CHARTWAY FEDERAL CREDIT UNION
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

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INDEPENDENT AUDITORS' REPORT

Supervisory Committee and Board of Directors
Chartway Federal Credit Union and Subsidiaries
Virginia Beach, Virginia

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Chartway Federal Credit Union and Subsidiaries, which comprise the consolidated statements of financial condition as of September 30, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the 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.

Auditors' 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Chartway Federal Credit Union and Subsidiaries as of September 30, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, Massachusetts
January 27, 2017

CHARTWAY FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
SEPTEMBER 30, 2016 AND 2015

	2016	2015
ASSETS		
Cash and Cash Equivalents	$ 81,123,502	$ 147,742,618
Securities - Available-for-Sale	111	371
Securities - Held-to-Maturity	181,571,616	179,402,873
Other Investments	6,010,100	3,516,381
Loans Held-for-Sale	2,315,200	471,200
Loans, Net	1,737,818,328	1,542,192,042
Accrued Interest Receivable	7,433,272	6,480,451
Foreclosed Assets	451,922	1,551,259
Premises and Equipment, Net	38,500,881	37,927,200
NCUSIF Deposit	18,751,265	17,491,307
Credit Union Owned Life Insurance	46,246,036	15,851,708
Goodwill and Other Intangible Assets	71,737,679	71,936,340
Other Assets	27,462,471	25,439,618
Total Assets	$ 2,219,422,383	$ 2,050,003,368
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' Share and Savings Accounts	$ 1,932,446,831	$ 1,864,933,066
Borrowed Funds	90,000,000	-
Accrued Expenses and Other Liabilities	16,259,728	15,917,166
Total Liabilities	2,038,706,559	1,880,850,232
MEMBERS' EQUITY		
Regular Reserves	18,529,735	18,529,735
Undivided Earnings	162,186,089	150,623,403
Accumulated Other Comprehensive Income (Loss)	-	(2)
Total Members' Equity	180,715,824	169,153,136
Total Liabilities and Members' Equity	$ 2,219,422,383	$ 2,050,003,368

See accompanying Notes to Consolidated Financial Statements.

CHARTWAY FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
INTEREST INCOME		
Loans	$ 66,096,414	$ 63,431,129
Securities, Interest Bearing Deposits and Cash Equivalents	2,870,692	2,968,212
Total Interest Income	68,967,106	66,399,341
INTEREST EXPENSE		
Members' Share and Savings Accounts	13,215,668	14,260,705
Borrowed Funds	92,070	107,090
Total Interest Expense	13,307,738	14,367,795
Net Interest Income	55,659,368	52,031,546
PROVISION FOR LOAN LOSSES	9,202,055	5,516,524
Net Interest Income After Provision for Loan Losses	46,457,313	46,515,022
NON-INTEREST INCOME		
Service Charges and Fees	19,295,197	19,961,748
Net Gain on Sale of Loans	502,388	735,484
Net Gain on Sale of Premises and Equipment	2,989,246	1,332,734
Net Other Income (Expense)	37,589	(285,663)
Total Non-Interest Income	22,824,420	21,744,303
NON-INTEREST EXPENSE		
Employee Compensation and Benefits	28,734,350	28,828,569
Office Occupancy and Operations	26,754,321	24,294,544
Other Operating Expenses	2,404,188	1,609,343
Net (Gain) Loss on Impairment and Sale of Foreclosed Assets	(173,812)	1,685,144
Total Non-Interest Expense	57,719,047	56,417,600
NET INCOME	$ 11,562,686	$ 11,841,725

See accompanying Notes to Consolidated Financial Statements.

CHARTWAY FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
NET INCOME	$ 11,562,686	$ 11,841,725
OTHER COMPREHENSIVE LOSS:		
Securities - Available-for-Sale		
Unrealized Holding Gain (Loss) Arising During the Period	-	(16,360)
Reclassification for Loss (Gains) Included in Net Income	2	(15,765)
Total Other Comprehensive Loss	2	(32,125)
TOTAL COMPREHENSIVE INCOME	$ 11,562,688	$ 11,809,600

See accompanying Notes to Consolidated Financial Statements.

CHARTWAY FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	Regular Reserves	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCES AT SEPTEMBER 30, 2014	$ 18,529,735	$ 138,781,678	$ 32,123	$ 157,343,536
Net Income	-	11,841,725	-	11,841,725
Other Comprehensive Loss	-	-	(32,125)	(32,125)
BALANCES AT SEPTEMBER 30, 2015	18,529,735	150,623,403	(2)	169,153,136
Net Income	-	11,562,686	-	11,562,686
Other Comprehensive Income	-	-	2	2
BALANCES AT SEPTEMBER 30, 2016	$ 18,529,735	$ 162,186,089	$ -	$ 180,715,824

See accompanying Notes to Consolidated Financial Statements.

CHARTWAY FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 11,562,686	$ 11,841,725
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	3,088,806	3,448,790
Amortization of Security Premiums/Discounts, Net	1,137,280	1,429,437
Gain on Cash Surrender Value of Life Insurance	(491,984)	(432,518)
Provision for Loan Losses	9,202,055	5,516,524
Accretion on Acquired Loans, Net	(911,261)	(2,890,172)
Amortization of Net Loan Origination Costs	4,030,118	3,681,720
Impairment and (Gains) Losses on Foreclosed Assets, net	(173,812)	1,685,144
(Gain) Loss on Disposal of Property and Equipment, Net	(2,989,246)	(1,332,734)
Changes in:		
Loans Held-for-Sale	(1,844,000)	(266,475)
Accrued Interest Receivable	(952,821)	(236,869)
Other Assets	(2,022,853)	(4,171,318)
Accrued Expenses and Other Liabilities	342,562	(1,811,982)
Net Cash Provided by Operating Activities	19,977,530	16,461,272
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Securities:		
Held-to-Maturity	(132,240,000)	(40,000,000)
Proceeds from Sales/Maturities of Securities:		
Available-for-Sale	262	4,563,304
Held-to-Maturity	128,933,977	170,864,640
Purchase of Credit Union Owned Life Insurance	(32,500,000)	(1,321,087)
Redemption of Credit Union Owned Life Insurance	2,597,656	-
Purchase of Other Investments	(6,042,300)	(4,064,200)
Proceeds from Repayments or Maturities of Other Investments	3,548,581	7,058,570
Loan Originations Net of Principal Collected on Loans to Members	(209,000,529)	(241,327,580)
Decrease (Increase) in NCUSIF Deposit	(1,259,958)	170,857
Proceeds from Sales of Foreclosed Assets	2,326,480	3,157,049
Proceeds from Sales of Premises and Equipment	4,218,629	2,945,273
Purchase of Premises and Equipment	(4,693,209)	(2,603,632)
Net Cash Used by Investing Activities	(244,110,411)	(100,556,806)

