

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

**DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
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YEARS ENDED DECEMBER 31, 2014 AND 2013**

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INDEPENDENT AUDITORS' REPORT

Supervisory Committee and Board of Directors
Digital Federal Credit Union and Subsidiaries
Marlborough, Massachusetts

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Digital Federal Credit Union and Subsidiaries, which comprise the consolidated statements of financial condition as of December 31, 2014 and 2013, 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.

Supervisory Committee and Board of Directors
Digital Federal Credit Union and Subsidiaries

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Digital Federal Credit Union and Subsidiaries as of December 31, 2014 and 2013, 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
March 3, 2015

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2014 AND 2013
(IN THOUSANDS)

ASSETS	2014	2013
Cash and Cash Equivalents	\$ 252,578	\$ 411,217
Deposits in Corporate Federal Credit Union	44,000	69,000
Securities - Available-for-Sale	381,094	366,042
Other Investments	42,508	42,058
Loans Held-for-Sale	32,655	13,994
Loans, Net	5,088,193	4,226,954
Accrued Interest Receivable	16,061	15,231
Premises and Equipment, Net	51,014	52,160
NCUSIF Deposit	43,157	39,313
Other Assets	16,029	16,848
	\$ 5,967,289	\$ 5,252,817
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' Share and Savings Accounts	\$ 4,773,483	\$ 4,237,830
Borrowed Funds	615,000	510,000
Accrued Expenses and Other Liabilities	41,547	38,281
Total Liabilities	5,430,030	4,786,111
MEMBERS' EQUITY		
Regular Reserves	100,227	100,227
Undivided Earnings	440,207	369,386
Accumulated Other Comprehensive Loss	(3,175)	(2,907)
Total Members' Equity	537,259	466,706
Total Liabilities and Members' Equity	\$ 5,967,289	\$ 5,252,817

See accompanying Notes to Consolidated Financial Statements.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2014 AND 2013
(IN THOUSANDS)

	2014	2013
INTEREST INCOME		
Loans	\$ 185,246	\$ 180,981
Securities, Interest Bearing Deposits and Cash Equivalents	3,838	3,457
Total Interest Income	189,084	184,438
INTEREST EXPENSE		
Members' Share and Savings Accounts	26,528	24,001
Borrowed Funds	9,674	6,859
Total Interest Expense	36,202	30,860
Net Interest Income	152,882	153,578
PROVISION FOR LOAN LOSSES	11,650	17,500
Net Interest Income After Provision for Loan Losses	141,232	136,078
NON-INTEREST INCOME		
Service Charges and Fees	11,118	13,720
Interchange Income	27,182	20,499
Other Non-Interest Income	9,771	7,849
Net Gain on Sale of Loans	2,678	4,905
Net Gain on Sale of Securities	-	1,281
Total Non-Interest Income	50,749	48,254
NON-INTEREST EXPENSE		
Employee Compensation and Benefits	59,001	54,374
Office Occupancy and Operations	35,252	31,757
CCUSF Premium Assessment	-	3,145
Other Operating Expenses	25,751	23,919
Net Loss on Sale and Impairment Losses of Foreclosed Assets	1,156	1,480
Total Non-Interest Expense	121,160	114,675
NET INCOME	\$ 70,821	\$ 69,657

See accompanying Notes to Consolidated Financial Statements.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2014 AND 2013
(IN THOUSANDS)

	2014	2013
NET INCOME	\$ 70,821	\$ 69,657
OTHER COMPREHENSIVE INCOME:		
Securities - Available-for-Sale		
Unrealized Holding Loss Arising During the Period	(479)	(870)
Reclassification for Gains Included in Net Income	-	(1,281)
Subtotal	(479)	(2,151)
Defined Benefit Plan		
Net Gain Arising During the Period	211	2,862
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME	(268)	711
TOTAL COMPREHENSIVE INCOME	\$ 70,553	\$ 70,368

See accompanying Notes to Consolidated Financial Statements.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2014 AND 2013
(IN THOUSANDS)

	Regular Reserves	Undivided Earnings	Accumulated Other Comprehensive Loss	Total
BALANCES AT DECEMBER 31, 2012	\$ 100,227	\$ 299,729	\$ (3,618)	\$ 396,338
Net Income	-	69,657	-	69,657
Other Comprehensive Income	-	-	711	711
BALANCES AT DECEMBER 31, 2013	100,227	369,386	(2,907)	466,706
Net Income	-	70,821	-	70,821
Other Comprehensive Loss	-	-	(268)	(268)
BALANCES AT DECEMBER 31, 2014	<u>\$ 100,227</u>	<u>\$ 440,207</u>	<u>\$ (3,175)</u>	<u>\$ 537,259</u>

See accompanying Notes to Consolidated Financial Statements.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013
(IN THOUSANDS)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 70,821	\$ 69,657
Adjustments to Reconcile Net Income to Net Cash		
Provided by Operating Activities:		
Depreciation and Amortization	5,145	5,881
Amortization of Security Premiums/Discounts, Net	819	735
Provision for Loan Losses	11,650	17,500
Gain on Sales of Loans, Net	(2,678)	(4,905)
Proceeds from Sales of Loans	169,234	428,502
Loans Committed for Sale	(185,217)	(397,415)
Amortization of Servicing Rights	1,017	1,541
Capitalization of Servicing Rights	(1,964)	(3,179)
Amortization of Net Loan Origination Costs	8,547	5,720
Impairment Losses on Foreclosed Assets	897	545
Gain on Investments, Net	-	(1,281)
Loss on Disposal of Foreclosed Assets, Net	259	935
Changes in:		
Accrued Interest Receivable	(830)	(371)
Other Assets	(868)	(347)
Accrued Expenses and Other Liabilities	3,477	5,956
Net Cash Provided by Operating Activities	80,309	129,474
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (Increase) Decrease in Deposits in Other		
Financial Institutions	25,000	(5,000)
Purchases of Investments - Available-for-Sale	(41,450)	(131,183)
Proceeds from Maturity of Investments - Available-for-Sale	15,000	-
Proceeds from Sales of Investments - Available-for-Sale	10,100	99,935
Proceeds from Repayments or Maturities of		
Other Investments	-	2,552
Purchases of Other Investments	(450)	-
Loan Originations Net of Principal Collected on Loans	(883,852)	(385,078)
Increase in NCUSIF Deposit	(3,844)	(4,077)
Proceeds from Sales of Foreclosed Assets	3,894	3,626
Expenditures for Premises and Equipment	(3,999)	(5,647)
Net Cash Used in Investing Activities	(879,601)	(424,872)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase in Members' Share and Savings Accounts	535,653	362,974
Advances on Term Borrowings	265,000	205,000
Repayments on Term Borrowings	(100,000)	(123,642)
Net Decrease in Line of Credit Borrowings	(60,000)	-
Net Cash Provided by Financing Activities	640,653	444,332

See accompanying Notes to Consolidated Financial Statements.

**DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013
(IN THOUSANDS)**

	2014	2013
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(158,639)	148,934
Cash and Cash Equivalents at Beginning of Year	411,217	262,283
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 252,578	\$ 411,217
 SUPPLEMENTARY DISCLOSURE OF NON CASH AND CASH FLOW INFORMATION		
Borrowed Funds Interest Paid	\$ 9,384	\$ 6,755
Members' Share and Savings Accounts Interest Paid	\$ 26,528	\$ 24,001
Transfers of Loans to Foreclosed Assets	\$ 2,416	\$ 3,599

See accompanying Notes to Consolidated Financial Statements.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Digital Federal Credit Union (the "Credit Union") is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act.

Principles of Consolidation

The consolidated financial statements include the accounts of Digital Federal Credit Union and its subsidiaries, Financial Vision LLC, DCU Insurance, LLC, and DCU Realty, LLC (the CUSOs), credit union service organizations that provide software development for the Credit Union, property and casualty insurance to Credit Union members and 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 employees or former employees of select employers and organizations who have petitioned for membership or those who live, work, worship, or go to school in participating communities in the New England area. 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 valuation of securities, determination of loan losses and the fair value of financial instruments.

Financial Instruments with Concentrations of Risk

Most of the Credit Union's business activity is with its members who reside within the Northeast region of the United States of America. The Credit Union is exposed to credit risk from a regional economic standpoint because significant concentrations of its members 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 certain loan products which management monitors on an ongoing basis.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(IN THOUSANDS)

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 maturities of three months or less. Accumulated deposits at correspondent financial institutions, at times, may exceed federally insured limits.

Deposits in Corporate Federal Credit Union

Deposits in corporate federal credit union include certificates of deposit. These are stated at cost. The certificates of deposit all mature within three years.

Securities – Available-for-Sale

Debt securities are classified as available-for-sale and are carried at fair value with unrealized gains and losses reported in Other Comprehensive Income. Realized gains and losses on securities available-for-sale are included in Other Non-Interest Income or Expense and, when applicable, are reported as a reclassification adjustment in Other Comprehensive Income. 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 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 December 31, 2014 and 2013.

Other Investments

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

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.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans, Net

The Credit Union grants consumer, residential real estate, commercial real estate, and other commercial loans to members. A substantial portion of the loan portfolio is represented by auto and residential real estate loans to members. 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 and the borrower's ability to pay.

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, except for credit card and student loans. 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.

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.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

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 (one and 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.

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect 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.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

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 balance 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. These loans generally possess a lower inherent risk of loss than other 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.

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

Commercial Real Estate: Commercial real estate loans generally possess a higher inherent risk of loss than other 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.

Commercial Other: Commercial other loans are generally underwritten to existing cash flows or inventories of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

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 (1-6): Loans classified as Pass are loans with no existing or known potential weaknesses deserving of management's close attention.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Watch (7): Loans classified as Watch Assets have a potential weakness that deserves management's close attention. Potential weaknesses might include a weakening financial condition, an unrealistic repayment program, inadequate sources or lack of adequate collateral, credit information or documentation. While the asset is currently protected, it is potentially weak. No loss of principal or interest is envisioned.

Substandard (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. Asset is inadequately protected by current sound net worth and paying capacity of the obligor or pledged collateral. 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 (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 uncollectible and anticipated to be charged off.

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.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Servicing Rights

Servicing assets are recognized separately when servicing rights are acquired through purchase or through sale of financial assets. Servicing rights resulting from the sale or securitization of loans originated by the Credit Union are initially measured at fair value at the date of transfer. The Credit Union subsequently measures each class of servicing asset using the amortization method. Under the amortization method, mortgage servicing rights are amortized into non-interest income in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment of increased obligation based upon the fair value at each reporting date.

Fair value is based on market prices for comparable servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. These variables change from quarter to quarter as the market conditions and projected interest rates change, and may have an adverse impact on the value of the servicing right and may result in reduction to noninterest income.

Each class of separately recognized servicing assets subsequently measured using the amortization method is evaluated and measured for impairment. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type, and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the carrying amount of the servicing assets for that tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment after the initial measurement of impairment. Changes in valuation allowances are reported with Non-Interest Income on the Consolidated Statements of Income.

Off-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 and Repossessed Assets

Assets acquired through, or in lieu of, loan repossession or foreclosure are held for sale and are initially recorded at fair value less estimated costs to sell at the date of repossession or foreclosure, establishing a new cost basis. Subsequent to repossession or 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. Foreclosed and repossessed assets were included in Other Assets on the Statement of Financial Condition at December 31, 2014 and 2013. Revenue and expenses from operations and changes in the valuation allowance are included in Non-Interest Expense.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and furniture, fixtures, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases or estimated useful life, whichever is less.

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 would assess annual premiums to repay these stabilization costs through the year 2021 at its discretion. No CCUSF premium was assessed in 2014 due to subsequent loss recovery settlements and gains recognized by the Fund in recent years. NCUA currently anticipates no future premium assessments.

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 is set in advance, is based on available earnings at the end of a dividend period. Interest rates on members' share and savings accounts are set by the Asset and Liability Management Team and ratified by the Board of Directors, based on an evaluation of current and future market conditions.

Members' Equity

The Credit Union is required by regulation to maintain a statutory 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.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Members' Equity (Continued)

Comprehensive income consists of net income and other comprehensive (loss) income. Accumulated other comprehensive loss, also recognized as a separate component of members' equity, includes valuation adjustments for available-for-sale securities, and transition obligations, prior service credits, and other gains and losses related to the Credit Union's defined benefit pension plan.

