EP FEDERAL CREDIT UNION

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

Years Ended December 31, 2015 and 2014

DELEON & STANG
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

EP FEDERAL CREDIT UNION

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INDEPENDENT AUDITORS' REPORT

Supervisory Committee and Board of Directors
EP Federal Credit Union
Washington, D.C.

We have audited the accompanying financial statements of **EP Federal Credit Union** (the Credit Union), which comprise the statements of financial condition as of December 31, 2015, and the related statements of comprehensive income, changes in members' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of **EP Federal Credit Union** as of December 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of **EP Federal Credit Union** as of December 31, 2014, were audited by other auditors whose report dated February 9, 2015 expressed an unmodified opinion on those statements.

DeLeon & Stang

DeLeon & Stang, CPAs
Gaithersburg, Maryland
March 22, 2016

DELEON & STANG
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

EP FEDERAL CREDIT UNION
Statements of Financial Condition
December 31, 2015 and 2014

	2015	2014
ASSETS		
Cash and cash equivalents	$ 4,899,286	$ 4,654,645
Investments:		
Available-for-sale, at fair value	28,508,089	32,320,911
Other investments, at cost	314,749	300,360
Loans to members, net of allowance for loan losses	30,862,277	26,775,576
Accrued interest receivable	123,214	131,634
Prepaid expenses and other assets	547,148	343,715
Premises and equipment, net of accumulated depreciation and amortization	149,270	219,956
NCUSIF deposit	600,868	605,367
TOTAL ASSETS	$ 66,004,901	$ 65,352,164
LIABILITIES AND MEMBERS' EQUITY		
Liabilities:		
Members' deposit accounts	$ 60,521,941	$ 60,041,364
Accounts payable and accrued expenses	436,378	403,774
Total liabilities	60,958,319	60,445,138
Members' Equity:		
Members' equity, partially restricted	5,046,582	4,907,026
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 66,004,901	$ 65,352,164

EP FEDERAL CREDIT UNION
Statements of Comprehensive Income
For the Years Ended December 31, 2015 and 2014

	2015	2014
INTEREST INCOME		
Member loans	$ 1,653,630	$ 1,532,354
Investment securities	452,253	524,860
Total interest income	2,105,883	2,057,214
INTEREST EXPENSE		
Members' shares and savings accounts	207,920	280,073
Borrowed funds	430	122
Total interest expense	208,350	280,195
Net interest income	1,897,533	1,777,019
LESS PROVISION FOR LOAN LOSSES	(58,682)	2,542
Net interest income, after provision for loan losses	1,956,215	1,774,477
NON-INTEREST INCOME		
Fees, charges and other income	934,293	980,494
Net Gain on Sale of Securities	6,284	9,408
Total non-interest income	940,577	989,902
NON-INTEREST EXPENSE		
Employee compensation and benefits	1,361,863	1,270,814
General and administrative	1,229,434	1,120,799
Professional services	96,007	89,205
Federal operating fees	11,949	11,903
Association dues	19,684	21,362
Net Loss of Sale of Assets	16,958	7,872
Total non-interest expense	2,735,895	2,521,955
Net income	160,897	242,424
OTHER COMPREHENSIVE INCOME (LOSS)		
Net unrealized gains (losses) on investment securities arising during the year	(15,057)	445,286
Reclassification for gains included in net income	(6,284)	(9,408)
Total other comprehensive income (loss)	(21,341)	435,878
Comprehensive income	$ 139,556	$ 678,302

EP FEDERAL CREDIT UNION
Statements of Changes in Members' Equity
For the Years Ended December 31, 2015 and 2014

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income	Total
Balances at December 31, 2013	$ 931,995	$ 3,964,254	$ (667,525)	$ 4,228,724
Net income	-	242,424	-	242,424
Other comprehensive income	-	-	435,878	435,878
Balances at December 31, 2014	931,995	4,206,678	(231,647)	4,907,026
Net income	-	160,897	-	160,897
Other comprehensive loss	-	-	(21,341)	(21,341)
Balances at December 31, 2015	$ 931,995	$ 4,367,575	$ (252,988)	$ 5,046,582

