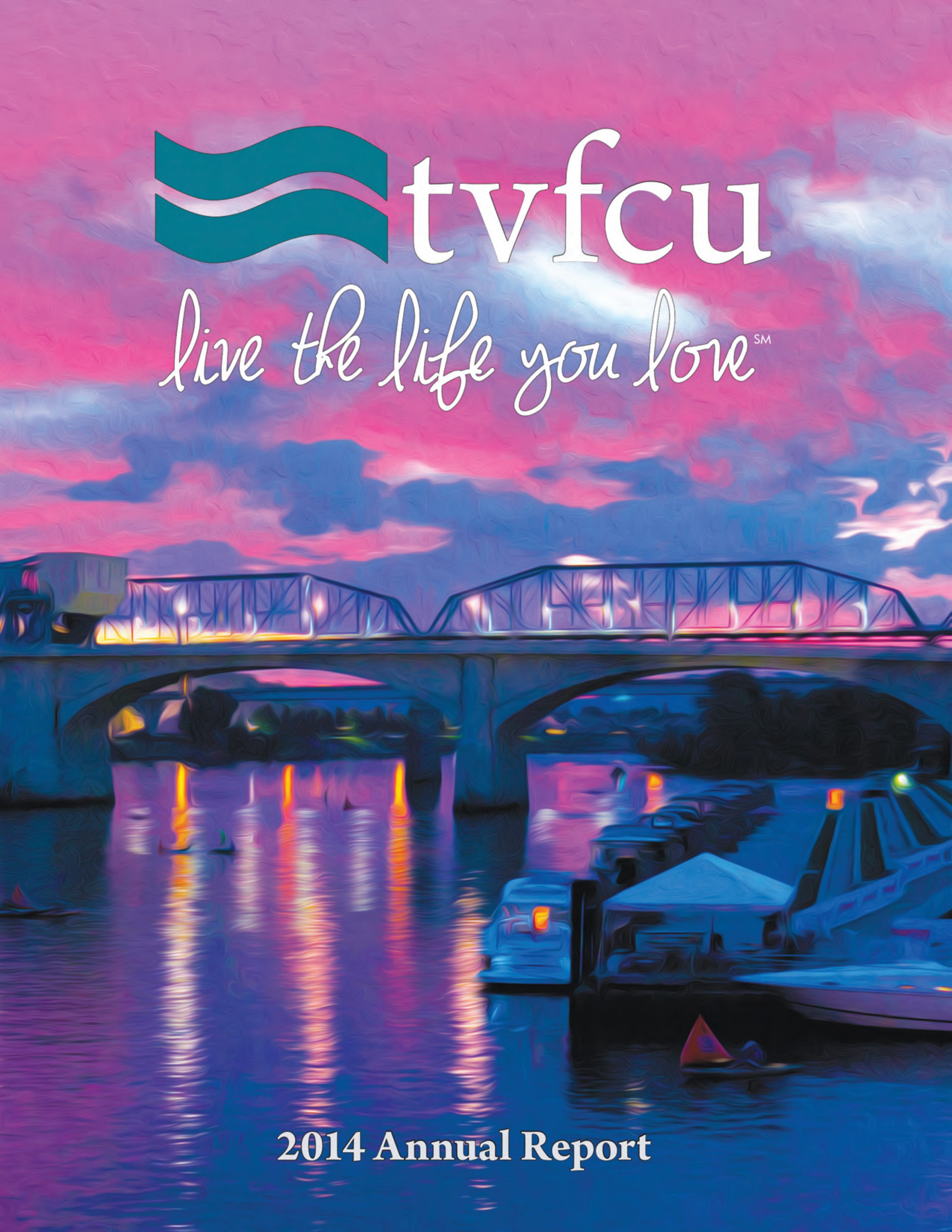
tvfcu

live the life you love℠



2014 Annual Report

Board and Management Report

Since our inception, Tennessee Valley Federal Credit Union (TVFCU) has had a singular purpose. And although the faces, places and names have changed, our focus has never wavered. Serving you has always been our top priority. Meeting your financial needs has meant different things at different times; a new branch, a new product, or a new service delivery method. But through the years and all the changes, we've made sure every transition resulted in benefits to you and your fellow members. Certainly, the future holds many more changes, but rest assured that behind every change is our concern for your needs and our dedication to helping you live the life you love.

Working to meet the needs of members like you resulted in yet another record-setting year for 2014. Deposits surged to an all-time high of more than $924 million, with share and club deposits advancing 14% and reaching $442 million by year's end. Checking deposits climbed to a record of over $200 million, with over 57% of our members now using a TVFCU checking account. This impressive deposit growth resulted in a simultaneous rise in total assets of more than 7%, pushing them over the $1 billion milestone.

With such healthy deposit growth, a corresponding rise in loans is essential to our success. Due to your ongoing need for financing major purchases of cars and homes, total loans advanced almost 14% to over $595 million. Auto and consumer loans grew almost 21%, to more than $350 million, while real estate loans rose close to 8%, reaching a record $153 million. Business loans rounded out our solid loan portfolio, ending the year at $91 million. This strong demand for loans helped generate net income just under $12 million, and a net worth-to-asset ratio of 12.27%, ensuring a sound future.

