

United Federal Credit Union

**Consolidated Financial Report
with Additional Information
December 31, 2015**

United Federal Credit Union

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Independent Auditor's Report

To the Board of Directors
United Federal Credit Union

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of United Federal Credit Union (the "Credit Union"), which comprise the consolidated statement of financial condition as of December 31, 2015 and 2014 and the related consolidated statements of income, comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

To the Board of Directors
United Federal Credit Union

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of United Federal Credit Union as of December 31, 2015 and 2014 and the changes in financial position, comprehensive income, members' equity, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2016 on our consideration of United Federal Credit Union's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering United Federal Credit Union's internal control over financial reporting and compliance.

Plante & Moran, PLLC

February 8, 2016

United Federal Credit Union

Consolidated Statement of Financial Condition

	December 31, 2015	December 31, 2014
Assets		
Cash and cash equivalents	\$ 46,625,294	\$ 32,144,308
Investment securities - Available for sale (Note 2)	111,516,731	155,080,821
Time deposits with other financial institutions	148,000	148,000
Loans to members - Net (Note 3)	1,729,525,007	1,543,608,798
Accrued interest receivable	5,975,240	5,656,673
Premises and equipment - Net (Note 4)	82,349,814	63,629,046
NCUSIF deposit	11,932,188	11,372,458
FHLB stock	17,690,000	15,511,600
Corporate capital	600,000	600,000
Other assets	6,788,879	7,053,964
Total assets	<u>\$ 2,013,151,153</u>	<u>\$1,834,805,668</u>
Liabilities and Members' Equity		
Liabilities		
Members' shares and savings accounts (Note 5)	\$ 1,410,022,922	\$ 1,268,767,565
Line of credit (Note 6)	-	6,321,560
Borrowed funds (Note 7)	376,000,000	351,557,666
Accrued interest payable	899,965	840,300
Accrued and other current liabilities	19,193,412	17,345,818
Total liabilities	1,806,116,299	1,644,832,909
Members' Equity	207,034,854	189,972,759
Total liabilities and members' equity	<u>\$ 2,013,151,153</u>	<u>\$1,834,805,668</u>

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Consolidated Statement of Income

	Year Ended December 31	
	2015	2014
Interest Income		
Loans	\$ 88,036,979	\$ 79,780,037
Investment securities	2,446,249	2,877,379
Total interest income	90,483,228	82,657,416
Interest Expense		
Members' share and savings account	8,265,591	8,074,382
Borrowed funds and line of credit	5,510,116	4,881,787
Total interest expense	13,775,707	12,956,169
Net Interest Income - Before provision for loan losses	76,707,521	69,701,247
Provision for Loan Losses	10,248,686	10,205,425
Net Interest Income - After provision for loan losses (Note 3)	66,458,835	59,495,822
Noninterest Income		
Fees and charges	22,291,975	21,177,871
Insurance commissions	1,579,151	1,929,359
Other	3,931,622	1,877,976
Total noninterest income	27,802,748	24,985,206
Noninterest Expenses		
Compensation and benefits	42,827,169	38,210,374
Operating expenses	28,160,386	25,192,956
Occupancy	4,803,582	3,927,409
Other	1,012,096	778,067
Total noninterest expenses	76,803,233	68,108,806
Net Income	\$ 17,458,350	\$ 16,372,222

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Consolidated Statement of Comprehensive Income

	Year Ended	
	December 31, 2015	December 31, 2014
Net Income	\$ 17,458,350	\$ 16,372,222
Other Comprehensive (Loss) Income - Unrealized (loss) gain on securities	(396,255)	1,615,792
Comprehensive Income	\$ 17,062,095	\$ 17,988,014

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Consolidated Statement of Members' Equity

	<u>Appropriated</u>	<u>Unappropriated</u>	<u>Accumulated Other Comprehensive (Loss) Income</u>	<u>Total</u>
Balance - January 1, 2014	\$ 22,892,415	\$ 150,606,841	\$ (1,514,511)	\$ 171,984,745
Net income	-	16,372,222	-	16,372,222
Other comprehensive income	<u>-</u>	<u>-</u>	<u>1,615,792</u>	<u>1,615,792</u>
Balance - December 31, 2014	22,892,415	166,979,063	101,281	189,972,759
Net income	-	17,458,350	-	17,458,350
Other comprehensive loss	<u>-</u>	<u>-</u>	<u>(396,255)</u>	<u>(396,255)</u>
Balance - December 31, 2015	<u>\$ 22,892,415</u>	<u>\$ 184,437,413</u>	<u>\$ (294,974)</u>	<u>\$ 207,034,854</u>

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Consolidated Statement of Cash Flows

	Year Ended	
	December 31, 2015	December 31, 2014
Cash Flows from Operating Activities		
Net income	\$ 17,458,350	\$ 16,372,222
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	5,448,948	4,582,056
(Gain) loss on the sale of premises and equipment	(11,003)	170,398
Amortization of securities	1,299,848	1,674,014
Provision for loan losses	10,248,686	10,205,425
Net change in:		
Accrued interest receivable	(318,567)	(638,935)
Other assets	265,085	1,487,883
Accrued interest payable	59,665	19,084
Accrued expenses and other liabilities	1,847,594	3,838,767
Net cash provided by operating activities	36,298,606	37,710,914
Cash Flows from Investing Activities		
Proceeds from maturities and principal paydowns of investment securities - Available for sale	41,867,987	41,976,744
Net increase in loans to members	(196,164,895)	(232,033,429)
Increase in NCUSIF deposit	(559,730)	(70,812)
Purchases of FHLB stock	(2,178,400)	(3,461,600)
Proceeds from sale of premises and equipment	31,868	73,756
Purchases of premises and equipment	(24,190,581)	(14,638,278)
Net cash used in investing activities	(181,193,751)	(208,153,619)
Cash Flows from Financing Activities		
Net increase in members' shares and savings accounts	141,255,357	48,448,462
Proceeds from FHLB advances	173,000,000	201,400,000
Repayment of FHLB advances	(148,557,666)	(76,210,222)
Net repayment on line of credit	(6,321,560)	(7,032,374)
Net cash provided by financing activities	159,376,131	166,605,866
Net Increase (Decrease) in Cash and Cash Equivalents	14,480,986	(3,836,839)
Cash and Cash Equivalents - Beginning of year	32,144,308	35,981,147
Cash and Cash Equivalents - End of year	\$ 46,625,294	\$ 32,144,308
Supplemental Cash Flow Information - Cash paid for interest	\$ 13,716,042	\$ 12,937,085

As of December 31, 2014, the Credit Union had \$2,285,607 of accrued expenses recorded associated with the purchase of premises and equipment. There were no noncash transactions during 2015.