CHARTWAY FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase in Members' Share and Savings Accounts	$ 67,513,765	$ 171,435,317
Advances on Term Borrowings	140,000,000	145,000,000
Repayments on Term Borrowings	(50,000,000)	(190,000,000)
Net Cash Provided by Financing Activities	157,513,765	126,435,317
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(66,619,116)	42,339,783
Cash and Cash Equivalents - Beginning of Year	147,742,618	105,402,835
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 81,123,502	$ 147,742,618
SUPPLEMENTARY DISCLOSURE OF NONCASH AND CASH FLOW INFORMATION		
Members' Share and Savings Accounts Interest Paid	$ 13,215,668	$ 14,260,705
Borrowed Funds Interest Paid	$ 92,070	$ 107,090
Transfers of Loans to Foreclosed Assets	$ 1,053,331	$ 3,170,446

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Chartway Federal Credit Union is a federal-chartered cooperative association headquartered in Virginia Beach, Virginia, organized in accordance with the provisions of the Federal Credit Union Act of 1934 for the purpose of promoting thrift among and creating a source of credit for its members.

Principles of Consolidation

The consolidated financial statements include the accounts of Chartway Federal Credit Union (the Credit Union) and its wholly owned subsidiaries, Chartway Financial Services, Inc., Newtown Associates, Inc., and CFCU Collateral Service Company, LLC (the CUSOs), credit union service organizations that are engaged in related financial service activities, including providing insurance and investment brokerage services to Credit Union members. All significant intercompany accounts and transactions have been eliminated.

Membership

Participation in this Credit Union is limited to those who qualify for membership as defined in the Credit Union's Charter and Bylaws. This generally consists of those who live, work, worship, or go to school in the states of Virginia and Utah; and other select employee groups who have petitioned for membership. In addition to a regularly qualified member, the spouse of a member, the blood or adoptive relatives of either of them, and their spouses may be members.

Uses of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term include the determination of adequacy of allowance for loan losses, the valuation of goodwill, and the valuation of purchased credit-impaired loans.

Financial Instruments with Concentrations of Risk

Most of the Credit Union's business activity is with its members who live, work, worship, or go to school in the states of Virginia and Utah and selected employee groups within the regions. The Credit Union is exposed to credit risk from a regional economic standpoint because significant concentrations of its borrowers work or reside within a geographical field of membership.

However, the loan portfolio is well diversified and the Credit Union does not have any significant concentrations of credit risk except for unsecured loans, which by their nature increase the risk of loss compared to those loans that are collateralized.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the consolidated statements of financial condition and consolidated statements of cash flows, Cash and Cash Equivalents includes cash on hand, amounts due from financial institutions and highly liquid debt instruments classified as cash which were purchased with original maturities of three months or less.

The Credit Union maintains cash in deposit accounts at financial institutions approved by the board of directors. Accumulated deposits at these institutions, at times, may exceed federally insured limits.

Securities

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 Other Non-Interest Income (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 by 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.

The Credit Union did not record any other-than-temporary impairment during the years ended September 30, 2016 and 2015.

Other Investments

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Held-for-Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value. Gains and losses on sales of loans are recognized at settlement dates and are determined by the difference between the sales proceeds and the carrying value of the loans. All sales are made without recourse.

Loans, Net

The Credit Union grants consumer, residential real estate, and commercial loans to members and purchases loan participations. The ability of the members to honor their contracts is dependent upon the real estate and general economic conditions comprising the Credit Union's field of membership.

Loans that the Credit Union has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, less an allowance for loan losses and net deferred loan origination fees and costs. 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 a loan is discontinued at the time the loan is 90 days delinquent. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual 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 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 methods approximating the interest method over the estimated life of the loans. The Credit Union does not charge commitment fees.

The Credit Union has purchased credit-impaired loans (PCIL) that are accounted for in accordance with the provisions of ASC 310-30, *Loan and Debt Securities Acquired with Deteriorated Credit Quality*. PCIL are reported at their outstanding unpaid principal balance, adjusted for a purchase discount. The amount representing the excess of expected cash flows over the loans' purchase price is accreted into interest income using the interest method over the remaining contractual life of the loans.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans, Net (Continued)

PCIL are reviewed periodically during the year to determine whether performance is materially as expected. If the Credit Union's analysis indicates subsequent decreases or delays in estimated future cash flows, the loans are reduced to the discounted net present value of future cash flows, which results in a reduction of income with a corresponding valuation (impairment) allowance.

The present value of any subsequent increases in the loans' actual or projected cash flows is used first to reverse any existing valuation allowance. For any remaining increases in cash flows expected to be collected, the Credit Union increases the accretable yield on a prospective basis over the remaining term of the loans.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The Credit Union's allowance for loan losses is that amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. Such evaluations consider prior loss experience, the risk rating distribution of the portfolios, the impact of current internal and external influences on credit loss and the levels of nonperforming loans. Specific allowances for loan losses are established for impaired loans on an individual basis. The specific allowances established for these loans are based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flow, the loan's estimated market value, or the estimated fair value of the underlying collateral. General allowances are established for loans that can be grouped into pools based on similar characteristics. In this process, general allowance factors are based on an analysis of historical charge-off experience (three years) and expected losses given default derived from the Credit Union's internal risk rating process. These factors are developed and applied to the portfolio in terms of loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment. These factors include the credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging data.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect all the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Under certain circumstances, the Credit Union will provide borrowers relief through loan restructurings. A restructuring of debt constitutes a troubled debt restructuring (TDR) if the Credit Union for economic or legal reasons related to the borrower’s financial difficulties grants a concession to the borrower that it would not otherwise consider. TDR concessions can include reduction of interest rates, extension of maturity dates, forgiveness of principal and/or interest due, or acceptance of other assets in full or partial satisfaction of the debt. The Credit Union considers all aspects of the restructuring to determine whether it has granted a concession to the borrower. An insignificant delay in payment resulting from a restructuring is not deemed to be a concession and would not be considered to be a TDR.

The Credit Union maintains a separate general valuation allowance for homogeneous portfolio segments. These portfolio segments and their risk characteristics are described as follows:

Consumer: The consumer loan portfolio is usually comprised of a large number of small loans. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

Residential Real Estate: The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate, and the borrower’s ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than commercial real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

The portfolio segments that are risk rated and their risk characteristics are described as follows:

Commercial: Commercial loans generally possess a higher inherent risk of loss than residential real estate portfolio segments. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations.

The Credit Union assigns a risk rating to commercial loans and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by the Credit Union’s regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into the following major categories, defined as follows:

Pass (Risk Rating 1 - 5): Loans classified as Pass are loans with no existing or known potential weaknesses deserving of management’s close attention.