Members continued to enjoy the convenience of their TVFCU debit cards, making more than 18 million purchases totaling over $650 million. The number of e-statement users also continued to rise, up 15% and approaching 48,000 members by year's end. Online24 recorded almost 34 million transactions, while Online24 Bill Pay logged over 577,000 payments. The number of members using our Online24 mobile app expanded 65% as more and more members enjoyed the convenience of accessing their accounts from their cell phones and tablets. Just introduced in 2014, mobile deposit usage steadily increased throughout the year, totaling almost 45,000 deposits at year's end.

Further strengthening our position for the future, Chattanooga Coca-Cola Employees Federal Credit Union (CCCEFCU) sought TVFCU's assistance to help meet the growing needs of their membership last year. The resulting merger brought in 425 new members, as well as an additional $607 thousand in loans and $486 thousand in deposits. Thanks to the addition of these and many more new members, our membership total had surpassed 110,000 by the end of the year. In order to continue to meet the needs of our steadily growing membership, plans call for the addition of a new branch in Ringgold in 2015. This newest location will feature some exciting new technology and extended hours, as we continually strive to serve you better.

As we continue to grow, we've placed an increasing focus on giving back to the community that has given so much to us. Because our long list of community events has become such a large part of who we are, we feel it's worthwhile to note just a few of them here. Since 2007, our largest and most visible community event has been Riverbend, which includes our stage sponsorship under the Walnut Street Bridge, and our popular Riverbend Beach sand sculpture. As sponsor of the Palate 2 Palette Youth Gallery for several years, we have helped earn much-needed funds for the Craniofacial Foundation of America, while also providing a venue for local high school art students to display their work in a juried show.

In 2014, in an effort to help prepare our youth for financial stability, we partnered with UTC to develop a training program for Personal Finance teachers in Hamilton County public high schools. We also recently received a Spirit of Achievement Award from Junior Achievement for our ongoing dedication to their JA in a Day program. We were instrumental in bringing the new Ice on the Landing skating rink to Chattanooga for the Holidays, where we were able to treat about 120 children from the Avondale Youth & Family Development Center to their first-ever ice skating experience. And thanks to some cool technology, they were able to keep the ice frozen in spite of some warm winter days.

With technology perpetually speeding forward, new products and service delivery methods are always around the corner. Our challenge is to carefully utilize technology to provide you with exceptional personal service. While we endeavor to keep pace with these never-ending changes, things may sometimes look a little different, but the heart of who we are will never change. Here at TVFCU, our singular focus is about identifying your financial needs and working with you to find the best solutions. As a result, we're building relationships that make us stronger and we're helping you live the life you love. Thanks for allowing us the opportunity to serve you.

Supervisory Committee Report

The Supervisory Committee is created by Federal law and appointed by the Board of Directors in accordance with the provisions of the Federal Credit Union Act. Committee members for 2014 included Judy Field, Bernard Harris, Ron Thomas, and Cheryl Willoughby.

According to the rules and regulations of the National Credit Union Administration (NCUA) and the Federal Credit Union Act, the Supervisory Committee is accountable for the effective performance of certain duties and responsibilities. The Committee is available to assist members who encounter any problems transacting Credit Union business. In addition to providing impartial assistance to members, the Committee is also responsible for internal audit oversight which is designed to minimize the Credit Union's risk of loss due to carelessness, error or fraud.

The Internal Audit Department, under the Committee's direct supervision, assists by performing periodic audits of the Credit Union's operations, policies, procedures, internal controls and regulatory compliance. While striving toward our goal of providing members with the very best in consumer financial services, the Board and management utilize these audits to consider improvements to the Credit Union.

Each year, the Supervisory Committee enlists outside auditors to provide an independent financial audit of the Credit Union. The accounting firm of Elliott Davis Decosimo, LLC performed the 2014 annual audit of Tennessee Valley Federal Credit Union's records. This audit assured the Committee that the enclosed financial statements present fairly the condition of your Credit Union as of December 31, 2014.

TENNESSEE VALLEY FEDERAL CREDIT UNION

FINANCIAL STATEMENTS

December 31, 2014

TENNESSEE VALLEY FEDERAL CREDIT UNION

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elliott davis decosimo

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Supervisory Committee
Tennessee Valley Federal Credit Union
Chattanooga, Tennessee

Report on the Financial Statements
We have audited the accompanying financial statements of Tennessee Valley Federal Credit Union (the Credit Union), which comprise the statement of financial condition as of December 31, 2014, and the related statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and the related notes to the financial statements.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Prior Period Financial Statements

The financial statements of Tennessee Valley Federal Credit Union as of and for the year ended December 31, 2013, were audited by Joseph Decosimo and Company, PLLC, who merged with Elliott Davis Decosimo, LLC as of January 1, 2015, and whose report dated March 6, 2014, expressed an unmodified opinion on those statements.