United Federal Credit Union

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Note I - Nature of Business and Significant Accounting Policies

Nature of Business - United Federal Credit Union (the "Credit Union") is a nonprofit financial cooperative operating in Michigan, Ohio, Arkansas, North Carolina, Nevada, and Indiana. The Credit Union's primary source of revenue is interest income resulting from loans made to its members, many of whom live and work in southwestern Michigan, as well as fees and charges.

Principles of Consolidation - During 2010, the Credit Union formed United Holdings, LLC, a 100 percent-owned subsidiary, and United Diamond Insurance Agency, LLC (UDIA), a credit union service organization that provides insurance brokerage services to credit union members. UDIA is 100 percent owned by United Holdings, LLC. The consolidated financial statements include the accounts of United Federal Credit Union, United Holdings, LLC, and UDIA, which are collectively referred to as the "Credit Union" throughout the report. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the fair value of investments. Actual results could differ from those estimates.

Cash and Cash Equivalents - For the purpose of the consolidated statement of cash flows, cash equivalents include cash on hand, balances due from other financial institutions, and interest-bearing deposits with the other financial institutions with original maturities of three months or less.

Investment Securities - Investment securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Investment securities are classified as available for sale when they might be sold before maturity. Investment securities classified as available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss), as a separate component of members' equity, in the consolidated statement of comprehensive income.

United Federal Credit Union

Notes to Consolidated Financial Statements December 31, 2015 and 2014

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

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Time Deposits with Other Financial Institutions - Time deposits with other financial institutions consist of certificates of deposit with contractual maturities of 72 months or less.

Loans to Members - The Credit Union grants mortgage, commercial, and consumer loans to members. A substantial portion of the loan portfolio is represented by mortgage loans throughout the Midwest. The ability of the members to honor their contracts is dependent upon the real estate and general economic conditions in this area.

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

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Credit card loans and other personal loans are typically charged off no later than 180 days past due. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

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Notes to Consolidated Financial Statements December 31, 2015 and 2014

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

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans, adjusted for estimated prepayments based on the Credit Union's historical prepayment experience. Commitment fees and costs relating to commitments whose likelihood of exercise is remote are recognized over the commitment period on a straight-line basis. If the commitment is subsequently exercised during the commitment period, the remaining unamortized commitment fee at the time of exercise is recognized over the life of the loan as an adjustment of yield.

Troubled debt restructuring of loans is undertaken to improve the likelihood that the loan will be repaid in full under the modified terms in accordance with a reasonable repayment schedule. All modified loans are evaluated to determine whether the loans should be reported as a troubled debt restructuring (TDR). A loan is a TDR when the Credit Union, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower by modifying or renewing a loan that the Credit Union would not otherwise consider. To make this determination, the Credit Union must determine whether (a) the borrower is experiencing financial difficulties and (b) the Credit Union granted the borrower a concession. This determination requires consideration of all of the facts and circumstances surrounding the modification. An overall general decline in the economy or some deterioration in a borrower's financial condition does not automatically mean the borrower is experiencing financial difficulties.

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 collectibility 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.

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Notes to Consolidated Financial Statements December 31, 2015 and 2014

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

A loan is considered impaired when, based on current information and events, it is probable that a creditor 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 profitability 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.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Credit Union does not separately identify individual consumer and residential loans for impairment disclosures.

Premises and Equipment - Land is carried at cost. Land improvements, buildings, building improvements, furniture, fixtures, and data processing equipment are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. The lives range from 13 months to 50 years. Costs of maintenance and repairs are charged to expense when incurred.

NCUSIF Deposit - The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with NCUA regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to 1 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.

NCUSIF Insurance Premium - A credit union is required to pay an annual insurance premium equal to one-twelfth of 1 percent of its total insured shares, unless the payment is waived or reduced by the NCUA board. The NCUA board waived the 2015 and 2014 insurance premiums.

FHLB Stock - The Credit Union's Federal Home Loan Bank (FHLB) stock is carried at cost. The stock is redeemable only upon five years' notice to the FHLB.

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Notes to Consolidated Financial Statements December 31, 2015 and 2014

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

Corporate Capital - The Credit Union contributed funds to Alloya Corporate Federal Credit Union (Alloya) Perpetual Contributed Capital (PCC). PCC is a perpetual, noncumulative dividend investment in the capital of Alloya, available to cover losses that exceed retained earnings. PCC is not insured by the NCUSIF or by any other share or deposit insurer and is not subject to redemption upon request. As of December 31, 2015 and 2014, the ending balance in the PCC account was \$600,000. The Credit Union reviews this asset for impairment. There was no impairment recognized as of December 31, 2015 or 2014.

Members' Shares and Savings Accounts - Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' shares and savings accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on members' share accounts are set by the board of directors, based on an evaluation of current and future market conditions. The Credit Union has approximately \$124,000,000 and \$102,000,000 in noninterest-bearing deposits at December 31, 2015 and 2014, respectively.

Members' Equity - The Credit Union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of members' equity, is not available for the payment of interest.

Income Taxes - The Credit Union is exempt, by statute, from federal and state income taxes.