Watch List & Special Mention (Risk Rating 6 & 7): Loans classified as Watch List and Special Mention have a potential weakness that deserves management’s close attention. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the loan or of the institution’s credit position at some future date. These loans are not adversely classified and do not expose the Credit Union to sufficient risk to warrant adverse classification.

Substandard (Risk Rating 8): Loans classified as Substandard are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as Substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well-defined weaknesses include a borrower’s lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the 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 (Risk Rating 9): Loans classified as Doubtful have all the weaknesses inherent in those classified as Substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss: Loans classified as Loss are considered uncollectable and anticipated to be charged off.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transfers of Financial Assets and Participating Interests

Transfers of an entire financial asset or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Credit Union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The transfer of a participating interest in an entire financial asset must also meet the definition of a participating interest. A participating interest in a financial asset has all of the following characteristics: (1) from the date of transfer, it must represent a proportionate (pro rata) ownership interest in the financial asset, (2) from the date of transfer, all cash flows received, except any cash flows allocated as any compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

Off-Consolidated Statement of Financial Condition Credit Related Financial Instruments

In the ordinary course of business, the Credit Union has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

Foreclosed Assets, Net

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

Premises and Equipment, Net

Land is carried at cost. Buildings, leasehold improvements, furniture, fixtures, and equipment are carried at cost, less accumulated depreciation and amortization. Buildings (20-40 years) and furniture, fixtures, and equipment (3-10 years) are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases or estimated useful life, whichever is less.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

The Credit Union tests long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less estimated costs to sell.

NCUSIF Deposit and NCUSIF and CCUSF Premium Assessments

The deposit in the NCUSIF is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to 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 for the years ended September 30, 2016 and 2015 due to subsequent loss recovery settlements and gains recognized by the Fund in recent years. NCUA currently anticipates no future premium assessments.

Goodwill and Intangible Assets

Accounting standards prohibit the amortization of goodwill but requires that it be tested for impairment at least annually. Goodwill was tested for impairment and no impairment charge was recorded for the years ended September 30, 2016 and 2015.

Intangible assets with finite lives continue to be amortized over their estimated useful lives and are periodically reviewed to ensure that no conditions exist, indicating that the carrying amount of intangible assets is not recoverable from future undiscounted cash flows. The Credit Union's intangibles with finite lives consists of core deposit intangibles. Intangible assets are stated at cost less accumulated amortization.

Members' Share and Savings Accounts

Members' accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends and interest on members' share and savings accounts, except for interest on certificates of deposit which are set in advance, are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Interest rates on members' share and savings accounts are set by the board of directors, based on an evaluation of current and future market conditions.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Members' Equity

The Credit Union is required by regulation to maintain a statutory (regular) reserve. This reserve, which represents a regulatory restriction of retained earnings, is established for the purpose of absorbing losses that exceed undivided earnings and other appropriations of undivided earnings. The statutory reserve is not available for the payment of interest.

The Credit Union is subject to various regulatory net worth requirements administered by the NCUA.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). Accumulated other comprehensive income (loss), also recognized as a separate component of members' equity, includes valuation adjustments for available-for-sale securities.

Income Taxes

As a federal instrumentality, the Credit Union is exempt from federal and state income taxes.

The CUSOs, however, are subject to federal and state income taxes. Operations of the CUSOs resulted in no income taxes for the years ended 2016 and 2015.

Retirement Plans

401(k) plan – 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 to the applicable IRS limitations 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 totaled $862,421 and $894,938 for the years ended September 30, 2016 and 2015, respectively.

Deferred Compensation Plan – The Credit Union entered into deferred compensation agreements with members of the Executive Management Team that provides benefits payable to these employees based on years of service with the Credit Union as defined in the agreements. The estimated liability under the agreements is being accrued on a straight-line basis over the remaining years until the eligible employees attain age 65. The Credit Union has accrued $750,827 and $964,566 under these agreements for the years ended September 30, 2016 and 2015, respectively. Deferred compensation expense was $1,722,069 and $3,397,667 for the years ended September 30, 2016 and 2015, respectively.

Life Insurance Policies

The Credit Union is the owner and substantial beneficiary of several life insurance policies. The policies are recorded at cash surrender value and increases or decreases in cash surrender values (CSV) are included in Interest Income – Securities, Interest Bearing Deposits and Cash Equivalents.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

Advertising and promotion costs, which totaled approximately $2,143,000 and $1,483,000 for the years ended September 30, 2016 and 2015, respectively, are expensed as incurred.

Fair Value Measurements

The Credit Union categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity’s own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, the Credit Union may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Credit Union adopted the policy to value certain financial instruments at fair value. The Credit Union has not elected to measure any existing financial instruments at fair value; however, it may elect to measure newly acquired financial instruments at fair value in the future.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

During the year ended September 30, 2016, the Credit Union early adopted a provision of ASU 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. This provision eliminates the requirement for entities, other than public business entities, to disclose the fair values of financial instruments carried at amortized cost, as previously required by Accounting Standards Codification (ASC) 825-10-50. As such, the Credit Union has omitted this disclosure for the years ended September 30, 2016 and 2015. The early adoption of this provision from ASU 2016-01 did not have an impact on the Credit Union's financial position or results of operations.

In February 2016, the FASB approved ASU 2016-02, *Leases (Topic 842)*. The ASU is designed to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the Statements of Financial Condition and disclosing key information about leasing arrangements. The ASU is effective for the Credit Union for the fiscal year beginning after December 15, 2019, and interim periods within the fiscal year beginning after December 15, 2020. Early adoption is permitted. The Credit Union is currently evaluating the impact of ASU 2016-02 on the financial statements.

In June 2016, the FASB approved ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The main objective of the ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in the ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The ASU is effective for the Credit Union for the fiscal year beginning after December 15, 2020, and interim periods within the fiscal year beginning after December 15, 2021. Early adoption is permitted for the fiscal year beginning after December 15, 2018, including interim periods within this fiscal year. The Credit Union is currently evaluating the impact of ASU 2016-13 on the financial statements.

Subsequent Events

In preparing these consolidated financial statements, the Credit Union has evaluated events and transactions for potential recognition or disclosure through January 27, 2017, the date the consolidated financial statements were available to be issued.

Reclassification of 2015 Data

Data in the 2015 consolidated financial statements has been reclassified to conform with the presentation of the 2016 consolidated financial statements. This reclassification did not have any change on consolidated net income or members' equity.