The changes in accumulated other comprehensive loss included in members' equity, by component, are as follows:

	Securities - Available-for- Sale	Defined Benefit Pension Plan	Total
BALANCES AT DECEMBER 31, 2012	\$ 1,212	\$ (4,830)	\$ (3,618)
Other Comprehensive Income (Loss) Before Reclassifications	(870)	2,862	1,992
Amounts Reclassified from Accumulated Other Comprehensive (Income) Loss	<u>(1,281)</u>	<u>-</u>	<u>(1,281)</u>
Net Prior-Period Other Comprehensive Income (Loss)	<u>(2,151)</u>	<u>2,862</u>	<u>711</u>
BALANCES AT DECEMBER 31, 2013	(939)	(1,968)	(2,907)
Other Comprehensive Income (Loss) Before Reclassifications	(479)	211	(268)
Amounts Reclassified from Accumulated Other Comprehensive (Income) Loss	<u>-</u>	<u>-</u>	<u>-</u>
Net Current-Period Other Comprehensive Income (Loss)	<u>(479)</u>	<u>211</u>	<u>(268)</u>
BALANCES AT DECEMBER 31, 2014	<u>\$ (1,418)</u>	<u>\$ (1,757)</u>	<u>\$ (3,175)</u>

Reclassifications from Accumulated Other Comprehensive Income/Loss for Securities – Available-for-Sale are posted through Net Gain on Sale of Assets on the Statements of Income. The components of Accumulated Other Comprehensive Income/Loss for defined benefit pension plans are included in the computation of net periodic pension cost. See defined benefit pension plan footnote for additional details.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

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

The income from the CUSOs, organized as LLCs, flows through to the Credit Union, and therefore is not subject to federal and state income taxes.

Retirement Plans

Defined Benefit Pension Plan - The Credit Union provides a contributory defined benefit pension plan covering substantially all of the Credit Union's employees who are eligible as to age and length of service. The Credit Union's funding policy is to make the minimum annual contribution that is required by the Employee Retirement Income Security Act of 1974. Effective January 31, 2002, the Plan was frozen. Accordingly, the participants ceased to earn additional benefits under the Plan and no additional employees shall become eligible to participate in the Plan. Effective September 30, 2014, the Plan was terminated, but not yet settled. A termination application was submitted to the Pension Benefit Guaranty Corporation, who will review the Plan to determine if benefits have been calculated correctly for all of the participants who are entitled to benefits. The Credit Union expects the plan obligation to be settled in 2015, at which time a gain or loss, which has not yet been determined, will be recognized.

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 and/or a profit sharing contribution as approved by the Trustees of the Plan. The Credit Union's contributions to the plan approximated \$1,532 and \$1,992 for the years ended December 31, 2014 and 2013, respectively.

Deferred Compensation Plan – The Credit Union has a non-qualified deferred compensation plan for senior management. Under the terms of the plan, the participants are entitled to a specified amount if they remain employed by the Credit Union until a predetermined time. If these employees become fully disabled as defined in the agreement, accrued benefits are immediately payable. The benefits are subject to forfeiture if employment is terminated for cause as defined in the agreements. The estimated liability under the agreements is being accrued as defined in the plans over the remaining years of service.

Advertising Costs

Advertising and promotion costs which totaled approximately \$5,634 and \$5,559 for the years ending December 31, 2014 and 2013, respectively, are expensed as incurred.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

In 2014, the Credit Union adopted Accounting Standards Update (ASU) 2013-02, *Comprehensive Income (Topic 220)*. ASU 2013-02 amended prior guidance to improve the reporting of reclassifications out of accumulated other comprehensive income (loss) by requiring an entity to provide information about the amounts reclassified out of accumulated other comprehensive income (loss) by component. In addition, an entity is required to present, either on the face of the statement or in the notes, significant amounts reclassified out of accumulated other comprehensive income (loss) by the respective line items of net income (loss) if the amount reclassified is required under U.S. GAAP. The impact of the adoption of ASU 2013-02 did not have a material impact on the Credit Union's financial position or results of operations.

Subsequent Events

In preparing these consolidated financial statements, the Credit Union has evaluated events and transactions for potential recognition or disclosure through March 3, 2015, the date the consolidated financial statements were available to be issued.

Reclassification of Previous Year Financial Data

Financial data in the 2013 consolidated financial statements has been reclassified to conform with the presentation of the 2014 consolidated financial statements. This reclassification did not have any change on net income or members' equity.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
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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)
December 31, 2014				
U.S. Government Obligations and Federal Agency Securities	\$ 95,365	\$ 128	\$ (27)	\$ 95,466
Mutual Funds of U.S. Government Securities	<u>287,147</u>	<u>-</u>	<u>(1,519)</u>	<u>285,628</u>
	<u>\$ 382,512</u>	<u>\$ 128</u>	<u>\$ (1,546)</u>	<u>\$ 381,094</u>
December 31, 2013				
U.S. Government Obligations and Federal Agency Securities	\$ 81,268	\$ 367	\$ -	\$ 81,635
Mutual Funds of U.S. Government Securities	<u>285,713</u>	<u>-</u>	<u>(1,306)</u>	<u>284,407</u>
	<u>\$ 366,981</u>	<u>\$ 367</u>	<u>\$ (1,306)</u>	<u>\$ 366,042</u>

There were no sales of securities available-for-sale resulting in a gain or loss during the year ended December 31, 2014. Sales of securities available-for-sale resulted in gross gains of approximately \$1,456 and gross losses of approximately \$175 during the year ended December 31, 2013.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

The amortized cost and estimated fair value of securities, at December 31, 2014, 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. Mutual funds have no contractual maturity date.

	Available-for-Sale	
	Amortized Cost	Estimated Fair Value (Carrying Value)
U.S. Government Obligations and Federal Agency Securities:		
Less Than One Year	\$ 35,019	\$ 35,044
One to Five Years	60,346	60,422
	95,365	95,466
Mutual Funds of U.S. Government Securities	287,147	285,628
	\$ 382,512	\$ 381,094

Temporarily Impaired Securities

Information pertaining to securities available-for-sale 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
December 31, 2014				
U.S. Government Obligations and Federal Agency Securities	\$ (27)	\$ 29,996	\$ -	\$ -
Mutual Funds of U.S. Government Securities	-	-	(1,519)	285,628
	\$ (27)	\$ 29,996	\$ (1,519)	\$ 285,628
December 31, 2013				
Mutual Funds of U.S. Government Securities	\$ (1,306)	\$ 274,307	\$ -	\$ -

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
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NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

At December 31, 2014, the six securities and mutual funds with unrealized losses have depreciated 0.49% 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:

	December 31,	
	2014	2013
Perpetual Paid-in Capital Account	\$ 1,575	\$ 1,575
FHLB Stock	39,118	39,118
Investments in CUSOs	1,815	1,365
	\$ 42,508	\$ 42,058

Perpetual Paid-in Capital Account

The Credit Union maintains a perpetual paid-in capital account with Eastern Corporate Federal Credit Union (EasCorp) that is uninsured and can only be paid back to the Credit Union at the discretion of EasCorp.

This uninsured deposit is part of the corporate credit union's regulatory capital and is 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 (FHLB) of Boston 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.