New Accounting Pronouncement - The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU adopts a standardized approach for revenue recognition and was a joint effort with the International Accounting Standards Board (IASB). The new revenue recognition standard is based on a core principle of recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU does not apply to financial instruments. The ASU is effective for nonpublic entities for annual reporting periods beginning after December 15, 2017 (therefore, for the year ending December 31, 2018 for the Credit Union). Early adoption is permitted for nonpublic companies with certain caveats. Management is currently assessing the impact to the Credit Union's consolidated financial statements.

United Federal Credit Union

Notes to Consolidated Financial Statements December 31, 2015 and 2014

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

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-01 related to the recognition and measurement of financial instruments. The most significant change included in the update is the requirement for certain equity investments (excluding investments that are consolidated or accounted for under the equity method) to be measured at fair value with changes in fair value recognized in net income. Alternatively, equity investments without readily determinable fair values can be recorded at cost, and periodically evaluated for impairment using a qualitative assessment. If the qualitative assessment indicates the investment is impaired, it is required to be measured at fair value. The update also eliminates the requirement for institutions that are not public business entities to disclose the fair value of financial instruments measured at amortized cost. For institutions that are not public business entities, the new standard is effective for fiscal years beginning after December 15, 2018, but the elimination of the fair value disclosures can be adopted early for any financial statements which have not yet been issued. The Credit Union has adopted the new standard effective for the year ended December 31, 2015, and therefore no disclosure regarding the fair value of financial instruments measured at amortized cost has been included in these statements.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including February 8, 2016, which is the date the consolidated financial statements were available to be issued.

Note 2 - Securities

The amortized cost and fair value of securities, with gross unrealized gains and losses, are as follows:

	As of December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Available-for-sale securities:				
U.S. government and federal agency securities	\$ 32,841,039	\$ 27,882	\$ (37,399)	\$ 32,831,522
Mortgage-backed securities	30,236,430	247,663	(123,813)	30,360,280
Municipal bonds	28,543,180	57,650	(49,879)	28,550,951
Collateralized mortgage obligations	18,408,588	15,061	(411,896)	18,011,753
Mutual funds	542,468	-	(9,492)	532,976
Negotiable certificates of deposit	1,240,000	-	(10,751)	1,229,249
Total available-for-sale securities	<u>\$ 111,811,705</u>	<u>\$ 348,256</u>	<u>\$ (643,230)</u>	<u>\$ 111,516,731</u>

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Notes to Consolidated Financial Statements December 31, 2015 and 2014

Note 2 - Securities (Continued)

	As of December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Available-for-sale securities:				
U.S. government and federal agency securities	\$ 49,927,221	\$ 160,292	\$ (53,965)	\$ 50,033,548
Mortgage-backed securities	40,947,818	523,544	(82,704)	41,388,658
Municipal bonds	36,371,231	94,434	(128,696)	36,336,969
Collateralized mortgage obligations	25,951,901	58,375	(445,399)	25,564,877
Mutual funds	541,369	-	(658)	540,711
Negotiable certificates of deposit	1,240,000	-	(23,942)	1,216,058
Total available-for-sale securities	<u>\$ 154,979,540</u>	<u>\$ 836,645</u>	<u>\$ (735,364)</u>	<u>\$ 155,080,821</u>

At December 31, 2015, municipal bonds with an estimated market value of \$28,550,951 were pledged to secure an available line of credit, as described in Note 6. Also, federal agency securities and mortgaged-backed securities with an estimated market value of \$4,007,000 were pledged to secure specific municipal deposits.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2015 are as follows:

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 27,207,648	\$ 27,254,809
Due in one year through five years	35,416,571	35,356,913
Total	62,624,219	62,611,722
Mortgage-backed securities	30,236,430	30,360,280
Collateralized mortgage obligations	18,408,588	18,011,753
Mutual funds	542,468	532,976
Total	<u>\$ 111,811,705</u>	<u>\$ 111,516,731</u>

Expected maturities will differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

United Federal Credit Union

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Note 2 - Securities (Continued)

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

	As of December 31, 2015			
	Less than Twelve Months		Over Twelve Months	
	Gross Unrealized		Gross Unrealized	
	Losses	Fair Value	Losses	Fair Value
Available-for-sale securities:				
U.S. government and federal agency securities	\$ 27,896	\$ 11,169,502	\$ 9,503	\$ 1,490,351
Mortgage-backed securities	79,723	10,332,359	44,090	2,206,329
Municipal bonds	38,899	11,605,622	10,980	1,989,020
Collateralized mortgage obligations	5,349	916,904	406,547	14,757,647
Mutual funds	9,492	532,976	-	-
Negotiable certificates of deposit	-	-	10,751	1,229,249
Total available-for-sale securities	<u>\$ 161,359</u>	<u>\$ 34,557,363</u>	<u>\$ 481,871</u>	<u>\$ 21,672,596</u>
	As of December 31, 2014			
	Less than Twelve Months		Over Twelve Months	
	Gross Unrealized		Gross Unrealized	
	Losses	Fair Value	Losses	Fair Value
Available-for-sale securities:				
U.S. government and federal agency securities	\$ 5,422	\$ 3,250,103	\$ 48,543	\$ 7,534,820
Mortgage-backed securities	49,109	10,233,938	33,595	2,862,699
Municipal bonds	11,584	2,203,416	117,112	11,954,941
Collateralized mortgage obligations	26,780	3,069,505	418,619	17,304,997
Mutual funds	658	540,711	-	-
Negotiable certificates of deposit	-	-	23,942	1,216,058
Total available-for-sale securities	<u>\$ 93,553</u>	<u>\$ 19,297,673</u>	<u>\$ 641,811</u>	<u>\$ 40,873,515</u>

At December 31, 2015 and 2014, the Credit Union had 47 and 45 securities, respectively, in an unrealized loss position.