See Accompanying Notes to the Financial Statements

EP FEDERAL CREDIT UNION
Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014

	2015	2014
Cash Flows From Operating Activities:		
Net income	$ 160,897	$ 242,424
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	99,413	138,332
Accretion of net discount on debt securities	156,534	101,723
Provision for loan losses	(58,682)	2,542
Other investment income	(14,389)	-
Gain on sale of securities	(6,285)	(9,408)
Loss on sale of repossessed assets	17,058	7,872
Decrease in interest receivable	8,420	25,390
(Increase) decrease in prepaid expenses and other assets	(220,489)	77,685
(Decrease) increase in accounts payable and other liabilities	32,604	(97,996)
Total adjustments	14,184	246,140
Net cash provided by operating activities	175,081	488,564
Cash Flows From Investing Activities:		
Purchases of securities available-for-sale	(10,308,000)	(10,112,000)
Proceeds from sale and redemption of debt securities available-for-sale	13,949,230	10,108,912
Net (increase) decrease in loans to members	(4,028,019)	497,591
Purchases of premises and equipment	(28,727)	(198,816)
Proceeds from sale of assets	-	20,378
Increase in NCUSIF deposit	4,499	7,127
Net cash provided by (used in) investing activities	(411,017)	323,192
Cash Flows From Financing Activities:		
Net increase in members' deposits	480,577	49,462
Net cash provided by financing activities	480,577	49,462
Net increase in cash and cash equivalents	244,641	861,218
Cash and cash equivalents, beginning of year	4,654,645	3,793,427
Cash and cash equivalents, end of year	$ 4,899,286	$ 4,654,645
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for dividends and interest	$ 207,919	$ 280,195
Unrealized gain (loss) on available-for-sale securities arising during the year	$ (21,343)	$ 435,878

NOTE 1 - NATURE OF BUSINESS AND ORGANIZATION

EP Federal Credit Union (the Credit Union) was organized as a federal credit union under provisions of the Federal Credit Union Act of 1934 for the purpose of promoting thrift among its members and creating a source of credit for provident and productive purposes. The Credit Union's primary deposit products are share accounts, and its primary lending products are automobile and real estate loans.

Membership Participation in EP Federal Credit Union is limited to those individuals who qualify for membership as defined in its charter and bylaws.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan losses and the fair value of financial instruments, including the impairment of non-agency debt securities (see Note 3).

Financial Instruments with Concentrations of Risk

Most of the Credit Union's business activity is with its members who are employees or former employees of selected groups within the local Washington, D.C., metropolitan area and Fort Worth, Texas. Repayment of many of these members' loans on the original scheduled amortization is inherently contingent upon continued employment.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks and debt securities purchased with an initial maturity of three months or less. Amounts due from banks may, at times, exceed federally insured limits.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Debt securities are classified as held-to-maturity when the Credit Union has the positive intent and ability to hold the securities to maturity and are carried at amortized cost. Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in Other Comprehensive Income (Loss). Realized gains and losses on securities available-for-sale are included in Non-Interest Income or Non-Interest Expense and, when applicable, are reported as a reclassification adjustment in Other Comprehensive Income (Loss). Gains and losses on sales of securities are determined using the specific identification method on the trade date. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The Credit Union monitors the investment security portfolio for impairment on an individual security basis and has a process in place to identify securities that could potentially have a credit impairment that is other than temporary. This process involves analyzing the length of time and the extent to which the fair value has been less than the amortized cost basis, the market liquidity for the security, the financial condition and near-term prospects of the issuer, expected cash flows, and the Credit Union's intent and ability to hold the investment for a period of time sufficient to recover the temporary loss. The ability to hold is determined whether it is more likely than not that the Credit Union will be required to sell the security before its anticipated recovery. A decline in value due to a credit event that is considered other than temporary is recorded as a loss in Non-Interest Income or Non-Interest Expense.

In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. No impairment charge is recognized, if the Credit Union expects to recover the entire amortized cost basis of the security, does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis. Gains and losses on the sale of securities are recorded on the trade date and the costs of securities sold are determined using the specific identification method.

The Credit Union did not record any other-than-temporary impairment during the years ended December 31, 2015 and 2014.

Other investments are recorded at cost and evaluated for credit events resulting in other than temporary impairment.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Receivable and Allowance for Loan Losses

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

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until 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.