Investments in CUSOs

The Credit Union has minor ownership interests in other CUSOs providing services to the credit union market.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 LOANS, NET

The composition of loans is as follows:

	2014	2013
Consumer:		
Auto	\$ 1,768,686	\$ 1,128,298
Credit Cards	413,459	371,673
Student Loans	123,964	115,663
Other	66,648	44,995
Subtotal	2,372,757	1,660,629
Residential Real Estate:		
First Mortgages	1,569,418	1,550,895
Second Mortgages	574,784	522,237
Subtotal	2,144,202	2,073,132
Commercial Real Estate	571,467	503,269
Commercial Other	24,874	23,268
	5,113,300	4,260,298
Net Deferred Loan Origination Costs	22,605	18,696
Allowance for Loan Losses	(47,712)	(52,040)
	\$ 5,088,193	\$ 4,226,954

The Credit Union has sold loan participations to various other 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 real estate loan segments above totaled \$106,374 and \$115,328 at December 31, 2014 and 2013, respectively.

The Credit Union offers non-traditional mortgage loans to its members. These loans include hybrid loans that consist of loans that are fixed for an initial period of three, five, seven, or ten years. After this period, the mortgages are converted to variable rates using an indexed rate, which can result in significant payment shock to the borrower.

Non-traditional mortgage loans may have significantly different credit risk characteristics than traditional fixed and variable rate mortgages. However, the Credit Union believes it has established prudent underwriting standards as well as adequate risk management functions to monitor the additional risk. Non-traditional mortgage loans, which are included in the real estate and commercial loan captions above, totaled approximately \$876,265 and \$823,720 at December 31, 2014 and 2013, respectively.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 LOANS, NET (CONTINUED)

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

December 31, 2014	Consumer	Residential Real Estate	Commercial	Total
Allowance for Loan Losses:				
Balance at Beginning of Year	\$ 27,504	\$ 22,022	\$ 2,514	\$ 52,040
Provision (Credit) for Loan Losses	13,509	(566)	(1,293)	11,650
Loans Charged-Off	(14,459)	(3,807)	(40)	(18,306)
Recoveries of Loans				
Previously Charged-Off	1,319	723	286	2,328
Balance at End of Year	<u>\$ 27,873</u>	<u>\$ 18,372</u>	<u>\$ 1,467</u>	<u>\$ 47,712</u>
 Ending Balance: Individually Evaluated for Impairment	 <u>\$ 5,905</u>	 <u>\$ 10,419</u>	 <u>\$ 681</u>	 <u>\$ 17,005</u>
 Ending Balance: Collectively Evaluated for Impairment	 <u>\$ 21,968</u>	 <u>\$ 7,953</u>	 <u>\$ 786</u>	 <u>\$ 30,707</u>
 Total Allowance for Loan Losses	 <u>\$ 27,873</u>	 <u>\$ 18,372</u>	 <u>\$ 1,467</u>	 <u>\$ 47,712</u>
 Loans:				
Ending Balance: Individually Evaluated for Impairment	<u>\$ 17,796</u>	<u>\$ 85,647</u>	<u>\$ 8,790</u>	<u>\$ 112,233</u>
 Ending Balance: Collectively Evaluated for Impairment	 <u>\$ 2,354,961</u>	 <u>\$ 2,058,555</u>	 <u>\$ 587,551</u>	 <u>\$ 5,001,067</u>
 Total Loans	 <u>\$ 2,372,757</u>	 <u>\$ 2,144,202</u>	 <u>\$ 596,341</u>	 <u>\$ 5,113,300</u>

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
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NOTE 3 LOANS, NET (CONTINUED)

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

December 31, 2013	Consumer	Residential Real Estate	Commercial	Total
Allowance for Loan Losses:				
Balance at Beginning of Year	\$ 19,552	\$ 30,798	\$ 4,469	\$ 54,819
Provision (Credit) for Loan Losses	21,335	(2,421)	(1,414)	17,500
Loans Charged-Off	(14,956)	(8,703)	(1,173)	(24,832)
Recoveries of Loans				
Previously Charged-Off	1,573	2,348	632	4,553
Balance at End of Year	<u>\$ 27,504</u>	<u>\$ 22,022</u>	<u>\$ 2,514</u>	<u>\$ 52,040</u>
Ending Balance: Individually Evaluated for Impairment	<u>\$ 6,038</u>	<u>\$ 12,030</u>	<u>\$ 757</u>	<u>\$ 18,825</u>
Ending Balance: Collectively Evaluated for Impairment	<u>\$ 21,466</u>	<u>\$ 9,992</u>	<u>\$ 1,757</u>	<u>\$ 33,215</u>
Total Allowance for Loan Losses	<u>\$ 27,504</u>	<u>\$ 22,022</u>	<u>\$ 2,514</u>	<u>\$ 52,040</u>
Loans:				
Ending Balance: Individually Evaluated for Impairment	<u>\$ 24,654</u>	<u>\$ 93,389</u>	<u>\$ 11,064</u>	<u>\$ 129,107</u>
Ending Balance: Collectively Evaluated for Impairment	<u>\$ 1,635,975</u>	<u>\$ 1,979,743</u>	<u>\$ 515,473</u>	<u>\$ 4,131,191</u>
Total Loans	<u>\$ 1,660,629</u>	<u>\$ 2,073,132</u>	<u>\$ 526,537</u>	<u>\$ 4,260,298</u>

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

December 31, 2014	Commercial Credit Risk Profile by Risk Rating		
	Commercial Real Estate	Commercial Other	Total
	Risk Rating:		
Pass - 1 Through 6	\$ 561,943	\$ 24,654	\$ 586,597
Watch - 7	3,880	-	3,880
Substandard - 8	5,358	220	5,578
Doubtful - 9	286	-	286
Total	<u>\$ 571,467</u>	<u>\$ 24,874</u>	<u>\$ 596,341</u>

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 LOANS, NET (CONTINUED)

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

Risk Rating:	Commercial Credit Risk Profile by Risk Rating		
	Commercial	Commercial	Total
	Real Estate	Other	
Pass - 1 Through 6	\$ 490,689	\$ 22,756	\$ 513,445
Watch - 7	6,473	119	6,592
Substandard - 8	5,810	393	6,203
Doubtful - 9	297	-	297
Total	<u>\$ 503,269</u>	<u>\$ 23,268</u>	<u>\$ 526,537</u>

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.