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Notes to Consolidated Financial Statements December 31, 2015 and 2014

Note 2 - Securities (Continued)

Unrealized losses on securities have not been recognized into income because the issuers' bonds are of high credit quality, the Credit Union has the intent and ability to hold the securities for the foreseeable future, and the decline in fair value is primarily due to increased market interest rates. The fair value is expected to recover as the bonds approach the maturity date.

Note 3 - Loans

A summary of the balances of loans follows:

	2015	2014
Mortgage loans on real estate:		
First mortgages	\$ 595,762,094	\$ 519,148,270
Equity line of credits	125,503,592	107,274,548
Total mortgage loans on real estate	721,265,686	626,422,818
Commercial loans	210,943,251	226,228,720
Consumer loans	805,078,181	700,601,677
Total loans	1,737,287,118	1,553,253,215
Less allowance for loan losses	(17,626,553)	(17,360,813)
Add direct loan origination costs capitalized	9,864,442	7,716,396
Net loans	<u>\$ 1,729,525,007</u>	<u>\$ 1,543,608,798</u>

No additional funds are committed to be advanced in connection with impaired loans.

In the ordinary course of business, the Credit Union extended credit to directors, supervisory committee members, and executive officers amounting to \$3,357,000 at December 31, 2015 and \$4,046,000 at December 31, 2014.

The allowance for loan losses is maintained by the Credit Union at a level considered to be adequate to cover probable credit losses inherent in the loan portfolio. The amount of the provision for loan losses charged to operating expenses is the amount necessary, in the estimation of the Credit Union, to maintain the allowance for loan losses at an adequate level. While the Credit Union's periodic analysis of the allowance for loan losses may dictate that portions of the allowance be allocated to specific impaired loans, the entire amount is available for any loan charge-offs that may occur. Loan losses are charged off against the allowance when the Credit Union believes that the full collectibility of the loan is unlikely. Recoveries of amounts previously charged off are credited to the allowance.

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Notes to Consolidated Financial Statements December 31, 2015 and 2014

Note 3 - Loans (Continued)

The allowance is comprised of a general allowance and a specific allowance for impaired loans. The general allowance is determined by applying estimated loss factors to the credit exposures from outstanding loans. For commercial, residential real estate, and consumer loans, loss factors are applied on a portfolio basis. Loss factors are based on the Credit Union's historical loss experience and are reviewed for appropriateness on a monthly basis, along with other factors affecting the collectibility of the loan portfolio. These other factors include but are not limited to significant change in the level of impaired loans or past due loans, change in the level or trends of charge-offs and recoveries, significant change in lending policies and practices, change in lending personnel, change in national or local economic conditions, and change in credit concentrations within the loan portfolio. Specific allowances are established for all impaired loans based on the estimated fair value of the collateral, less any selling costs, if the loan is collateral dependent.

	Year Ended December 31, 2015				
	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
Allowance for credit losses:					
Real estate - Residential	\$ 2,840,454	\$ (521,095)	\$ 182,651	\$ (288,370)	\$ 2,213,640
Commercial loans	2,440,050	(140,998)	1,420	(1,797)	2,298,675
Consumer loans	12,080,309	(11,559,261)	2,054,337	10,538,853	13,114,238
Total	<u>\$ 17,360,813</u>	<u>\$ (12,221,354)</u>	<u>\$ 2,238,408</u>	<u>\$ 10,248,686</u>	<u>\$ 17,626,553</u>

	Year Ended December 31, 2014				
	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
Allowance for credit losses:					
Real estate - Residential	\$ 3,104,924	\$ (957,406)	\$ 171,020	\$ 521,916	\$ 2,840,454
Commercial loans	1,791,779	(345,275)	12,021	981,525	2,440,050
Consumer loans	10,275,841	(8,593,655)	1,696,139	8,701,984	12,080,309
Total	<u>\$ 15,172,544</u>	<u>\$ (9,896,336)</u>	<u>\$ 1,879,180</u>	<u>\$ 10,205,425</u>	<u>\$ 17,360,813</u>

	Twelve Months Ended December 31, 2015		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Ending Balance
	Ending allowance attributable to loans:		
Real estate - Residential	\$ 475,693	\$ 1,737,947	\$ 2,213,640
Commercial loans	1,191,817	1,106,858	2,298,675
Consumer loans	25,241	13,088,997	13,114,238
Total	<u>\$ 1,692,751</u>	<u>\$ 15,933,802</u>	<u>\$ 17,626,553</u>

United Federal Credit Union

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Note 3 - Loans (Continued)

	Twelve Months Ended December 31, 2015		
	Individually	Collectively	Ending Balance
	Evaluated for	Evaluated for	
	Impairment	Impairment	
Financing receivables:			
Real estate - Residential	\$ 3,582,074	\$ 717,683,612	\$ 721,265,686
Commercial loans	5,329,424	205,613,827	210,943,251
Consumer loans	197,100	804,881,081	805,078,181
Total	<u>\$ 9,108,598</u>	<u>\$ 1,728,178,520</u>	<u>\$ 1,737,287,118</u>

	Twelve Months Ended December 31, 2014		
	Individually	Collectively	Ending Balance
	Evaluated for	Evaluated for	
	Impairment	Impairment	
Ending allowance attributable to loans:			
Real estate - Residential	\$ 477,845	\$ 2,362,609	\$ 2,840,454
Commercial loans	1,213,783	1,226,267	2,440,050
Consumer loans	43,174	12,037,135	12,080,309
Total	<u>\$ 1,734,802</u>	<u>\$ 15,626,011</u>	<u>\$ 17,360,813</u>

	Individually	Collectively	Ending Balance
	Evaluated for	Evaluated for	
	Impairment	Impairment	
	Financing receivables:		
Real estate - Residential	\$ 3,906,737	\$ 622,516,081	\$ 626,422,818
Commercial loans	4,161,480	222,067,240	226,228,720
Consumer loans	195,584	700,406,093	700,601,677
Total	<u>\$ 8,263,801</u>	<u>\$ 1,544,989,414</u>	<u>\$ 1,553,253,215</u>

Credit Risk Grading

The Credit Union categorized the commercial loan portfolio into credit risk categories based on current financial information, overall debt service coverage, comparison against industry averages, collateral coverage, historical payment experience, and current economic trends.