NOTE 2 SECURITIES AND OTHER INVESTMENTS

AVAILABLE-FOR-SALE:

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value (Carrying Value)
September 30, 2016				
Federal Agency Mortgage-Backed Securities	$ 111	$ -	$ -	$ 111
September 30, 2015				
Agency Securities	$ 373	$ -	$ (2)	$ 371

Sales of securities available-for-sale resulted in gross gains of $36,507 and gross losses of $20,743 during the year ended September 30, 2015.

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

HELD-TO-MATURITY:

The amortized cost and estimated fair value of securities held-to-maturity are as follows:

	Amortized Cost (Carrying Value)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2016				
U.S. Government and Federal Agency Securities	$ 150,208,771	$ 87,229	$ (54,740)	$ 150,241,260
Federal Agency Mortgage Backed Securities	31,362,845	102,636	(916,212)	30,549,269
Total	$ 181,571,616	$ 189,865	$ (970,952)	$ 180,790,529
September 30, 2015				
U.S. Government and Federal Agency Securities	$ 136,127,097	$ 280,189	$ (36,520)	$ 136,370,766
Federal Agency Mortgage Backed Securities	43,275,776	160,613	(700,875)	42,735,514
Total	$ 179,402,873	$ 440,802	$ (737,395)	$ 179,106,280

At September 30, 2016 and 2015, securities carried at approximately $153,190,000 and $133,985,000, respectively, were pledged as collateral to secure borrowed funds.

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

The amortized cost and estimated fair value of securities, at September 30, 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.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value (Carrying Value)	Amortized Cost (Carrying Value)	Estimated Fair Value
September 30, 2016				
U.S. Government and Federal Agency Securities:				
Less Than One Year	$ -	$ -	$ 62,022,945	$ 62,082,960
One to Five Years	-	-	88,185,826	88,158,300
	-	-	150,208,771	150,241,260
Federal Agency Mortgage Backed Securities	111	111	31,362,845	30,549,269
Total	$ 111	$ 111	$ 181,571,616	$ 180,790,529

Temporarily Impaired Securities

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

	Less Than Twelve Months		Greater Than Twelve Months	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
September 30, 2016				
U.S. Government and Federal Agency Securities	$ -	$ -	$ -	$ -
Total Available-for-Sale	$ -	$ -	$ -	$ -
U.S. Government and Federal Agency Securities	$ (54,740)	$ 93,945,560	$ -	$ -
Federal Agency Mortgage Backed Securities	-	-	(916,212)	14,963,111
Total Held-to-Maturity	$ (54,740)	$ 93,945,560	$ (916,212)	$ 14,963,111

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

Temporarily Impaired Securities (Continued)

	Less Than Twelve Months		Greater Than Twelve Months	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
September 30, 2015				
U.S. Government and Federal Agency Securities	$ (2)	$ 371	$ -	$ -
Total Available-for-Sale	$ (2)	$ 371	$ -	$ -
U.S. Government and Federal Agency Securities	$ (16,520)	$ 11,983,480	$ (20,000)	$ 29,993,500
Federal Agency Securities	(631,353)	12,269,346	(69,522)	17,129,917
Total Held-to-Maturity	$ (647,873)	$ 24,252,826	$ (89,522)	$ 47,123,417

At September 30, 2016, the 27 securities with unrealized losses have depreciated 0.88% from the Credit Union's amortized cost basis. All of these securities are either guaranteed by federal insurance, the U.S. Government, and/or secured by mortgage loans. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold securities until maturity or for the foreseeable future for those classified as available-for-sale, no declines are deemed to be other-than-temporary.

In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could be material.

OTHER INVESTMENTS:

Other investments are summarized as follows:

	September 30, 2016	September 30, 2015
Perpetual Contributed Capital Accounts	$ 250,000	$ 250,000
FHLB Stock	5,760,100	1,842,800
Interest Bearing Deposits and Certificates of Deposit in Financial Institutions	-	1,423,581
Total	$ 6,010,100	$ 3,516,381

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

Perpetual Contributed Capital Accounts

The Credit Union maintains perpetual contributed capital accounts with Mid-Atlantic Corporate Federal Credit Union that are uninsured.

These uninsured deposits are part of the corporate credit union's regulatory capital and are subject to impairment or loss in the event the corporate credit union is required to merge, is placed into conservatorship, incurs significant losses, or is liquidated.

FHLB Stock

The Credit Union has an investment in Federal Home Loan Bank of Atlanta (FHLB) stock that allows the Credit Union access to other FHLB financial services. The stock qualifies as a restricted stock and as such is not subject to investment security accounting treatment and is therefore reported at cost, subject to impairment.

Interest Bearing Deposits & Certificates of Deposit in Financial Institutions

Certificates of deposit are generally nonnegotiable and nontransferable, and may incur substantial penalties for withdrawal prior to maturity. The Credit union intends to hold the certificates until maturity.

NOTE 3 LOANS, NET

The composition of loans is as follows:

	September 30,	
	2016	2015
Consumer:		
Vehicle	$ 1,081,238,144	$ 919,673,823
Credit Card	126,901,922	113,459,779
Other	47,966,144	47,245,174
Subtotal	1,256,106,210	1,080,378,776
Residential Real Estate:		
First Mortgage	328,801,960	265,435,848
Home Equity	143,221,759	170,589,935
Subtotal	472,023,719	436,025,783
Commercial:		
Real Estate	18,585,549	20,795,143
Other	851,790	14,532,116
Subtotal	19,437,339	35,327,259
Total Loans	1,747,567,268	1,551,731,818
Net Deferred Loan Origination Costs	7,765,563	6,037,675
Allowance for Loan Losses	(17,514,503)	(15,577,451)
Loans, Net	$ 1,737,818,328	$ 1,542,192,042

NOTE 3 LOANS, NET (CONTINUED)

The Credit Union has purchased loan participations originated by various other credit unions and financial institutions, which are secured by vehicles, residential real estate, and commercial property to members and customers of other credit unions and financial institutions. These loan participations were purchased without recourse and the originating credit union or bank performs all loan servicing functions on these loans. The total loan participations included in the segments above totaled $457,790,548 and $415,365,232 for the vehicle, $205,047,999 and $141,747,629 for first mortgage, and $2,920,934 and $3,047,290 for commercial real estate, at September 30, 2016 and 2015, respectively.

The Credit Union has sold loan participations to various other credit unions and financial institutions, which are secured by commercial property of the Credit Union’s members. These loan participations were sold without recourse and the Credit Union performs all loan servicing functions on these loans. Loan participations sold and excluded from the commercial loan segments above, totaled $3,232,911 and $13,009,491 at September 30, 2016 and 2015, respectively.