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

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the portfolio at the balance sheet date. The Credit Union uses a disciplined process and methodology to establish the allowance for loan losses each quarter. To determine the total allowance for loan losses, management estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis. The allowance for loan losses consists of amounts applicable to: (i) the real estate portfolio (ii) the auto secured portfolio (iii) the secured other consumer portfolio and (iv) the unsecured other consumer portfolio.

To determine the balance of the allowance account, loans are pooled by portfolio segment and losses are modeled using historical experience and quantitative and other mathematical techniques over the loss emergence period. Management exercises significant judgment in determining the estimation method that fits the credit risk characteristics of each portfolio segment. The Credit Union uses internally-developed models in this process. Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions used to determine the allowance 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Receivable and Allowance for Loan Losses (Continued)

The establishment of the allowance for loan losses relies on a consistent process that requires multiple layers of management review and judgment and responds to changes in economic conditions, member behavior, and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts to or release balances from the allowance for loan losses. The Credit Union's allowance for loan losses is sensitive to risk ratings assigned to individually evaluated loans and economic assumptions and delinquency trends driving statistically modeled reserves. Individual loan risk ratings are evaluated based on each situation by experienced senior credit officers.

Management monitors differences between estimated and actual incurred loan losses. This monitoring process includes periodic assessments by senior management of loan portfolios and the models used to estimate incurred losses in those portfolios. Additions to the allowance for loan losses are made by charges to the provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged off amounts are credited to the allowance for loan losses.

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

As a result, in addition to the allowance for the pooled portfolios, the Credit Union develops a separate allowance for loans that are identified as impaired through a TDR. If the TDR results in an amount of impairment that is less than the probable loan loss that would otherwise be calculated using the pooling method, the restructured loan is moved back into the respective segment or class and the allowance is calculated using the pooling method for the respective pool.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment

The Credit Union furniture and equipment and leasehold improvements are carried at original cost less accumulated depreciation. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the various classes of assets and improvements.

Ownership Interests in Credit Union Service Organizations

The Credit Union's non-controlling ownership interests in credit union service organizations (CUSOs) are carried at cost if the Credit Union owns less than 20% of the CUSO, or accounted for using the equity method if the Credit Union owns at least 20% of the investee.

Repossessed Assets

Assets acquired through, or in lieu of, loan repossession are held for sale and are initially recorded at fair value less estimated costs to sell at the date of repossession, establishing a new cost basis. Subsequent to repossession, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in Non-Interest Expense.

Other Real Estate Owned

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at fair value at the date of foreclosure. Costs relating to development and improvement of property are capitalized, whereas costs relating to holding property are expensed.

Valuations are periodically performed by management, and an allowance for losses is established by means of a charge to the allowance for loan losses, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less costs to sell. Because of uncertainties inherent in the estimation process, the amount of losses that will actually be incurred in the near term may differ from the amount provided in the allowance.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NCUSIF Deposit and NCUSIF and CCUSF Premium Assessments

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 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 .

Legislation was passed by Congress to permit NCUA to create a temporary Corporate Credit Union Stabilization Fund (CCUSF) to absorb costs and borrowings incurred by the Fund related to the corporate credit union collapse. It was anticipated that the NCUA Board will assess annual premiums to repay these stabilization costs through the year 2021 at its discretion. No CCUSF premium was assessed in 2015 due to subsequent loss recovery settlements and gains recognized by the Fund in recent years. NCUA currently anticipates no future premium assessments.

Members' Deposit Accounts

Members' deposit accounts include shares and deposits of the owners of the Credit Union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. Irrespective of the amount of shares owned, no member has more than one vote. Members' deposit accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members' shares are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates are set by the Credit Union's Board of Directors.

Members' Equity

The Credit Union Membership Access Act (CUMAA) requires the National Credit Union Administration to adopt certain capital requirements for credit unions. Under the rules currently in force, a federally insured credit union can fall into one of five categories, depending on its net worth ratio:

- well capitalized: net worth ratio of 7% or greater;
- adequately capitalized: net worth ratio of 6% or more, but less than 7%;
- undercapitalized: net worth ratio of 4% or more, but less than 6%;
- significantly undercapitalized: the credit union has a net worth restoration plan;
- critically undercapitalized: the credit union has a net worth ratio of less than 2%.