The Credit Union monitors the credit risk for the residential real estate and consumer loan portfolios through the past due status of the portfolio. See the age analysis of past due loans for further breakdown for the residential real estate and consumer loan portfolio.

United Federal Credit Union

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Note 3 - Loans (Continued)

The following table details the credit risk grades for commercial loans at December 31, 2015 and 2014:

		December 31, 2015					
		Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial loans:							
	Real estate	\$ 155,524,768	\$ 20,374,459	\$ 3,150,140	\$ 793,910	\$ -	\$ 179,843,277
	Credit cards	702,577	-	-	-	-	702,577
	Commercial and industrial	26,963,939	2,048,084	1,385,374	-	-	30,397,397
	Total	\$ 183,191,284	\$ 22,422,543	\$ 4,535,514	\$ 793,910	\$ -	\$ 210,943,251
		December 31, 2014					
		Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial loans:							
	Real estate	\$ 159,858,262	\$ 39,267,194	\$ 2,475,296	\$ 1,181,336	\$ 140,998	\$ 202,923,086
	Credit cards	517,328	-	-	-	-	517,328
	Commercial and industrial	21,118,855	1,305,601	363,850	-	-	22,788,306
	Total	\$ 181,494,445	\$ 40,572,795	\$ 2,839,146	\$ 1,181,336	\$ 140,998	\$ 226,228,720

The Credit Union categorized each loan into credit risk categories based on current financial information, overall debt service coverage, comparison against industry averages, collateral coverage, historical payment experience, and current economic trends. The Company uses the following definitions for credit risk ratings:

Pass - Credits not covered by the below definitions are pass credits, which are not considered to be adversely rated.

Special Mention - Loans classified as special mention, or watch credits, have a potential weakness or weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard - Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution may sustain some loss if the deficiencies are not corrected.

Doubtful - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

United Federal Credit Union

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Note 3 - Loans (Continued)

Loss - Loans classified as loss are deemed incapable of repayment of unsecured debt. Loans so classified are considered uncollectible and of such little value that continuance as active assets of the Credit Union is not warranted.

Age Analysis of Past Due Loans

The following table details the age analysis of past due loans, segregated by class of loans at December 31, 2015 and 2014:

	December 31, 2015						
	30-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing
	Due	Due	90 Days	Total Past Due	Current	Receivables	Accruing
Real estate - Residential:							
First mortgages	\$ 381,480	\$ -	\$ 1,643,980	\$ 2,025,460	\$ 593,736,634	\$ 595,762,094	\$ -
Equity lines of credit	622,739	164,754	359,499	1,146,992	124,356,600	125,503,592	-
Total real estate - Residential	1,004,219	164,754	2,003,479	3,172,452	718,093,234	721,265,686	-
Commercial loans:							
Real estate	2,053,050	28,250	-	2,081,300	177,761,977	179,843,277	-
Credit cards	-	-	-	-	702,577	702,577	-
Commercial and industrial	562,796	1,731,263	-	2,294,059	28,103,338	30,397,397	-
Total commercial loans	2,615,846	1,759,513	-	4,375,359	206,567,892	210,943,251	-
Consumer loans:							
Installments	2,336,136	565,342	817,249	3,718,727	292,961,425	296,680,152	-
Indirect	7,298,740	1,874,187	3,382,574	12,555,501	419,957,954	432,513,455	-
Credit cards	348,161	185,491	110,334	643,986	75,240,588	75,884,574	110,334
Total consumer loans	9,983,037	2,625,020	4,310,157	16,918,214	788,159,967	805,078,181	110,334
Total	\$ 13,603,102	\$ 4,549,287	\$ 6,313,636	\$ 24,466,025	\$ 1,712,821,093	\$ 1,737,287,118	\$ 110,334
	December 31, 2014						
	30-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing
Real estate - Residential:							
First mortgages	\$ 133,760	\$ 819,000	\$ 1,952,359	\$ 2,905,119	\$ 516,243,151	\$ 519,148,270	\$ -
Equity lines of credit	438,789	32,980	213,936	685,705	106,588,843	107,274,548	-
Total real estate - Residential	572,549	851,980	2,166,295	3,590,824	622,831,994	626,422,818	-
Commercial loans:							
Real estate	589,937	435,954	486,496	1,512,387	201,410,699	202,923,086	-
Credit cards	-	-	501	501	516,827	517,328	-
Commercial and industrial	66,887	49,429	55,159	171,475	22,616,831	22,788,306	-
Total commercial loans	656,824	485,383	542,156	1,684,363	224,544,357	226,228,720	-
Consumer loans:							
Installments	1,405,386	447,715	467,668	2,320,769	266,740,814	269,061,583	-
Indirect	6,021,305	1,918,214	2,003,700	9,943,219	346,365,222	356,308,441	-
Credit cards	291,047	204,130	91,467	586,644	74,645,009	75,231,653	-
Total consumer loans	7,717,738	2,570,059	2,562,835	12,850,632	687,751,045	700,601,677	-
Total	\$ 8,947,111	\$ 3,907,422	\$ 5,271,286	\$ 18,125,819	\$ 1,535,127,396	\$ 1,553,253,215	\$ -

United Federal Credit Union

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Note 3 - Loans (Continued)

Impaired Loans

The following tables detail impaired loans as of and for the years ended December 31, 2015 and 2014:

