances at December 31, 2016 and 2015, respectively.

Note 13 - Servicing Rights

Included in prepaids and other assets are servicing rights related to servicing mortgage and commercial loans. The following is an analysis of the change in capitalized servicing rights:

	2016	2015
Balance - beginning	$ 13,950	$ 13,408
Capitalized servicing rights	3,584	2,989
Amortization expense	(2,352)	(2,447)
Balance - ending	$ 15,182	$ 13,950

Mortgage servicing rights are carried at their fair values as of December 31, 2016 and 2015. The fair value of mortgage servicing rights was determined by an independent third-party using a discounted cash flow model which estimates the present value of cash flows over individual strata of loan serviced. The significant assumptions used include a discount rate ranging from 8.14% to 10.98% for 2016 and 7.2% to 12.40% for 2015, and prepayment speeds ranging from 7.0% to 24.0% for 2016 and 8.0% to 25.0% for 2015 over the individual strata of cash flows analyzed in the model.

The Credit Union has recorded servicing rights related to the servicing income from the sale of the SBA loans in the amount of $855 and $861 at December 31, 2016 and 2015, respectively.

*** * * End of Notes * * ***