At December 31, 2015 and 2014, the Credit Union was categorized as well-capitalized, with a net worth ratio of 8.03% and 7.86%, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividends on Shares

It is the policy of the Board of Directors to declare dividends payable on the last day of each quarter. The dividends are posted to members' accounts on the first day of the month following the end of each accounting quarter. Dividend rates are set by the Board of Directors based on an evaluation of current and future market conditions. Dividends are reflected as interest expense in these financial statements.

Income Taxes

Pursuant to the FCUA, the Credit Union is currently exempt from the payment of federal, state and local income taxes. However, federal credit unions located in the District of Columbia (Washington, D.C.) are subject to personal property taxes.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the members' equity section of the statements of financial condition. Gains and losses on securities available for sale are reclassified to net income or loss as the gains or losses are realized upon sale of the securities. Other-than-temporary impairment charges are reclassified to net income or loss at the time of the charge.

Retirement Plans

The Credit Union provides a 401(k) Plan which covers substantially all of the Credit Union's employees who are eligible as to age and length of service. A participant may elect to make contributions of up the 15 percent of the participant's annual compensation. The Credit Union makes discretionary matching contributions as approved by the Board of Directors. The Credit Union's contributions to the Plan approximated $84,973 and $82,000 for the years ended December 31, 2015 and 2014, respectively.

Advertising Costs

Advertising costs are expensed as incurred.

Reclassifications

Amounts in the prior year's financial statements are reclassified in order to conform to the presentation in the current year's financial statements.

Evaluation of Subsequent Events

The Credit Union has evaluated events and transactions for potential recognition or disclosure through March 22, 2016, which is the date the financial statements were available to be issued.

NOTE 3 - INVESTMENT SECURITIES

The composition of investments at December 31, 2015 and 2014 is shown below:

	2015	2014
U.S. government agency securities	$ 3,787,805	$ 2,895,860
Mortgage-backed securities	7,755,927	14,499,371
Negotiable certificates of deposit	16,964,357	14,925,680
Total debt and equity securities	28,508,089	32,320,911
Perpetual Contributed Capital Accounts	287,495	287,495
Investments in CUSOs	27,254	12,865
Total other investments	314,749	300,360
	$ 28,822,838	$ 32,621,271

Available-for-sale and held-to-maturity debt and equity securities at December 31, 2015 and 2014 consist of the following:

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale				
U.S. government agency securities	$ 3,800,000	$ 7,575	$ (19,770)	$ 3,787,805
Mortgage backed securities	7,913,062	4,947	(162,082)	7,755,927
Negotiable certificates of deposit	17,048,017	9,171	(92,831)	16,964,357
Total Available-for-Sale Securities	$ 28,761,079	$ 21,693	$ (274,683)	$ 28,508,089

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale				
U.S. government agency securities	$ 2,900,000	$ 24,225	$ (28,365)	$ 2,895,860
Mortgage backed securities	14,688,957	56,326	(245,912)	14,499,371
Negotiable certificates of deposit	14,963,601	47,348	(85,269)	14,925,680
Total Available-for-Sale Securities	$ 32,552,558	$ 127,899	$ (359,546)	$ 32,320,911

NOTE 3 - **INVESTMENT SECURITIES** (Continued)

Information pertaining to securities with gross unrealized losses at December 31, 2015 and 2014 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	2015					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agency securities	$ 1,290,205	$ (9,795)	$ 490,025	$ (9,975)	$ 1,780,230	$ (19,770)
Mortgage backed securities	-	-	7,396,162	(162,082)	7,396,162	(162,082)
Negotiable certificates of deposit	6,367,790	(41,160)	5,910,397	(51,671)	12,278,187	(92,831)
Total temporarily impaired securities	$ 7,657,995	$ (50,955)	$ 13,796,584	$ (223,728)	$ 21,454,579	$ (274,683)

	2014					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agency securities	$ -	$ -	$ 621,635	$ (28,365)	$ 621,635	$ (28,365)
Mortgage backed securities	-	-	9,698,342	(245,912)	9,698,342	(245,912)
Negotiable certificates of deposit	6,786,837	(74,163)	1,777,084	(11,106)	8,563,921	(85,269)
Total temporarily impaired securities	$ 6,786,837	$ (74,163)	$ 12,097,061	$ (285,383)	$ 18,883,898	$ (359,546)

Note 3 continues on next page...