Loans receivable include loans acquired in business combinations for which an accretable yield and nonaccretable difference were recorded and consist of the following:

	Years Ended September 30:	
	2016	2015
Purchased Credit-Impaired Loans (PCIL):		
Remaining Contractual Payments	$ 47,245,698	$ 61,701,208
Remaining Accretable Yield and Nonaccretable Difference	(6,344,049)	(8,885,263)
Remaining Carrying Value	$ 40,901,649	$ 52,815,945
Contractual Payments on Acquired Loans:		
Balance at Beginning of Year	$ 61,701,208	$ 81,404,727
Acquired Loans Foreclosed	(96,976)	(475,909)
Acquired Loans Net Charged Off (Recovered)	(111,989)	956,843
Contractual Principal Payments Received	(14,246,545)	(20,184,453)
Balance at End of Year	$ 47,245,698	$ 61,701,208
Accretable Yield & Nonaccretable Difference:		
Balance at Beginning of Year	$ (8,885,263)	$ (12,126,146)
Acquired Loans Net Charged Off (Recovered)	(360,122)	350,711
Accretion	2,901,336	2,890,172
Balance at End of Year	$ (6,344,049)	$ (8,885,263)

Management has evaluated the expected cash flows associated with the acquired loans and has determined that certain loan pools have experienced changes in cash flows since the acquisition date. At September 30, 2016 and 2015, allowance allocations on loans acquired with deteriorated credit quality totaled approximately $932,000 and $957,000, respectively.

NOTE 3 LOANS, NET (CONTINUED)

The allowance for loan losses and recorded investment in loans is as follows:

September 30, 2016	Consumer	Residential Real Estate	Commercial	Total
Allowance for Loan Losses:				
Balance at Beginning of Year	$ 11,725,976	$ 2,897,884	$ 953,591	$ 15,577,451
Provision (Credit) for Loan Losses	9,401,661	76,938	(276,544)	9,202,055
Loans Charged-Off	(8,746,765)	(666,872)	(11,575)	(9,425,212)
Recoveries of Loans Previously Charged-Off	1,918,475	241,286	448	2,160,209
Balance at End of Year	$ 14,299,347	$ 2,549,236	$ 665,920	$ 17,514,503
Ending Balance: Individually Evaluated for Impairment	$ 1,239,331	$ 1,359,858	$ 550,369	$ 3,149,558
Ending Balance: Collectively Evaluated for Impairment	$ 13,049,032	$ 799,118	$ (414,748)	$ 13,433,402
Ending Balance: Loans Acquired with Deteriorated Credit Quality	$ 10,984	$ 390,260	$ 530,299	$ 931,543
Total Allowance for Loan Losses	$ 14,299,347	$ 2,549,236	$ 665,920	$ 17,514,503
Loans:				
Ending Balance: Individually Evaluated for Impairment	$ 7,229,200	$ 12,803,006	$ 3,969,551	$ 24,001,757
Ending Balance: Collectively Evaluated for Impairment	$ 1,247,604,958	$ 428,827,562	$ 6,231,342	$ 1,682,663,862
Ending Balance: Loans Acquired with Deteriorated Credit Quality	$ 1,272,052	$ 30,393,151	$ 9,236,446	$ 40,901,649
Total Loans	$ 1,256,106,210	$ 472,023,719	$ 19,437,339	$ 1,747,567,268

NOTE 3 LOANS, NET (CONTINUED)

The allowance for loan losses and recorded investment in loans is as follows (continued):

September 30, 2015	Consumer	Residential Real Estate	Commercial	Total
Allowance for Loan Losses:				
Balance at Beginning of Year	$ 10,409,242	$ 5,086,796	$ 720,856	$ 16,216,894
Provision (Credit) for Loan Losses	6,900,138	(1,629,806)	246,195	5,516,527
Loans Charged-Off	(7,376,864)	(838,376)	(15,443)	(8,230,683)
Recoveries of Loans Previously Charged-Off	1,793,460	279,270	1,983	2,074,713
Balance at End of Year	$ 11,725,976	$ 2,897,884	$ 953,591	$ 15,577,451
Ending Balance: Individually Evaluated for Impairment	$ 653,237	$ 1,279,798	$ 117,726	$ 2,050,761
Ending Balance: Collectively Evaluated for Impairment	$ 11,058,871	$ 1,374,594	$ 135,832	$ 12,569,297
Ending Balance: Loans Acquired with Deteriorated Credit Quality	$ 13,868	$ 243,492	$ 700,033	$ 957,393
Total Allowance for Loan Losses	$ 11,725,976	$ 2,897,884	$ 953,591	$ 15,577,451
Loans:				
Ending Balance: Individually Evaluated for Impairment	$ 5,790,897	$ 13,448,926	$ 1,004,933	$ 20,244,756
Ending Balance: Collectively Evaluated for Impairment	$ 1,071,875,040	$ 385,133,577	$ 21,662,501	$ 1,478,671,118
Ending Balance: Loans Acquired with Deteriorated Credit Quality	$ 2,712,839	$ 37,443,280	$ 12,659,825	$ 52,815,944
Total Loans	$ 1,080,378,776	$ 436,025,783	$ 35,327,259	$ 1,551,731,818

NOTE 3 LOANS, NET (CONTINUED)

The following tables show the commercial loan portfolio segments allocated by management's internal risk ratings:

September 30, 2016	Commercial Credit Risk Profile by Risk Rating		
Risk Rating:	Commercial Real Estate	Commercial Other	Total
Pass	$ 11,776,346	$ 323,416	$ 12,099,762
Watch List	2,421,691	48,823	2,470,514
Special Mention	1,056,740	43,970	1,100,710
Substandard	3,276,277	393,466	3,669,743
Doubtful	54,495	42,115	96,610
Total	$ 18,585,549	$ 851,790	$ 19,437,339

September 30, 2015	Commercial Credit Risk Profile by Risk Rating		
Risk Rating:	Commercial Real Estate	Commercial Other	Total
Pass	$ 14,036,527	$ 9,979,405	$ 24,015,932
Watch List	98,008	3,273,786	3,371,794
Special Mention	3,091,668	167,399	3,259,067
Substandard	3,568,940	941,271	4,510,211
Doubtful	-	170,255	170,255
Total	$ 20,795,143	$ 14,532,116	$ 35,327,259

The following tables show the classes within the homogeneous loan portfolio segments allocated by payment activity. Loans are deemed performing if they are less than 90 days delinquent and still accruing interest.