	Payment Activity		
	Performing	Non-Performing	Total
December 31, 2014			
Consumer:			
Auto	\$ 1,763,960	\$ 4,726	\$ 1,768,686
Credit Cards	411,000	2,459	413,459
Student Loans	122,999	965	123,964
Other	66,230	418	66,648
Residential Real Estate:			
First Mortgages	1,559,667	9,751	1,569,418
Second Mortgages	571,660	3,124	574,784
	<u>\$ 4,495,516</u>	<u>\$ 21,443</u>	<u>\$ 4,516,959</u>

	Payment Activity		
	Performing	Non-Performing	Total
December 31, 2013			
Consumer:			
Auto	\$ 1,124,736	\$ 3,562	\$ 1,128,298
Credit Cards	368,907	2,766	371,673
Student Loans	114,850	813	115,663
Other	44,654	341	44,995
Residential Real Estate:			
First Mortgages	1,538,520	12,375	1,550,895
Second Mortgages	518,401	3,836	522,237
	<u>\$ 3,710,068</u>	<u>\$ 23,693</u>	<u>\$ 3,733,761</u>

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
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NOTE 3 LOANS, NET (CONTINUED)

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

December 31, 2014	Accruing Interest				Total Loans
	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual 90 Days or More Past Due	
Auto	\$ 1,754,618	\$ 9,342	\$ -	\$ 4,726	\$ 1,768,686
Credit Cards	407,392	3,608	2,459	-	413,459
Student Loans	121,121	1,878	965	-	123,964
Other	65,751	479	-	418	66,648
First Mortgages	1,539,037	20,630	-	9,751	1,569,418
Second Mortgages	566,460	5,200	-	3,124	574,784
Commercial Real Estate	570,086	1,106	-	275	571,467
Commercial Other	24,771	50	-	53	24,874
	<u>\$ 5,049,236</u>	<u>\$ 42,293</u>	<u>\$ 3,424</u>	<u>\$ 18,347</u>	<u>\$ 5,113,300</u>

December 31, 2013	Accruing Interest				Total Loans
	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual 90 Days or More Past Due	
Auto	\$ 1,114,840	\$ 9,896	\$ -	\$ 3,562	\$ 1,128,298
Credit Cards	365,701	3,206	2,766	-	371,673
Student Loans	112,763	2,087	813	-	115,663
Other	44,190	464	-	341	44,995
First Mortgages	1,519,979	18,541	-	12,375	1,550,895
Second Mortgages	513,266	5,135	-	3,836	522,237
Commercial Real Estate	501,744	968	-	557	503,269
Commercial Other	23,146	92	-	30	23,268
	<u>\$ 4,195,629</u>	<u>\$ 40,389</u>	<u>\$ 3,579</u>	<u>\$ 20,701</u>	<u>\$ 4,260,298</u>

Interest income foregone on nonaccrual loans was immaterial for the years ended December 31, 2014 and 2013.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
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NOTE 3 LOANS, NET (CONTINUED)

The following tables present information related to impaired loans:

December 31, 2014	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With No Related Allowance:					
Consumer	\$ -	\$ -	\$ -	\$ 2,413	\$ -
Residential Real Estate	18,967	18,967	-	18,864	-
Commercial	4,753	4,753	-	5,759	-
With An Allowance Recorded:					
Consumer	17,796	17,796	5,905	18,813	-
Residential Real Estate	66,680	66,680	10,419	70,655	-
Commercial	4,037	4,037	681	4,168	-
Total Impaired Loans:					
Consumer	\$ 17,796	\$ 17,796	\$ 5,905	\$ 21,226	\$ -
Residential Real Estate	\$ 85,647	\$ 85,647	\$ 10,419	\$ 89,519	\$ -
Commercial	\$ 8,790	\$ 8,790	\$ 681	\$ 9,927	\$ -
December 31, 2013	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With No Related Allowance:					
Consumer	\$ 4,825	\$ 4,825	\$ -	\$ 4,837	\$ -
Residential Real Estate	18,760	18,760	-	16,259	-
Commercial	6,765	6,765	-	12,390	-
With An Allowance Recorded:					
Consumer	19,829	19,829	6,038	13,106	-
Residential Real Estate	74,629	74,629	12,030	78,633	-
Commercial	4,299	4,299	757	3,340	-
Total Impaired Loans:					
Consumer	\$ 24,654	\$ 24,654	\$ 6,038	\$ 17,943	\$ -
Residential Real Estate	\$ 93,389	\$ 93,389	\$ 12,030	\$ 94,892	\$ -
Commercial	\$ 11,064	\$ 11,064	\$ 757	\$ 15,730	\$ -

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.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
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NOTE 3 LOANS, NET (CONTINUED)

Summaries of loans modified in troubled debt restructurings and those related restructurings for which there was a payment default (90 days) during the years ended December 31, 2014 and 2013 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 December 31, 2014			
		Troubled Debt Restructurings		Troubled Debt Restructurings That Subsequently Defaulted	
		Number of Loans	Post-modification Outstanding Balance	Number of Loans	Post-modification Outstanding Balance
Student Loans		64	\$ 3,311	4	\$ 151
First Mortgages		26	6,195	-	-
Second Mortgages		14	685	-	-
		104	10,191	4	151
		During the Year Ended December 31, 2013			
		Troubled Debt Restructurings		Troubled Debt Restructurings That Subsequently Defaulted	
		Number of Loans	Post-modification Outstanding Balance	Number of Loans	Post-modification Outstanding Balance
First Mortgages		38	\$ 11,628	1	\$ 72
Second Mortgages		10	645	-	-
		48	\$ 12,273	1	\$ 72

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 \$1,059,388 and \$1,017,036 at December 31, 2014 and 2013, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing were \$4,520 and \$4,134 at December 31, 2014 and 2013, respectively.

The balance of capitalized servicing rights, net of valuation allowances, is included in Other Assets and totaled \$5,971 and \$5,024 at December 31, 2014 and 2013, respectively. The fair values of these rights were \$7,920 and \$7,630 at December 31, 2014 and 2013, respectively. The fair value of servicing rights was determined using discount rates ranging from 7.39 percent to 16.07 percent and prepayment speeds ranging from 7.40 percent to 34.30 percent, depending upon the stratification of the specific right, and a weighted average coupon rate of 4.29 percent.

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NOTE 4 LOAN SERVICING (CONTINUED)

The following summarizes the activity pertaining to servicing rights capitalized and amortized, along with the aggregate activity in related valuation allowances:

	Years Ended December 31,	
	2014	2013
Servicing Rights:		
Balance at Beginning of Year	\$ 7,963	\$ 6,325
Servicing Rights Capitalized	1,964	3,179
Servicing Rights Amortized	(1,017)	(1,541)
Balance at End of Year	<u>\$ 8,910</u>	<u>\$ 7,963</u>
Valuation Allowances:		
Balance at Beginning of Year	\$ 2,939	\$ 2,939
Additions	-	-
Balance at End of Year	<u>\$ 2,939</u>	<u>\$ 2,939</u>

NOTE 5 PREMISES AND EQUIPMENT, NET

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

	December 31,	
	2014	2013
Land	\$ 10,054	\$ 10,035
Building	42,889	41,531
Furniture and Equipment	18,821	19,616
Leasehold Improvements	6,131	6,768
Construction in Progress	394	661
	<u>78,289</u>	<u>78,611</u>
Less: Accumulated Depreciation and Amortization	<u>(27,275)</u>	<u>(26,451)</u>
	<u>\$ 51,014</u>	<u>\$ 52,160</u>

Lease Commitments

The Credit Union is obligated under noncancelable operating leases for office space in Massachusetts and New Hampshire. Some of the leases contain renewal options for periods from three to five years at their fair rental value at the time of renewal. Net rent expense under operating leases, included in Occupancy Expenses, was approximately \$4,238 and \$3,516 for the years ended December 31, 2014 and 2013, respectively.