	As of and For the Year Ended December 31, 2015				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment for the Year	Interest Income Recognized for the Year
With an allowance recorded:					
Real estate - Residential:					
First mortgages	\$ 3,100,589	\$ 3,100,589	\$ 399,723	\$ 3,241,101	\$ 166,260
Equity lines of credit	481,485	481,485	75,970	503,305	27,066
Commercial loans:					
Real estate	3,944,050	3,944,050	1,045,835	3,974,956	189,355
Commercial and industrial	<u>1,385,374</u>	<u>1,385,374</u>	<u>145,982</u>	<u>1,438,730</u>	<u>69,479</u>
Total commercial loans	5,329,424	5,329,424	1,191,817	5,413,686	258,834
Consumer loans - Installments	<u>197,100</u>	<u>197,100</u>	<u>25,241</u>	<u>203,507</u>	<u>9,207</u>
Total	<u>\$ 9,108,598</u>	<u>\$ 9,108,598</u>	<u>\$ 1,692,751</u>	<u>\$ 9,361,599</u>	<u>\$ 461,367</u>

	As of and For the Year Ended December 31, 2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment for the Year	Interest Income Recognized for the Year
With an allowance recorded:					
Real estate - Residential:					
First mortgages	\$ 3,464,337	\$ 3,464,337	\$ 428,556	\$ 3,661,915	\$ 182,246
Equity lines of credit	442,400	442,400	49,289	452,701	33,656
Commercial loans	4,161,480	4,161,480	1,213,783	4,250,876	231,248
Consumer loans - Installments	<u>195,584</u>	<u>195,584</u>	<u>43,174</u>	<u>205,418</u>	<u>10,237</u>
Total	<u>\$ 8,263,801</u>	<u>\$ 8,263,801</u>	<u>\$ 1,734,802</u>	<u>\$ 8,570,910</u>	<u>\$ 457,387</u>

No additional funds are committed to be advanced in connection with impaired loans.

Nonaccrual Loans

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in the process of collection, not to exceed 180 days. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

United Federal Credit Union

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Note 3 - Loans (Continued)

	<u>2015</u>	<u>2014</u>
Real estate - Residential:		
First mortgages	\$ 1,643,980	\$ 1,952,359
Equity lines of credit	359,499	213,936
Commercial loans - Real estate	-	541,655
Consumer loans:		
Installments	817,249	467,668
Indirect	<u>3,382,574</u>	<u>2,003,700</u>
Total	<u>\$ 6,203,302</u>	<u>\$ 5,179,318</u>

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 cost recovery method or cash basis method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

If interest on nonaccrual loans had been accrued at their original rates, such accrued income would have approximated \$257,000 and \$215,000 for the years ended December 31, 2015 and 2014, respectively.

Troubled Debt Restructurings

A modification of a loan constitutes a troubled debt restructuring (TDR) when a borrower is experiencing financial difficulty and the modification constitutes a concession. The Credit Union offers various types of concessions when modifying a loan; however, forgiveness of principal is rarely granted. Loans modified in a TDR often involve temporary interest-only payments and term extensions.

Loans modified in a TDR may be in accrual status, nonaccrual status, partial charge-offs, not delinquent, delinquent, or any combination of these criteria. As a result, loans modified in a TDR for the Credit Union may have the financial effect of increasing the specific allowance associated with individual loans. An allowance for impaired consumer and commercial loans that have been modified in a TDR is measured based either on the present value of expected future cash flows discounted at the loan's original effective interest rate, or the estimated fair value of the collateral, less any selling costs, if the loan is collateral dependent. Management exercises significant judgment in developing these estimates.

United Federal Credit Union

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Note 3 - Loans (Continued)

The following tables detail loans which met the definition of troubled debt restructurings at December 31, 2015 and 2014:

	2015			2014		
	Number of Contracts	Pre-modification Outstanding Recorded	Post-modification Outstanding Recorded	Number of Contracts	Pre-modification Outstanding Recorded	Post-modification Outstanding Recorded
Real estate - Residential	48	\$ 3,838,430	\$ 3,582,074	47	\$ 4,964,967	\$ 4,961,034
Consumer loans	6	251,678	197,100	5	390,384	281,859
Total	54	\$ 4,090,108	\$ 3,779,174	52	\$ 5,355,351	\$ 5,242,893

Troubled Debt Restructurings that Subsequently Defaulted

At December 31, 2015 and 2014, no loans were classified as troubled debt restructurings and have subsequently defaulted within the last 12 months.

Note 4 - Premises and Equipment

Premises and equipment at December 31 are summarized as follows:

	2015	2014
Land and land improvements	\$ 15,431,346	\$ 11,801,123
Buildings and improvements	50,919,687	37,384,403
Furniture and fixtures	8,358,536	6,621,019
Data processing	22,270,373	21,385,124
Construction in progress	13,251,857	12,746,062
Total cost	110,231,799	89,937,731
Accumulated depreciation	(27,881,985)	(26,308,685)
Net carrying amount	\$ 82,349,814	\$ 63,629,046

The Credit Union also leases some branch and office space with contracts requiring approximately \$3,750,000 in future lease commitments. These leases have been determined to be operating leases and are therefore not included in the premises and equipment figures noted above.

As of December 31, 2015, the Credit Union had commitments for construction contracts totaling approximately \$7,550,000.

Note 5 - Members' Shares and Savings Accounts

Total uninsured members' shares and deposits at December 31, 2015 and 2014 were approximately \$172,556,000 and \$115,079,000, respectively.

United Federal Credit Union

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Note 5 - Members' Shares and Savings Accounts (Continued)

At December 31, 2015, scheduled maturities of share certificates are as follows:

2016	\$ 150,155,508
2017	65,579,354
2018	44,048,051
2019	70,099,807
2020	69,712,693
Thereafter	<u>23,419</u>
Total	<u>\$ 399,618,832</u>

Note 6 - Lines of Credit

The Credit Union has an available line of credit with Alloya Corporate Federal Credit Union totaling \$75,000,000 at December 31, 2015 and 2014. The line of credit is collateralized by substantially all assets, not including real estate loans, and is due on demand. The effective rate of interest on the line of credit was 1.33 and 1.0 percent at December 31, 2015 and 2014, respectively. There was no amount outstanding on the line of credit at December 31, 2015 and 2014.