September 30, 2016	Payment Activity		
	Performing	Non-Performing	Total
Consumer:			
Vehicle	$ 1,078,381,332	$ 2,856,812	$ 1,081,238,144
Credit Card	125,722,816	1,179,106	126,901,922
Other	47,498,647	467,497	47,966,144
Residential Real Estate:			
First Mortgage	327,508,342	1,293,618	328,801,960
Home Equity	141,675,974	1,545,785	143,221,759
Total	$ 1,720,787,111	$ 7,342,818	$ 1,728,129,929

September 30, 2015	Payment Activity		
	Performing	Non-Performing	Total
Consumer:			
Vehicle	$ 918,334,752	$ 1,339,071	$ 919,673,823
Credit Card	112,420,341	1,039,438	113,459,779
Other	46,924,373	320,801	47,245,174
Residential Real Estate:			
First Mortgage	264,501,888	933,960	265,435,848
Home Equity	169,071,735	1,518,200	170,589,935
Total	$ 1,511,253,089	$ 5,151,470	$ 1,516,404,559

NOTE 3 LOANS, NET (CONTINUED)

The following tables show an aging analysis of the loan portfolio by time past due:

September 30, 2016	Accruing Interest				
	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual 90 Days or More Past Due	Total Loans
Vehicle	$ 1,062,809,734	$ 15,571,598	$ -	$ 2,856,812	$ 1,081,238,144
Credit Card	124,647,113	1,075,703	-	1,179,106	126,901,922
Consumer Other	46,913,163	585,484	-	467,497	47,966,144
First Mortgage	325,513,020	1,995,322	-	1,293,618	328,801,960
Home Equity	139,875,241	1,800,733	-	1,545,785	143,221,759
Commercial Real Estate	18,531,054	-	-	54,495	18,585,549
Commercial Other	851,790	-	-	-	851,790
Total	$ 1,719,141,115	$ 21,028,840	$ -	$ 7,397,313	$ 1,747,567,268

September 30, 2015	Accruing Interest				
	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual 90 Days or More Past Due	Total Loans
Vehicle	$ 911,336,545	$ 6,998,207	$ -	$ 1,339,071	$ 919,673,823
Credit Card	111,327,247	1,093,094	-	1,039,438	113,459,779
Consumer Other	46,350,740	573,633	-	320,801	47,245,174
First Mortgage	262,412,713	2,089,175	-	933,960	265,435,848
Home Equity	166,993,960	2,077,775	-	1,518,200	170,589,935
Commercial Real Estate	20,795,143	-	-	-	20,795,143
Commercial Other	14,252,824	267,262	-	12,030	14,532,116
Total	$ 1,533,469,172	$ 13,099,146	$ -	$ 5,163,500	$ 1,551,731,818

NOTE 3 LOANS, NET (CONTINUED)

Interest income foregone on nonaccrual loans was immaterial for the years ended September 30, 2016 and 2015.

The following tables present information related to impaired loans:

September 30, 2016	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With No Related Allowance:				
Vehicle	$ 1,494,841	$ 1,494,841	$ -	$ 1,220,495
Credit Card	908,988	908,988	-	974,211
Consumer Other	442,286	442,286	-	379,723
First Mortgage	1,293,618	1,293,618	-	2,730,387
Home Equity	597,246	597,246	-	1,471,009
Commercial Real Estate	1,119,857	1,119,857	-	559,929
Commercial Other	-	-	-	-
Subtotal	5,856,836	5,856,836	-	7,335,754
With An Allowance Recorded:				
Vehicle	3,263,625	3,263,625	863,114	2,934,935
Credit Card	270,118	270,118	270,118	135,062
Consumer Other	849,342	849,342	106,099	865,625
First Mortgage	6,936,270	6,936,270	444,165	5,790,031
Home Equity	3,975,872	3,975,872	915,693	3,134,540
Commercial Real Estate	2,778,812	2,778,812	514,928	1,870,442
Commercial Other	70,882	70,882	35,441	56,872
Subtotal	18,144,921	18,144,921	3,149,558	14,787,507
Total Impaired Loans:				
Consumer	$ 7,229,200	$ 7,229,200	$ 1,239,331	$ 6,510,051
Residential Real Estate	$ 12,803,006	$ 12,803,006	$ 1,359,858	$ 13,125,967
Commercial	$ 3,969,551	$ 3,969,551	$ 550,369	$ 2,487,243

NOTE 3 LOANS, NET (CONTINUED)

The following tables present information related to impaired loans (continued):

September 30, 2015	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With No Related Allowance:				
Vehicle	$ 946,149	$ 946,149	$ -	$ 1,122,186
Credit Card	1,039,433	1,039,433	-	951,896
Consumer Other	317,159	317,159	-	313,399
First Mortgage	4,167,156	4,167,156	-	4,965,800
Home Equity	2,344,772	2,344,772	-	2,419,913
Commercial Real Estate	-	-	-	1,340,784
Commercial Other	-	-	-	51,218
Subtotal	8,814,669	8,814,669	-	11,165,196
With An Allowance Recorded:				
Vehicle	2,606,244	2,606,244	517,850	1,511,620
Credit Card	5	5	5	1,857
Consumer Other	881,907	881,907	135,382	2,200,764
First Mortgage	4,643,791	4,643,791	484,705	4,065,436
Home Equity	2,293,207	2,293,207	795,093	2,296,751
Commercial Real Estate	962,071	962,071	74,864	1,042,008
Commercial Other	42,862	42,862	42,862	21,431
Subtotal	11,430,087	11,430,087	2,050,761	11,139,867
Total Impaired Loans:				
Consumer	$ 5,790,897	$ 5,790,897	$ 653,237	$ 6,101,722
Residential Real Estate	$ 13,448,926	$ 13,448,926	$ 1,279,798	$ 13,747,900
Commercial	$ 1,004,933	$ 1,004,933	$ 117,726	$ 2,455,441

NOTE 3 LOANS, NET (CONTINUED)

The Credit Union does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings or whose loans are in nonaccrual.

Summaries of loans modified in troubled debt restructurings and those related restructurings for which there was a payment default (90 days past due) during the years ended September 30, 2016 and 2015 are as follows. Post-modification balances approximate pre-modification balances. The aggregate amount of charge-offs as a result of a restructuring are not significant.

	During the Year Ended September 30, 2016			
	Troubled Debt Restructurings		Troubled Debt Restructurings That Subsequently Defaulted	
	Number of Loans	Post-Modification Outstanding Balance	Number of Loans	Post-Modification Outstanding Balance
Vehicle	91	$ 1,231,125		
Consumer Other	14	38,288	1	$ 2,966
First Mortgage	14	2,177,056	-	-
Home Equity	13	509,449	-	-
Commercial Real Estate	2	806,539	-	-
Commercial Other	2	69,337	-	-
Total	136	$ 4,831,794	1	$ 2,966

	During the Year Ended September 30, 2015			
	Troubled Debt Restructurings		Troubled Debt Restructurings That Subsequently Defaulted	
	Number of Loans	Post-Modification Outstanding Balance	Number of Loans	Post-Modification Outstanding Balance
Vehicle	33	$ 599,886	2	$ 4,033
Consumer Other	46	1,014,243	-	-
First Mortgage	1	160,618	-	-
Home Equity	6	357,185	-	-
Total	88	$ 2,162,764	2	$ 4,033

NOTE 4 LOAN SERVICING

Loans serviced for others are not included in the accompanying Consolidated Statements of Financial Condition. The unpaid principal balances of mortgage and other loans serviced for others were $97,523,164 and $117,356,455 at September 30, 2016 and 2015, respectively.