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NOTE 5 PREMISES AND EQUIPMENT, NET (CONTINUED)

Lease Commitments (Continued)

The required minimum rental payments under the terms of these noncancelable leases at December 31, 2014 are as follows:

Years Ending December 31:		
2015	\$	3,152
2016		2,239
2017		1,877
2018		1,668
2019		1,472
Thereafter		7,128
	\$	17,536

In 2014, the Credit Union entered into two lease agreements for new branches that were not included in the table above. The commencement dates are still undeterminable and the payments do not lock in until the commencement date is determined.

NOTE 6 MEMBERS' SHARE AND SAVINGS ACCOUNTS

Members' share and savings accounts are as follows:

	December 31,	
	2014	2013
Share Savings	\$ 954,884	\$ 793,277
Share Drafts	1,223,828	1,038,749
Money Market	1,666,890	1,430,036
IRA Deposits	45,777	44,378
Share and IRA Certificates	882,104	931,390
	\$ 4,773,483	\$ 4,237,830

Pursuant to a change in the Accounting Standards Codification (ASC 942-405-50-1), the concentration threshold for reporting certificates of deposit was increased from \$100 to \$250. The aggregate amounts of certificates of deposit in denominations of \$250 or more was approximately \$70,535 at December 31, 2014. The aggregate amounts of certificates of deposit in denominations of \$100 or more was approximately \$306,384 at December 31, 2013.

Overdrawn share accounts reclassified to unsecured loans to members totaled \$783 and \$782 at December 31, 2014 and 2013, respectively.

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NOTE 6 MEMBERS' SHARE AND SAVINGS ACCOUNTS (CONTINUED)

As of December 31, 2014, scheduled maturities of share and IRA certificates are as follows:

Years Ending December 31:		
2015	\$	462,752
2016		222,024
2017		87,179
2018		63,098
2019		46,987
Thereafter		63
	\$	882,104

Member accounts are insured to at least \$250 by the National Credit Union Share Insurance Fund (NCUSIF). The NCUSIF is a federal insurance fund backed by the full faith and credit of the U.S. government.

NOTE 7 BORROWED FUNDS

At December 31, 2014 and 2013, the Credit Union had an available line of credit of \$50,000 with Eastern Corporate Federal Credit Union. The interest rates applied on any borrowing are determined on that date. Certificates of deposit and auto loans are pledged as collateral on the line of credit. 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 December 31, 2014 and 2013.

The Credit Union has entered into an Advances, Pledge, and Security Agreement with the Federal Home Loan Bank (FHLB) of Boston whereby specific mortgage loans of the Credit Unions with advance equivalents of approximately \$1,124,706 and \$1,147,961 at December 31, 2014 and 2013, respectively, were pledged to the FHLB as collateral in the event the Credit Union requests any advances on the line.

The Credit Union has access to an Ideal Way line of credit with the FHLB. The agreement provides for a credit limit of \$1,000 with interest charged at a rate determined by the lender on a periodic basis. There were no balances outstanding under this agreement at December 31, 2014 and 2013.

The Credit Union has been approved to borrow through the Federal Reserve Bank's Discount Window. The terms of this agreement call for the pledging of certain investments as security for any and all obligations taken by the Credit Union under this agreement. At December 31, 2014 and 2013, the Credit Union had a credit limit of \$94,050 and \$79,200, respectively. The line has no expiration date, but is subject to review and change by the issuing institution. There were no balances outstanding under this agreement at December 31, 2014 and 2013.

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NOTE 7 BORROWED FUNDS (CONTINUED)

Borrowed funds consisted of the following:

	December 31,	
	2014	2013
Term Note from FHLB at interest rate of 0.93%, maturing September 2, 2014	\$ -	\$ 100,000
Term Note from FHLB at interest rate of 0.80%, maturing November 30, 2016	20,000	20,000
Term Note from FHLB at interest rate of 1.05%, maturing September 25, 2017	50,000	50,000
Term Note from FHLB at interest rate of 1.89%, maturing July 2, 2018	80,000	80,000
Term Note from FHLB at interest rate of 1.25%, maturing November 30, 2018	80,000	80,000
Term Note from FHLB at interest rate of 2.63%, maturing September 13, 2019	75,000	75,000
Term Note from FHLB at interest rate of 1.50%, maturing September 30, 2019	55,000	55,000
Term Note from FHLB at interest rate of 2.09%, maturing December 26, 2019	30,000	-
Term Note from FHLB at interest rate of 1.75%, maturing April 13, 2020	50,000	50,000
Term Note from FHLB at interest rate of 2.45%, maturing September 21, 2020	60,000	-
Term Note from FHLB at interest rate of 2.62%, maturing March 18, 2021	75,000	-
Term Note from FHLB at interest rate of 2.50%, maturing December 9, 2021	40,000	-
	<u>\$ 615,000</u>	<u>\$ 510,000</u>

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NOTE 7 BORROWED FUNDS (CONTINUED)

As of December 31, 2014, the maturities of borrowed funds are as follows:

Year Ended December 31:	
2016	\$ 20,000
2017	50,000
2018	160,000
2019	160,000
Thereafter	225,000
	\$ 615,000

NOTE 8 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 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-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 below) 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 December 31, 2014, the most recent quarterly regulatory filing date, was 4.88%. The minimum ratio to be considered complex under the regulatory framework is 6.00%. Management believes, as of December 31, 2014, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2014, the most recent Call reporting period, the NCUA categorized the Credit Union 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 institutions category.

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NOTE 8 REGULATORY NET WORTH REQUIREMENTS (CONTINUED)

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
<u>December 31, 2014</u>						
Net Worth	\$ 540,434	9.06%	\$ 358,037	6.00%	\$ 417,710	7.00%
Risk-Based Net Worth Requirement	\$ 291,204	4.88%	N/A	N/A	N/A	N/A
<u>December 31, 2013</u>						
Net Worth	\$ 469,613	8.94%	\$ 315,169	6.00%	\$ 367,697	7.00%
Risk-Based Net Worth Requirement	\$ 239,528	4.56%	N/A	N/A	N/A	N/A

Because RBNWR at December 31, 2014 is less than the regulatory net worth ratio 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.