The Credit Union has an available line of credit with Federal Home Loan Bank (FHLB) totaling \$15,000,000 at December 31, 2015 and 2014. The line of credit is collateralized by a blanket collateral agreement in the amount of \$15,000,000, has a variable interest rate, and is due on demand. The effective rate of interest on the line of credit was 0.58 and 0.43 percent at December 31, 2015 and 2014, respectively. There was no amount outstanding on the line of credit at December 31, 2015 and \$6,321,560 outstanding at December 31, 2014.

The Credit Union entered into an available line of credit with the Federal Reserve Bank of Chicago during 2014, as part of regulatory requirements, referred to as the Discount Window. The line of credit is collateralized by municipal bonds held as available for sale, and allows for borrowing up to 98 percent of their fair market value. As of December 31, 2015, the fair value of these securities was \$28,550,951 and the available credit was \$27,979,932. As of December 31, 2014, the fair value of these securities was \$36,336,969 and the available credit was \$35,610,230. The effective rate of interest on the line of credit was 1.00 and 0.75 percent at December 31, 2015 and 2014, respectively. There was no amount outstanding on the line of credit at December 31, 2015 and 2014.

United Federal Credit Union

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Note 7 - Borrowed Funds

The Credit Union may apply for advances from the Federal Home Loan Bank (FHLB) in accordance with the terms of an advance, pledge, and security agreement dated November 19, 2013. Pursuant to the terms of the agreement, advances are collateralized by a blanket collateral agreement. Advances shall be made for the purpose of providing funds for commercial or residential home financing. The Credit Union may borrow up to \$485,000,000 under this agreement as approved by the board of directors.

The Credit Union had 66 and 65 advances outstanding from the FHLB totaling \$376,000,000 and \$351,400,000 at December 31, 2015 and 2014, respectively. The advances require monthly interest payments based on the rate at the time each advance was taken. The interest rates ranged from 0.38 percent to 5.60 percent, with a combined effective interest rate of 1.53 percent and 1.50 percent at December 31, 2015 and 2014, respectively. The advances are collateralized by qualifying commercial and residential real estate mortgages in the amount of approximately \$472,000,000.

The contractual maturities of borrowed funds are as follows:

2016	\$ 127,000,000
2017	7,000,000
2018	79,000,000
2019	79,500,000
2020	70,500,000
Thereafter	<u>13,000,000</u>
Total contractual maturities	<u>\$ 376,000,000</u>

Note 8 - Off-balance-sheet 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 which include lines of credit, credit cards, and home equity lines 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.

United Federal Credit Union

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Note 8 - Off-balance-sheet Activities (Continued)

At December 31, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract or Notional Amount	
	2015	2014
Unfunded commitments under:		
Revolving open-end lines secured by real estate	\$ 139,020,384	\$ 112,517,422
Credit card lines	182,613,887	175,352,510
Business loans	8,111,004	11,799,267
Share draft lines	22,723,700	22,049,509
Overdraft protection program	73,215,742	70,227,280
Construction loans	14,544,783	6,597,930
Other	131,722	98,330

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

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

Note 9 - Legal Contingencies

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

United Federal Credit Union

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Note 10 - Capital Requirements

The Credit Union is subject to various regulatory capital requirements. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's consolidated financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under generally accepted accounting practices. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth (as defined) to total assets (as defined). 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, 2015 and 2014 was 5.28 percent and 5.26 percent, respectively. The minimum ratio to be considered complex under the regulatory framework is 6 percent. Management believes, as of December 31, 2015 and 2014, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2015, the most recent call reporting period, and December 31, 2014, the Credit Union was categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Credit Union must maintain a minimum net worth ratio of 7 percent of assets. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

The Credit Union's actual capital amounts and ratios are also presented in the table below:

	Actual		To be Adequately Capitalized Under Prompt Corrective Action Provisions		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015 - Net worth	\$ 207,329,828	10.29%	\$ 120,791,000	6.00%	\$ 140,923,000	7.00%
As of December 31, 2014 - Net worth	\$ 189,871,478	10.35%	\$ 110,088,000	6.00%	\$ 128,436,000	7.00%

Because the RBNWR is less than the net worth ratio, the Credit Union retains its original category. Further, in performing its calculation of total assets, the Credit Union used the quarter-end balance option, as permitted by regulation.

United Federal Credit Union

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Note 11 - Fair Value Measurements

The following tables present information about the Credit Union's assets measured at fair value on a recurring basis at December 31, 2015 and 2014 and the valuation techniques used by the Credit Union to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Credit Union has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Credit Union's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The Credit Union's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the actual date of the event of change in circumstances that caused the transfer. During 2015 and 2014, there were no transfers between Levels 1, 2, or 3 in the asset classes.

Assets Measured at Fair Value on a Recurring Basis at December 31, 2015

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2015
Assets - Investment securities -				
Available for sale				
U.S. government and federal agency securities	\$ -	\$ 32,831,522	\$ -	\$ 32,831,522
Mortgage-backed securities	-	30,360,280	-	30,360,280
Municipal bonds	-	28,550,951	-	28,550,951
Collateralized mortgage obligations	-	18,011,753	-	18,011,753
Mutual funds	-	532,976	-	532,976
Negotiable certificates of deposit	-	1,229,249	-	1,229,249
Total	\$ -	\$ 111,516,731	\$ -	\$ 111,516,731

United Federal Credit Union

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Note 11 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at December 31, 2014

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2013
Assets - Investment securities -				
Available for sale				
U.S. government and federal agency securities	\$ -	\$ 50,033,548	\$ -	\$ 50,033,548
Mortgage-backed securities	-	41,388,658	-	41,388,658
Municipal bonds	-	36,336,969	-	36,336,969
Collateralized mortgage obligations	-	25,564,877	-	25,564,877
Mutual funds	-	540,711	-	540,711
Negotiable certificates of deposit	-	1,216,058	-	1,216,058
Total	\$ -	\$ 155,080,821	\$ -	\$ 155,080,821