NOTE 5 FORECLOSED ASSETS, NET

Foreclosed assets are presented net of a valuation allowance. During the years ended September 30, 2016 and 2015, the Credit Union incurred expenses related to selling foreclosed assets in the amount of $87,140 and $311,161, respectively. Analysis of the foreclosed assets are as follows:

	Years Ended September 30:	
	2016	2015
Foreclosed Assets:		
Balance at Beginning of Year	$ 1,551,259	$ 3,223,006
Additions	1,053,331	3,170,446
Sales Proceeds	(2,326,480)	(3,157,049)
Net Gain (Loss) on Sales	259,812	(589,044)
Impairment Adjustments	(86,000)	(1,096,100)
Balance at End of Year	$ 451,922	$ 1,551,259

NOTE 6 PREMISES AND EQUIPMENT, NET

The Credit Union's premises and equipment is summarized as follows:

	September 30,	
	2016	2015
Land	$ 8,911,030	$ 9,200,178
Buildings	31,641,378	38,859,959
Furniture and Equipment	22,276,570	23,229,001
Leasehold Improvements	3,755,898	3,932,354
Construction in Progress	1,123,979	393,558
	67,708,855	75,615,050
Less: Accumulated Depreciation and Amortization	(29,207,974)	(37,687,850)
Total	$ 38,500,881	$ 37,927,200

Lease Commitments

The Credit Union is obligated under noncancelable operating leases for office space in Virginia and Utah. Some of the leases contain renewal options for periods of five years at the time of each renewal. Net rent expense under operating leases, included in Occupancy Expenses, was approximately $1,232,000 and $1,188,000 for the years ended

The required minimum rental payments under the terms of these noncancelable leases at September 30, 2016 are as follows:

Year Ending September 30,	Amount
2017	$ 926,438
2018	425,219
2019	190,064
2020	96,195
2021	44,089
Total	$ 1,682,005

NOTE 7 GOODWILL AND OTHER INTANGIBLE ASSETS

The balance of goodwill remained unimpaired and totaled $71,488,504 as of September 30, 2016 and 2015.

Intangible assets subject to amortization at September 30 consist of the following:

2016	Life (in Months)	Gross Carrying Value	Accumulated Amortization	Intangible Assets, Net
Core Deposit Intangible	120	$ 2,327,859	$ (2,078,684)	$ 249,175
2015				
Core Deposit Intangible	120	$ 2,327,859	$ (1,880,023)	$ 447,836

Amortization expense was $198,661and $295,090 for the years ended September 30, 2016 and 2015, respectively.

Future amortization expense for this asset is as follows:

Year Ending September 30,	Amount
2017	$ 181,288
2018	67,887
Total	$ 249,175

NOTE 8 MEMBERS' SHARE AND SAVINGS ACCOUNTS

Members' share and savings accounts are as follows:

	September 30, 2016	September 30, 2015
Share Savings	$ 456,276,385	$ 440,859,118
Share Drafts	388,914,827	370,020,984
Money Market	325,856,887	304,722,528
IRA Deposits	49,943,767	51,611,380
Other Deposits	26,161,964	25,501,406
Share and IRA Certificates	685,293,001	672,217,650
Total	$ 1,932,446,831	$ 1,864,933,066

The aggregate amounts of certificates of deposit in denominations of $250,000 or more was approximately $75,542,000 and $81,755,000 at September 30, 2016 and September 30, 2015, respectively.

NOTE 8 MEMBERS' SHARE AND SAVINGS ACCOUNTS (CONTINUED)

As of September 30, 2016, scheduled maturities of share and IRA certificates are as follows:

Year Ending September 30,	Amount
2017	$ 350,613,970
2018	138,023,595
2019	31,576,804
2020	130,948,957
2021	33,829,507
Thereafter	300,168
Total	$ 685,293,001

Member accounts are insured to at least $250,000 by the NCUSIF. The NCUSIF is a federal insurance fund backed by the full faith and credit of the U.S. government.

NOTE 9 BORROWED FUNDS

At September 30, 2016 and 2015, the Credit Union had an available line of credit of $5,000,000 with Mid-Atlantic Corporate Federal Credit Union. The interest rates applied on any borrowing 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, except those pledged on other lines. The line has no expiration date, but is subject to review and change by the issuing institution. There were no balances outstanding on this line at September 30, 2016 and 2015.

The Credit Union has entered into an Advances, Pledge, and Security Agreement with the Federal Home Loan Bank of Atlanta (FHLB) with a maximum borrowing limit of approximately $444,348,000 and $306,070,000 at September 30, 2016 and 2015. The terms of the agreement call for specific mortgage loans and investments to be pledged to the FHLB as collateral in the event the Credit Union requests any advances on the line. The outstanding balance on this line was $90,000,000 and $$-0- at September 30, 2016 and 2015, respectively.

The Credit Union is also eligible to borrow from the Federal Reserve Bank of Richmond discount window (Federal Reserve). These borrowings require collateral and could be secured by a portion of the Credit Union's investment portfolio. The maximum borrowing limit is based on the value of securities that are held for safekeeping by the Federal Reserve Bank. The interest rate is determined by the Federal Reserve. At September 30, 2016 and 2015, there were no borrowings under this agreement.

NOTE 9 BORROWED FUNDS (CONTINUED)

Borrowed funds consisted of the following:

	September 30,	
Description	2016	2015
Term Note from FHLB at interest rate of 0.51%, maturing October 28, 2016	$ 30,000,000	$ -
Term Note from FHLB at interest rate of 0.56%, maturing November 28, 2016	10,000,000	-
Term Note from FHLB at interest rate of 0.49%, maturing November 28, 2016	20,000,000	-
Term Note from FHLB at interest rate of 0.47%, maturing December 15, 2016	30,000,000	-
Total	$ 90,000,000	$ -

NOTE 10 REGULATORY NET WORTH REQUIREMENTS

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Credit Union’s consolidated financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union’s assets, liabilities, and certain off-consolidated statement of financial condition items as calculated under U.S. generally accepted accounting principles. The Credit Union’s capital amounts and net worth classifications 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 ratios (set forth in the table following) of net worth to total assets (as defined by the regulation). 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 September 30, 2016, the most recent quarterly regulatory filing date, was 4.92%. The minimum ratio to be considered complex under the regulatory framework is 6.00%. Management believes, as of September 30, 2016, that the Credit Union meets all capital adequacy requirements to which it is subject.