NOTE 9 RELATED PARTY TRANSACTIONS

Included in Loans, Net at December 31, 2014 and 2013, are loans to the Credit Union's Board of Directors, Committee Members, and Senior Executive Staff of approximately \$2,503 and \$2,484, 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 December 31, 2014 and 2013 are approximately \$1,796 and \$1,814, respectively.

NOTE 10 COMMITMENTS AND CONTINGENT LIABILITIES

Off-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.

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NOTE 10 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

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

	December 31,	
	2014	2013
Commitments to Grant Collateralized Loans		
First Mortgages	\$ 13,391	\$ 2,463
Home Equity	7,194	1,634
Commercial Real Estate	14,539	26,852
Unfunded Secured Commitments Under Lines of Credit		
Home Equity	503,451	468,959
Commercial Real Estate	24,051	8,677
Unfunded Unsecured Commitments Under Lines of Credit		
Credit Card	1,398,973	1,297,550
Commercial	12,486	10,847
Student Loans	52,466	54,618
Other Consumer	22,064	21,290
	<u>\$ 2,048,615</u>	<u>\$ 1,892,890</u>

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 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.

Loan Funding Commitments

Mortgage loan commitments are referred to as derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. The Credit Union enters into commitments to fund residential mortgage loans at specified times in the future, with the intention that these loans will subsequently be sold in the secondary market. A mortgage loan commitment binds the Credit Union to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60 days after inception of the rate lock.

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NOTE 10 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Loan Funding Commitments (Continued)

Outstanding derivative loan commitments expose the Credit Union to the risk that the price of the loans arising from exercise of the loan commitment might decline from inception of the rate lock to funding of the loan due to increases in mortgage interest rates. If interest rates increase, the value of these loan commitments decreases. Conversely, if interest rates decrease, the value of these loan commitments increases.

As of December 31, 2014 and 2013, the Credit Union had commitments to fund mortgage loans with agreed-upon rates amounting to \$19,691 and \$26,770, respectively. The fair value of these commitments was not significant to the Credit Union at December 31, 2014 and 2013.

Forward Sales Commitments

To protect against the price risk inherent in derivative loan commitments, the Credit Union utilizes both "mandatory delivery" and "best efforts" forward cash sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments.

With a "mandatory delivery" contract, the Credit Union commits to deliver a certain principal amount of mortgage loans to an investor at a specified price on or before a specified date. If the Credit Union fails to deliver the amount of mortgages necessary to fulfill the commitment by the specified date, it is obligated to pay a "pair-off" fee, based on then-current market prices, to the investor to compensate the investor for the shortfall.

With a "best efforts" contract, the Credit Union commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor if the loan to the underlying borrower closes. Generally, the price the investor will pay the seller for an individual loan is specified prior to the loan being funded (for example, on the same day the lender commits to lend funds to a potential borrower).

The Credit Union expects that these forward cash sale commitments will experience changes in fair value opposite to the change in fair value of derivative loan commitments.

Commitments to sell loans generally have fixed expiration dates or other termination clauses and may require the payment of a fee. The Credit Union may settle the forward sales commitments on a net basis; therefore, the commitments outstanding do not necessarily represent future cash obligations. The Credit Union has \$41,500 and \$35,783 of forward sales commitments outstanding as of December 31, 2014 and 2013, respectively, which will be settled within 90 days of the individual commitment date. The fair value of these commitments was not significant to the Credit Union at December 31, 2014 and 2013.

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 consolidated financial condition of the Credit Union.

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NOTE 11 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 table presents the balances of the assets and liabilities measured at fair value on a recurring basis:

December 31, 2014	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Available-for-Sale Securities:				
U.S. Government Obligations and Federal Agency Securities	\$ -	95,466	\$ -	\$ 95,466
Mutual Funds of U.S. Government Securities	-	285,628	-	285,628
Total Assets	\$ -	\$ 381,094	\$ -	\$ 381,094
December 31, 2013	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Available-for-Sale Securities:				
U.S. Government Obligations and Federal Agency Securities	\$ -	\$ 81,635	\$ -	\$ 81,635
Mutual Funds of U.S. Government Securities	-	284,407	-	284,407
Total Assets	\$ -	\$ 366,042	\$ -	\$ 366,042

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

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.

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NOTE 11 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 December 31, 2014 and 2013 consisted of the following:

	Fair Value at December 31, 2014			Impairment Losses
	Level 1	Level 2	Level 3	
Impaired Loans	\$ -	\$ -	\$ 12,128	\$ 3,449
Foreclosed Assets	-	-	2,173	897

	Fair Value at December 31, 2013			Impairment Losses
	Level 1	Level 2	Level 3	
Impaired Loans	\$ -	\$ -	\$ 10,839	\$ 4,261
Foreclosed Assets	-	-	4,808	696

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:

	December 31, 2014			Range (Average)
	Fair Value	Valuation Technique	Unobservable Input	
Impaired Loans	\$ 12,128	Evaluation of Collateral	Estimation of Value	Not Meaningful
Foreclosed Assets	2,173	Appraisal	Appraisal Adjustment	Not Meaningful

	December 31, 2013			Range (Average)
	Fair Value	Valuation Technique	Unobservable Input	
Impaired Loans	\$ 10,839	Evaluation of Collateral	Estimation of Value	Not Meaningful
Foreclosed Assets	4,808	Appraisal	Appraisal Adjustment	Not Meaningful

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.

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NOTE 11 FAIR VALUE (CONTINUED)

Impaired Loans (Continued)

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.

Financial Instruments

Disclosures of fair value information about financial instruments, for which it is practicable to estimate that value, is required whether or not recognized in the Consolidated Statements of Financial Condition. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimate of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases could not be realized in immediate settlement of the instruments. Certain financial instruments with a fair value that is not practicable to estimate and all non-financial instruments are excluded from the disclosure requirements. Accordingly, the aggregate fair value amounts presented do not necessarily represent the underlying value of the Credit Union.

The following disclosures represent financial instruments in which the ending balances at December 31, 2014 and 2013 are not carried at fair value in their entirety on the Consolidated Statements of Financial Condition.

Cash and Cash Equivalents and Deposits in Corporate Federal Credit Union: The carrying amounts for cash and cash equivalents and deposits in other financial institutions approximate those assets' fair values.

Other Investments: The carrying amount of other investments approximates their fair value.

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NOTE 11 FAIR VALUE (CONTINUED)

Financial Instruments (Continued)

Loans Held-for-Sale: The carrying amount of loans held-for-sale approximates fair value.