NOTE 3 - **INVESTMENT SECURITIES** (Continued)

Expected maturities of mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mutual fund securities have no stated maturities. The following is a summary of maturities for debt and equity securities as of December 31, 2015 and 2014:

	December 31, 2015		December 31, 2014	
	Available-for-Sale		Available-for-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Amounts maturing:				
In one year or less	$ 2,647,000	$ 2,655,555	$ 2,789,000	$ 2,820,156
One year to five years	16,201,017	16,116,002	13,174,601	13,129,749
After five years to ten years	2,000,000	1,980,605	1,900,000	1,871,635
Amortizing debt securities	7,913,062	7,755,927	14,688,957	14,499,371
Total debt securities	$ 28,761,079	$28,508,089	$ 32,552,558	$32,320,911

Management evaluates securities for other-than-temporary impairment periodically. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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. Therefore, it is reasonably possible that the market values of investments will change in the near term and that some of these changes could be material.

NOTE 4 - LOANS TO MEMBERS AND ALLOWANCE FOR LOAN LOSSES

The composition of loans to members was as follows at December 31, 2015 and 2014:

	2015	2014
Residential real estate	$ 16,717,794	$ 17,718,999
Commercial real estate	62,368	420,329
Secured consumer loans	7,164,975	5,974,949
Participation loans	4,096,860	-
Unsecured consumer loans	2,678,197	2,770,362
Overdraft protection loans	22,925	46,829
	30,743,119	26,931,468
Net deferred loan origination costs	293,315	85,052
	31,036,434	27,016,520
Less allowance for loan losses	(174,157)	(240,944)
Total	$ 30,862,277	$ 26,775,576

Note 4 continues on the next page...

NOTE 4 - LOANS TO MEMBERS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Changes in the allowance for loan losses (ALL) and the recorded investment in loans, by portfolio segment, for the years ended December 31, 2015 and 2014 is as follows:

	December 31, 2015			
	Consumer	Residential Real Estate	Commercial Real Estate	Total
Allowance for loan losses				
Beginning balance	$ 198,727	$ 42,217	$ -	$ 240,944
Charge-offs	(157,675)	-	-	(157,675)
Recoveries	114,333	76,090	-	190,423
Provision	17,701	(117,236)	-	(99,535)
Ending balance	$ 173,086	$ 1,071	$ -	$ 174,157
Ending balance, individually evaluated for impairment	$ 105,108	$ 1,071	$ -	$ 106,179
Ending balance, collectively evaluated for impairment	$ 67,978	$ -	$ -	$ 67,978
Financing receivables				
Ending balance	$ 13,962,957	$ 16,717,794	$ 62,368	$ 30,743,119
Ending balance, individually evaluated for impairment	$ 148,280	$ 21,423	$ -	$ 169,703
Ending balance, collectively evaluated for impairment	$ 13,814,677	$ 16,696,371	$ 62,368	$ 30,573,416

	December 31, 2014			
	Consumer	Residential Real Estate	Commercial Real Estate	Total
Allowance for loan losses				
Beginning balance	$ 183,923	$ 60,818	$ -	$ 244,741
Charge-offs	(81,320)	(67,051)	-	(148,371)
Recoveries	26,531	-	-	26,531
Provision	69,593	48,450	-	118,043
Ending balance	$ 198,727	$ 42,217	$ -	$ 240,944
Ending balance, individually evaluated for impairment	$ 125,646	$ 1,252	$ -	$ 126,898
Ending balance, collectively evaluated for impairment	$ 73,081	$ 40,965	$ -	$ 114,046
Financing receivables				
Ending balance	$ 8,792,140	$ 17,718,999	$ 420,329	$ 26,931,468
Ending balance, individually evaluated for impairment	$ 151,963	$ 341,552	$ -	$ 493,515
Ending balance, collectively evaluated for impairment	$ 8,640,177	$ 17,377,447	$ 420,329	$ 26,437,953

NOTE 4 - LOANS TO MEMBERS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Quality Indicators

The Credit Union has several classes of consumer loans which carry distinct credit risks. FICO credit scores, loan delinquency, impaired loans, and loan-to-value ratios troubled debt restructurings for loan classes are common credit quality indicators that the Credit Union monitors and utilizes in the evaluation of the adequacy of the allowance for loans losses for the consumer portfolio segment.