NOTE 10 REGULATORY NET WORTH REQUIREMENTS (CONTINUED)

As of September 30, 2016, the most recent call reporting period, the NCUA categorized the Credit Union initially as “well capitalized” under the regulatory frame work for prompt corrective action. To be categorized as “well capitalized,” the Credit Union must maintain a minimum net worth ratio of 7.00% of assets. There are no conditions or events since that notification that management believes have changed the institution’s category.

The Credit Union’s actual capital amounts and ratios are also presented in the table.

	Actual		To be Adequately Capitalized Under Prompt Corrective Action Provision		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2016						
Net Worth	$ 175,187,781	7.89%	$ 133,165,343	6.00%	$ 155,359,567	7.00%
Risk-Based Net Worth Requirement	$ 109,195,581	4.92%	N/A	N/A	N/A	N/A
September 30, 2015						
Net Worth	$ 169,153,138	8.25%	$ 123,000,202	6.00%	$ 143,500,236	7.00%
Risk-Based Net Worth Requirement	$ 98,400,162	4.80%	N/A	N/A	N/A	N/A

Because RBNWR at September 30, 2016, 4.92%, is less than the regulatory net worth ratio of 6.00%, the Credit Union retains its original assigned category. Further, in performing its calculation of total assets, the Credit Union used the quarter-end balance option, as permitted by regulation.

NOTE 11 RELATED PARTY TRANSACTIONS

Included in Loans, Net at September 30, 2016 and 2015, are loans to the Credit Union’s Board of Directors, Committee Members, and Senior Executive Staff of approximately $268,000 and $126,000, respectively. The aggregate principal advances and principal repayments are not significant.

Deposits from the Credit Union’s Board of Directors, Committee Members, and Senior Executive Staff held by the Credit Union at September 30, 2016 and 2015 are approximately $3,902,000 and $3,273,000, respectively.

NOTE 12 COMMITMENTS AND CONTINGENT LIABILITIES

Off-Consolidated Statement of Financial Condition Activities

The Credit Union is a party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the consolidated financial statements.

The Credit Union's exposure to credit loss is represented by the contractual notional amount of these instruments. The Credit Union uses the same credit policies in making commitments as it does for those loans recorded in the consolidated financial statements.

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

	September 30,	
	2016	2015
Commitments to Grant Collateralized Loans		
First Mortgage	$ -	$ 2,548,625
Home Equity	1,764,287	-
Unfunded Commitments Under Lines of Credit		
Home Equity	111,283,618	110,188,444
Credit Card	271,048,460	214,252,681
Other Consumer	11,542,982	11,781,705
Overdraft Protection	50,934,147	51,597,059
Commercial	50,279	155,801
Total	$ 446,623,773	$ 390,524,315

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. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Credit Union upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include consumer assets, residential real estate, and member share balances.

Unfunded commitments under revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing members. These lines-of-credit are uncollateralized 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.

Legal Contingencies

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

NOTE 13 FAIR VALUE

Recurring Basis

The Credit Union uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Credit Union measures fair value refer to Note 1 – Summary of Significant Accounting Policies. The following tables present the balances of the assets and liabilities measured at fair value on a recurring basis:

September 30, 2016	Level 1	Level 2	Level 3	Total
Assets:				
Available-for-Sale Securities:				
Federal Agency Mortgage Backed Securities	$ -	$ 111	$ -	$ 111

September 30, 2015	Level 1	Level 2	Level 3	Total
Assets:				
Available-for-Sale Securities:				
Federal Agency Mortgage Backed Securities	$ -	$ 371	$ -	$ 371

Investment Securities

When available, the Credit Union uses quoted market prices to determine the fair value of securities; such items are classified in Level 1 of the fair value hierarchy. For the Credit Union's securities where quoted prices are not available for identical securities in an active market, the Credit Union determines fair value utilizing vendors who apply matrix pricing for similar bonds where no price is observable or may compile prices from various sources. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Fair values from these models are verified, where possible, against quoted market prices for recent trading activity of assets with similar characteristics to the security being valued. Such methods are generally classified as Level 2. However, when prices from independent sources vary, cannot be obtained or cannot be corroborated, a security is generally classified as Level 3.

NOTE 13 FAIR VALUE (CONTINUED)

Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as there is evidence of impairment or a change in the amount of previously recognized impairment.

Net impairment losses related to nonrecurring fair value measurements of certain assets for the years ended September 30, 2016 and 2015 consisted of the following:

	Fair Value at September 30, 2016			
	Level 1	Level 2	Level 3	Impairment Losses
Impaired Loans	$ -	$ -	$ 9,552,284	$ 1,359,858
Foreclosed Assets	-	-	451,922	86,000

	Fair Value at September 30, 2015			
	Level 1	Level 2	Level 3	Impairment Losses
Impaired Loans	$ -	$ -	$ 9,627,788	$ 1,201,954
Foreclosed Assets	-	-	1,551,259	1,096,100

The following tables present additional quantitative information about assets measured at fair value on a nonrecurring basis for which the Credit Union has utilized Level 3 inputs to determine fair value:

	September 30, 2016			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 9,552,284	Evaluation of Collateral	Estimation of Value	8.00%
Foreclosed Assets	451,922	Appraisal	Appraisal Adjustment	Not Meaningful

	September 30, 2015			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 9,627,788	Evaluation of Collateral	Estimation of Value	8.00%
Foreclosed Assets	1,551,259	Appraisal	Appraisal Adjustment	Not Meaningful

NOTE 13 FAIR VALUE (CONTINUED)

Nonrecurring Basis (Continued)

Impaired Loans

In accordance with the provisions of the loan impairment guidance, impairment was measured for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, or discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. Collateral values are estimated using Level 3 inputs based on customized discounting criteria.

Impairment amounts on impaired loans represent specific valuation allowance and write-downs during the period presented on impaired loans that were individually evaluated for impairment based on the estimated fair value of the collateral less estimated selling costs, excluding impaired loans fully charged-off.

Foreclosed Assets

Foreclosed assets are recorded at fair value based on property appraisals, less estimated selling costs, at the date of the transfer with any impairment amount charged to the allowance for loan losses. Subsequent to the transfer, foreclosed assets are carried at the lower of cost or fair value, less estimated selling costs with changes in fair value or any impairment amount recorded in other non-interest expense. Values are estimated using Level 3 inputs based on customized discounting criteria. The carrying value of foreclosed assets is not re-measured to fair value on a recurring basis but is subject to fair value adjustments when the carrying value exceeds the fair value, less estimated selling costs.