Loans, Net: Fair value is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loan prepayments are assumed to occur at a similar rate as in previous periods.

Accrued Interest Receivable: Accrued interest receivable represents interest on loans and investments. The carrying amount of accrued interest receivable approximates fair value.

Members' Share and Savings Accounts: The fair value of members' share and savings accounts is the amount payable on demand at the reporting date. The fair value of share certificates is estimated by discounting the future cash flows using the market rates offered as of December 31 for similar deposits with the same remaining maturities.

Borrowed Funds: The carrying amounts of short-term borrowed funds maturing within 90 days approximate their fair values. Fair values of long-term borrowed funds are estimated using discounted cash flow analyses based on the Credit Union's incremental borrowing rates for similar types of borrowing arrangements.

Off-Statement of Financial Condition Loan Commitments: The Credit Union has entered into variable rate loan commitments at December 31, 2014 and 2013. The Credit Union charges no fees for these commitments. Because the rates at which these commitments are entered into do not significantly differ from market rates, they have no quantifiable value.

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NOTE 11 FAIR VALUE (CONTINUED)

Financial Instruments (Continued)

The following table presents the carrying amounts and estimated fair values of the Credit Union's financial instruments at December 31:

	2014		2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<u>Financial Assets</u>				
Cash and Cash Equivalents	\$ 252,578	\$ 252,578	\$ 411,217	\$ 411,217
Deposits in Corporate				
Federal Credit Union	44,000	44,000	69,000	69,000
Other Investments	42,508	42,508	42,058	42,058
Loans Held-for-Sale	32,655	32,655	13,994	13,994
Loans, Net	5,088,193	5,091,711	4,226,954	4,123,814
Accrued Interest Receivable	16,061	16,061	15,231	15,231
<u>Financial Liabilities</u>				
Members' Share and				
Savings Accounts	\$ 4,773,483	4,860,166	\$ 4,237,830	\$ 4,281,084
Borrowed Funds	615,000	617,493	510,000	499,455

NOTE 12 DEFINED BENEFIT PENSION PLAN

The Credit Union's defined benefit pension plan is described in Note 1, which also discusses the plan termination effective September 30, 2014. The plan calls for benefits to be paid to employees at retirement based on an actuarial valuation consisting primarily of years of service and compensation.

The following table sets forth the funded status, change in plan assets, and net periodic benefit pension costs for the plan at December 31, 2014 and 2013, which are based on the plan continuing. Termination of the plan will eliminate the obligation, resulting in a gain or loss recognized at the time of settlement:

	December 31,	
	2014	2013
As of Most Recent Actuarial Valuation:		
Projected Benefit Obligation	\$ 7,449	\$ 7,027
Fair Value of Plan Assets	5,380	5,602
Funded Status of Plan at Year End	<u>\$ (2,069)</u>	<u>\$ (1,425)</u>
Accumulated Benefit Obligation	<u>\$ 7,449</u>	<u>\$ 7,027</u>

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NOTE 12 DEFINED BENEFIT PENSION PLAN (CONTINUED)

	<u>2014</u>	<u>2013</u>
Assumptions used to Determine Benefit Obligation:		
Weighted Average Discount Rate	4.00%	4.75%
Rate of Future Compensation Increase	N/A	N/A
Years Ended December 31,		
Employer Contribution	\$ 196	\$ 818
Plan Participants' Contributions	-	-
Benefits Paid	187	185
Net Pension Cost	964	1,481
Assumptions used to Determine Net Pension Cost:		
Weighted Average Discount Rate	4.75%	4.00%
Expected Long-Term Return on Plan Assets	7.00%	7.00%
Rate of Compensation Increase	N/A	N/A
Included in Consolidated Statements of Financial Condition:		
Liability for Pension	<u>\$ (2,069)</u>	<u>\$ (1,725)</u>
Included in Other Comprehensive Income:		
Net Unrecognized Income	<u>\$ 211</u>	<u>\$ 2,862</u>

The discount rate and expected rate of return on plan assets are critical assumptions which significantly affect pension accounting. Even relatively small changes in these rates would significantly change the recorded pension expense and accrued liability. Management believes the discount rate and expected rate of return on plan assets used in determining its year-end pension accounting are reasonable based on currently available information. However, it is at least reasonably possible that these assumed rates will be revised in the near term, based on future events and changes in circumstances.

The overall expected long-term rate of return on plan assets represents a weighted average composition rate based on expected rates of return. The Credit Union's pension plan weighted-average asset allocations by asset category are as follows:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Equity Securities	6%	23%
Debt Securities	4%	8%
Cash Equivalents	7%	1%
Mutual Funds	83%	68%
	<u>100%</u>	<u>100%</u>

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NOTE 12 DEFINED BENEFIT PENSION PLAN (CONTINUED)

The target asset allocation is to have approximately 6% of the plan's assets invested in equities, approximately 4% in bonds, approximately 82% in mutual funds, and approximately 8% in cash or other liquid investments.

The following table presents the balances of the defined benefit plan assets measured at fair value on a recurring basis as of:

December 31, 2014

	Level 1	Level 2	Level 3	Total
Defined Benefit Plan Assets:				
Equity Securities	\$ 303	\$ -	\$ -	\$ 303
Debt Securities	-	216	-	216
Cash Equivalents	408	-	-	408
Mutual Funds	4,453	-	-	4,453
Total Assets	<u>\$ 5,164</u>	<u>\$ 216</u>	<u>\$ -</u>	<u>\$ 5,380</u>

December 31, 2013

	Level 1	Level 2	Level 3	Total
Defined Benefit Plan Assets:				
Equity Securities	\$ 1,307	\$ -	\$ -	\$ 1,307
Debt Securities	-	432	-	432
Cash Equivalents	30	-	-	30
Mutual Funds	3,833	-	-	3,833
Total Assets	<u>\$ 5,170</u>	<u>\$ 432</u>	<u>\$ -</u>	<u>\$ 5,602</u>

The Credit Union expects to contribute approximately \$294 to the plan in 2015.

The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows for the years ending December 31:

2015	\$ 424
2016	738
2017	546
2018	355
2019	256
2020-2024	2,448

The Credit Union expects to recognize within net periodic benefit cost for 2015 the following amounts included in Other Comprehensive Income (Loss):

Amortization of Transition Obligation	-
Amortization of Prior Service Cost	-
Amortization of Net Loss	1,012

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NOTE 13 SUBSEQUENT EVENT

The Credit Union has signed letters of intent with five financial institutions for the sale of participation interests in automobile loans amounting to approximately \$300,000. The Credit Union will retain the servicing on these loans and will receive servicing fee income from the participants. The transactions are expected to occur in March 2015, subject to certain terms and conditions.