Credit Quality Indicators—FICO Score Distribution

The following table presents each class of loan within the consumer portfolio by recent FICO score. The Credit Union obtains FICO scores at loan origination and the scores are updated at least quarterly.

	FICO Distribution						
	Unrated	<550	550-618	619-668	669-740	740+	Total
December 31, 2015:							
Residential real estate	$ -	$ 95,885	$ 1,061,720	$ 1,381,472	$ 3,906,087	$ 10,272,630	$ 16,717,794
Commercial real estate	-	-	-	-	-	62,368	62,368
Secured consumer loans	355,716	827,037	1,413,591	1,895,011	2,009,434	664,187	7,164,976
Participation loans	4,096,860	-	-	-	-	-	4,096,860
Unsecured consumer loans	132,962	309,138	528,386	708,336	751,107	248,267	2,678,196
Overdraft protection loans	22,925	-	-	-	-	-	22,925
Total	$ 4,608,463	$ 1,232,060	$ 3,003,697	$ 3,984,819	$ 6,666,628	$ 11,247,452	$ 30,743,119

NOTE 4 - **LOANS TO MEMBERS AND ALLOWANCE FOR LOAN LOSSES** (Continued)

Credit Quality Indicators—Past Due Status

A significant variable in the loss estimation of the consumer ALL are delinquency levels. The following table presents the outstanding balances from each class within the consumer portfolio by delinquency status:

	Days Past Due				
	Current or 0-29	30-89	90+ and Accruing	Nonaccrual	Total
December 31, 2015:					
Residential real estate	$ 16,717,794	$ -	$ -	$ -	$ 16,717,794
Commercial real estate	62,368	-	-	-	62,368
Secured consumer loans	7,139,554	25,421	-	-	7,164,975
Participation loans	4,096,860	-	-	-	4,096,860
Unsecured consumer loans	2,672,805	5,392	-	-	2,678,197
Overdraft protection loans	22,925	-	-	-	22,925
Total	$ 30,712,306	$ 30,813	$ -	$ -	$ 30,743,119

	Days Past Due				
	Current or 0-29	30-59	90+ and Accruing	Nonaccrual	Total
December 31, 2014:					
Residential real estate	$ 17,718,999	$ -	$ -	$ -	$ 17,718,999
Commerical real estate	420,329	-	-	-	420,329
Secured consumer loans	5,916,543	58,406	-	-	5,974,949
Participation loans	-	-	-	-	-
Unsecured consumer loans	2,737,949	31,682	-	731	2,770,362
Overdraft protection loans	46,829	-	-	-	46,829
Total	$ 26,840,649	$ 90,088	$ -	$ 731	$ 26,931,468

If interest on nonaccrual loans had been accrued, such income would have been immaterial for both 2015 and 2014.

The Credit Union has no commitments to loan additional funds to the borrowers of impaired or nonaccrual loans.

Note 4 continues on next page …

NOTE 4 - LOANS TO MEMBERS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Quality Indicators—Impaired Loans

The tables below summarize key information for impaired loans:

	As of Year-End			For the Year Ended	
	Unpaid Principal Balance	Recorded Investment	Specific Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2015:					
With no related allowance:					
Residential real estate	$ 310,084	$ 310,084	$ -	$ 313,300	$ -
Secured consumer loans	16,367	16,367	-	13,152	2,222
Unsecured consumer loans	5,864	5,864	-	6,907	14,712
With an allowance recorded:					
Residential real estate	21,423	21,423	1,071	23,230	937
Unsecured consumer loans	125,711	125,711	105,108	129,894	-
Total	$ 479,449	$ 479,449	$ 106,179	$ 486,483	$ 17,871

	As of Year-End			For the Year Ended	
	Unpaid Principal Balance	Recorded Investment	Specific Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2014:					
With no related allowance:					
Residential real estate	$ 316,516	$ 316,516	$ -	$ 158,258	$ 9,298
Secured consumer loans	9,937	9,937	-	4,969	1,516
Unsecured consumer loans	7,949	7,949	-	8,854	1,285
With an allowance recorded:					
Residential real estate	25,036	25,036	1,252	26,776	855
Unsecured consumer loans	134,077	134,077	125,646	137,758	14,794
Total	$ 493,515	$ 493,515	$ 126,898	$ 336,615	$ 27,748

Note 4 continues on next page...