Assets Measured at Fair Value on a Nonrecurring Basis at December 31

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans accounted for under ASC 820-10 at December 31, 2015	\$ -	\$ -	\$ 9,108,598
Impaired loans accounted for under ASC 820-10 at December 31, 2014	-	-	8,263,801

The fair value of impaired loans accounted for under ASC 310-10 is estimated using either discounted cash flows or collateral value. 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. At December 31, 2015 and 2014, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. In accordance with ASC 820-10, impaired loans occur when an allowance is established based on the fair value of collateral required classification in the fair value hierarchy. Impaired loans are categorized as Level 3 assets because the values are based on available collateral (typically based on outside appraisals) and customized discounting criteria, if deemed necessary. The change in fair value of impaired loans is accounted for in the allowance for loan losses (see Note 3).

United Federal Credit Union

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Note 11 - Fair Value Measurements (Continued)

Other real estate owned (OREO) acquired through or instead of loan foreclosure is initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Management considers third-party appraisals as well as independent fair market value assessments from realtors or persons involved in selling OREO when determining the fair value of particular properties. Accordingly, the valuations of OREO and repossessed assets are subject to significant judgment. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs incurred after acquisition are expensed. OREO and other repossessed assets totaled \$449,630 and \$607,730 at December 31, 2015 and 2014, respectively.

Note 12 - Retirement Plans

The Credit Union has defined contribution 401(k) pension plans covering substantially all employees. The pension contributions are based on a percentage of the regular annual earnings of participating employees and discretionary contributions are determined by the board of directors. Total contributions were approximately \$2,885,000 and \$2,619,000 for 2015 and 2014, respectively.

Additional Information

Independent Auditor's Report on Additional Information

To the Board of Directors
United Federal Credit Union

We have audited the consolidated financial statements of United Federal Credit Union as of and for the years ended December 31, 2015 and 2014. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for the purpose of additional analysis rather than to present the financial condition, statements of income, comprehensive income, members' equity, and cash flows of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Plante & Moran, PLLC

February 8, 2016

United Federal Credit Union

Consolidating Statement of Financial Condition December 31, 2015

	United Federal Credit Union	United Holdings, LLC	United Diamond Insurance Agency, LLC	Eliminating Entries	Total
Assets					
Cash and cash equivalents	\$ 46,625,294	\$ 113	\$ 289	\$ (402)	\$ 46,625,294
Investment securities - Available for sale	111,516,731	-	-	-	111,516,731
Time deposits with other financial institutions	148,000	-	-	-	148,000
Loans to members - Net	1,729,525,007	-	-	-	1,729,525,007
Accrued interest receivable	5,975,240	-	-	-	5,975,240
Premises and equipment - Net	82,349,814	-	-	-	82,349,814
NCUSIF deposit	11,932,188	-	-	-	11,932,188
FHLB stock	17,690,000	-	-	-	17,690,000
Corporate capital	600,000	-	-	-	600,000
Investment in subsidiary	96,151	(3,962)	-	(92,189)	-
Other assets	6,688,879	100,000	-	-	6,788,879
Total assets	\$ 2,013,147,304	\$ 96,151	\$ 289	\$ (92,591)	\$ 2,013,151,153
Liabilities and Members' Equity (Deficit)					
Liabilities					
Members' share and savings accounts	\$ 1,410,023,324	\$ -	\$ -	\$ (402)	\$ 1,410,022,922
Borrowed funds	376,000,000	-	-	-	376,000,000
Accrued interest payable	899,965	-	-	-	899,965
Accrued expenses and other liabilities	19,189,161	-	4,251	-	19,193,412
Total liabilities	1,806,112,450	-	4,251	(402)	1,806,116,299
Paid-in Capital	-	375,103	215,251	(590,354)	-
Members' Equity (Deficit)	207,034,854	(278,952)	(219,213)	498,165	207,034,854
Total liabilities and members' equity (deficit)	\$ 2,013,147,304	\$ 96,151	\$ 289	\$ (92,591)	\$ 2,013,151,153

United Federal Credit Union

Consolidating Statement of Income Year Ended December 31, 2015

	United Federal Credit Union	United Holdings, LLC	United Diamond Insurance Agency, LLC	Eliminating Entries	Total
Interest Income					
Loans	\$ 88,036,979	\$ -	\$ -	\$ -	\$ 88,036,979
Investment securities	2,446,249	-	-	-	2,446,249
Total interest income	90,483,228	-	-	-	90,483,228
Interest and Provision Expense					
Interest expense	13,775,707	-	-	-	13,775,707
Provision for loan losses	10,248,686	-	-	-	10,248,686
Total interest and provision expense	24,024,393	-	-	-	24,024,393
Net Interest Income - After provision for loan losses	66,458,835	-	-	-	66,458,835
Noninterest Income					
Fees and charges	22,291,975	-	-	-	22,291,975
Insurance commissions	1,542,386	-	36,765	-	1,579,151
Other	3,931,622	-	-	-	3,931,622
Total noninterest income	27,765,983	-	36,765	-	27,802,748
Noninterest Expenses					
Compensation and benefits	42,827,169	-	-	-	42,827,169
Operating expenses	28,134,167	-	26,219	-	28,160,386
Occupancy	4,803,582	-	-	-	4,803,582
Other	952,494	59,602	-	-	1,012,096
Total noninterest expenses	76,717,412	59,602	26,219	-	76,803,233
(Loss) Gain on Investment in Subsidiary	(49,056)	10,546	-	38,510	-
Net Income (Loss)	\$ 17,458,350	\$ (49,056)	\$ 10,546	\$ 38,510	\$ 17,458,350