NOTE 4 - LOANS TO MEMBERS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Quality Indicators—Loan-to-Value (LTV) Ranges

LTV refers to the ratio comparing a loan's unpaid principal balance to the value of the collateral securing repayment of the loan. If the Credit Union is in a junior lien position, then only excess collateral value over the amounts necessary to retire senior lien positions are considered. LTVs are updated quarterly using a cascade approach which first uses values provided by automated valuation models (AVMs) for the property. If an AVM is not available, then the value is estimated using the original appraised value adjusted by the change in Home Price Index (HPI) for the property location. If an HPI is not available, the original appraised value is used.

The following table shows the most recent LTV distribution of first mortgage and junior lien loans. In recent years, the residential real estate markets have experienced significant declines in property values. These trends are considered in the way the Credit Union monitors credit risk and establishes the consumer ALL. LTV does not necessarily reflect the likelihood of performance of a given loan, but does provide an indication of collateral value. In the event of a default, any loss to the Credit Union should be approximately limited to the portion of the loan amount in excess of the net realizable value of the underlying real estate collateral.

	Loan-to-Value Ranges				
	0-80%	80-90%	90-100%	>100%	Total
December 31, 2015:					
Residential real estate	$ 18,241,925	$ 2,131,668	$ 441,062	$ -	$ 20,814,655
Commerical real estate	62,368	-	-	-	62,368
Total	$ 18,304,293	$ 2,131,668	$ 441,062	$ -	$ 20,877,023

Note 4 continues on next page...

NOTE 4 - LOANS TO MEMBERS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Quality Indicators—Troubled Debt Restructurings

A summary of loans, presented by class, that were modified as troubled debt restructurings (TDRs) and those restructurings for which there was a payment default subsequent to restructuring, but within twelve months of the restructuring, is as follows:

	Troubled Debt Restructurings		**Troubled Debt Restructurings which Subsequently Defaulted**	
	Number of Loans	Principal Balance	Number of Loans	Principal Balance
December 31, 2015:				
Residential real estate	-	$ -	-	$ -
Secured consumer loans	1	9,320	-	-
	1	$ 9,320	-	$ -
December 31, 2014:				
Residential real estate	1	$ 316,516	-	$ -
Secured consumer loans	1	9,937	-	-
	2	$ 326,453	-	$ -

Note 4 continues on next page...

NOTE 4 - LOANS TO MEMBERS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Quality Indicators—Concessions on TDRs

A summary of loans that were modified in troubled debt restructurings during the years ended December 31, 2015 and 2014 are as follows:

	Type of Concession				
	Interest Rate	Maturity Date	Principal Reduction	Other	Total
December 31, 2015:					
Residential real estate	$ -	$ -	$ -	$ -	$ -
Secured consumer loans	9,320	-	-	-	9,320
Total	$ 9,320	$ -	$ -	$ -	$ 9,320
December 31, 2014:					
Residential real estate	$ 316,516	$ -	$ -	$ -	$ 316,516
Secured consumer loans	9,937	-	-	-	9,937
Total	$ 326,453	$ -	$ -	$ -	$ 326,453

NOTE 5 - PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2015 and 2014 are as follows:

	2015	2014
Computer & ATM equipment	$ 798,389	$ 806,523
Furniture and fixtures	145,609	142,638
Office equipment:		
Main office	78,433	77,634
EPA office	26,379	26,379
CUA office	35,631	35,631
Total	1,084,441	1,088,805
Less: accumulated depreciation	(935,171)	(868,849)
Premises and equipment, net	$ 149,270	$ 219,956

Depreciation and amortization of property and equipment charged to operations amounted to $99,413 and $138,322 in 2015 and 2014, respectively.

NOTE 6 - MEMBERS' DEPOSIT ACCOUNTS

The composition of member deposit accounts as of December 31, 2015 and 2014 is as follows:

	2015	2014
Regular shares	$ 29,651,599	$ 27,229,987
Share draft accounts	11,694,544	11,297,404
Share and IRA certificates	8,919,025	10,280,924
Money market	7,520,991	8,227,516
IRA	1,617,466	1,762,752
Other shares	1,118,316	1,242,781
Total	$ 60,521,941	$ 60,041,364

A summary of members' deposit accounts by maturity as of December 31, 2015 and 2014 is as follows:

	2015	2014
No contractual maturity	$ 52,140,460	$ 49,760,440
Due in less than one year	5,113,212	5,288,815
Due in one to three years	2,410,230	4,101,304
Due after three years	858,039	890,805
Total	$ 60,521,941	$ 60,041,364

There were no aggregate members' deposit accounts in excess of $250,000 at December 31, 2015 and 2014, respectively.

NOTE 7 - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Credit Union extends credit to directors, supervisory committee members and executive officers. The aggregate loans to related parties at December 31, 2015 and 2014 are $1,170,106 and $888,607, respectively. Deposits from related parties at December 31, 2015 and 2014 amounted to $712,654 and $311,510, respectively. Loans to Credit Union officials and their families were made with interest rates, terms, and collateral requirements the same as those required of other members.

NOTE 8 - LINE OF CREDIT

As of December 31, 2015 and 2014, the Credit Union has a $2,000,000 line-of-credit agreement with Mid-Atlantic Corporate Federal Credit Union. The interest rates applied on any borrowings fluctuate with the changes in the prime lending rate and are determined on that date. Substantially all of the assets and earnings of the Credit Union are pledged as collateral on the line of credit. No balances were outstanding as of December 31, 2015 and 2014.

NOTE 9 - OFF-BALANCE SHEET ACTIVITIES

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 statement of financial condition. The contract or notional amounts of these instruments reflect the extent of involvement the Credit Union has in this particular class of financial instruments.

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

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

	2015	2014
Commitments to extend credit:		
Lines of credit secured by residential properties	$ 5,685,948	$ 5,486,418
Other lines of credit	1,414,031	1,409,771
Other unfunded commitments	1,368,305	1,477,859
Total	$ 8,468,284	$ 8,374,048

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Credit Union upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held generally consists of certificates of deposit, share accounts, automobiles and real estate.

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

At December 31, 2015 and 2014, the Credit Union had no outstanding commitments to sell loans or securities.

NOTE 10 - MEMBERS' EQUITY

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines 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 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 to total assets. Further, credit unions over $10,000,000 in assets are also required to determine if they meet the definition of a "complex" credit union as defined by regulation. If a credit union falls under the "complex" category, an additional risk-based net worth (RBNW) requirement is imposed that could result in capital requirements in excess of minimum levels established for non-complex credit unions. Management believes, as of December 31, 2015, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2015, the most recent call reporting period, NCUA categorized the Credit Union as "well capitalized" under the regulatory framework for prompt corrective action and, therefore, the credit union is not subject to any mandatory or discretionary supervisory actions by the NCUA. There are no conditions or events since that date that management believes has changed the Credit Union's category.

Currently, well-capitalized credit unions are not required by regulation to make statutory transfers to a regular reserve. The regular reserve is appropriated out of undivided earnings and is to be used for absorbing loan losses and such other losses that may be specified in the regulations. This reserve is not related to the amount of losses actually anticipated and the appropriations thereto have not been charged against income. This reserve represents a regulatory restriction of undivided earnings and is not available for the payment of dividends.

NOTE 10 - MEMBERS' EQUITY (Continued)

Key aspects of the Credit Union's minimum capital amounts and ratios are summarized as follows:

	December 31, 2015		December 31, 2014	
Is the credit union considered "complex"?	No		No	
General Capital Requirements	**Amount**	**Ratio**	**Amount**	**Ratio**
Amount needed to be classified as "adequately capitalized"	$ 3,960,294	6.00%	$ 3,921,130	6.00%
Amount needed to be classified as "well capitalized"	$ 4,620,343	7.00%	$ 4,574,651	7.00%
Actual Net Worth	**$ 5,299,570**	**8.03%**	**$ 5,138,673**	**7.86%**