Elliott Davis Decosimo, LLC

Chattanooga, Tennessee
March 16, 2015

TENNESSEE VALLEY FEDERAL CREDIT UNION

STATEMENTS OF FINANCIAL CONDITION

December 31, 2014 and 2013

	2014	2013
ASSETS		
Cash and due from banks	$ **14,712,856**	$ 11,736,687
Interest-bearing deposits	**151,268,118**	102,985,915
Total cash and cash equivalents	**165,980,974**	114,722,602
Securities available for sale, at fair value	**199,615,281**	280,007,659
Securities held to maturity, at amortized cost	**58,776,571**	31,533,974
Loans held for sale	**546,023**	652,670
Loans receivable, net of allowance for loan losses and deferred loan costs	**590,980,776**	518,513,849
Federal Home Loan Bank stock, at cost	**1,483,600**	1,414,000
Deposit in NCUSIF	**8,387,603**	8,266,742
Certificates of deposit with other financial institutions	**992,000**	992,000
Investment in corporate credit unions	**1,037,201**	1,096,531
Accrued income	**2,050,218**	1,956,793
Property and equipment, net	**20,204,135**	19,397,742
Cash surrender value of life insurance	**5,874,616**	6,146,958
Other assets	**4,455,912**	4,360,813
TOTAL ASSETS	$ **1,060,384,910**	$ 989,062,333
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' share and savings accounts	$ **924,348,798**	$ 865,962,186
Dividends accrued and payable	**174,077**	175,047
Accounts payable and accrued expenses	**6,131,783**	5,736,763
Total liabilities	**930,654,658**	871,873,996
MEMBERS' EQUITY		
Regular reserve	**7,144,340**	7,144,340
Undivided earnings	**122,982,537**	111,000,263
Accumulated other comprehensive loss	**(396,625)**	(956,266)
Total members' equity	**129,730,252**	117,188,337
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ **1,060,384,910**	$ 989,062,333

The accompanying notes are an integral part of these financial statements.

TENNESSEE VALLEY FEDERAL CREDIT UNION

STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31, 2014 and 2013

	2014	2013
INTEREST INCOME		
Interest on loans, including fees	$ 25,788,953	$ 24,774,784
Interest on investments	2,356,784	2,214,145
	28,145,737	26,988,929
INTEREST EXPENSE	1,720,044	1,725,917
Net interest income	26,425,693	25,263,012
PROVISION FOR LOAN LOSSES	2,220,380	1,694,713
Net interest income after provision for loan losses	24,205,313	23,568,299
NON-INTEREST INCOME		
Member service fees	6,221,686	6,119,901
Other	11,971,534	9,929,092
	18,193,220	16,048,993
NON-INTEREST EXPENSES		
Salaries	12,464,257	11,756,415
Employee benefits	3,574,074	3,285,001
Association dues and meeting expenses	417,858	422,679
Office occupancy expenses	1,493,088	1,446,533
Office operations expenses	9,745,487	8,600,685
Marketing expenses	997,903	923,830
Professional and outside services	245,246	206,700
Annual meeting expenses	18,960	6,882
Loan servicing and collection expenses	1,097,162	904,978
Insurance premium assessment	-	657,678
Federal supervision and examination expenses	189,610	219,447
Miscellaneous expenses	366,830	484,696
	30,610,475	28,915,524
GAINS FROM MERGERS	194,216	977,733
NET INCOME	11,982,274	11,679,501
OTHER COMPREHENSIVE INCOME (LOSS)		
Change in unrealized gains (losses) on securities available for sale	559,641	(1,436,503)
COMPREHENSIVE INCOME	$ 12,541,915	$ 10,242,998

The accompanying notes are an integral part of these financial statements.

TENNESSEE VALLEY FEDERAL CREDIT UNION

STATEMENT OF CHANGES IN MEMBERS' EQUITY

Years Ended December 31, 2014 and 2013

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
BALANCE - December 31, 2012	$ 7,144,340	$ 99,320,762	$ 480,237	$ 106,945,339
Net income		11,679,501		11,679,501
Other comprehensive loss - Change in unrealized gains (losses) on securities available for sale			(1,436,503)	(1,436,503)
BALANCE - December 31, 2013	7,144,340	111,000,263	(956,266)	117,188,337
Net income		11,982,274		11,982,274
Other comprehensive income - Change in unrealized gains (losses) on securities available for sale			559,641	559,641
BALANCE - December 31, 2014	**$ 7,144,340**	**$ 122,982,537**	**$ (396,625)**	**$ 129,730,252**

The accompanying notes are an integral part of these financial statements.

TENNESSEE VALLEY FEDERAL CREDIT UNION

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 11,982,274	$ 11,679,501
Adjustments to reconcile net income to net cash flows from operating activities -		
Depreciation	1,537,353	1,499,162
Provision for loan losses	2,220,380	1,694,713
Gains from mergers	(194,216)	(977,733)
Net accretion (amortization) of securities available for sale	861,683	(376,703)
Net accretion of securities held to maturity	32,403	26,911
Decrease (increase) in cash surrender value of life insurance	272,342	(163,513)
Other losses (gains)	(762)	214,907
Changes in operating assets and liabilities -		
Accrued income	(93,425)	(198,832)
Other assets	14,789	(863,852)
Dividends accrued and payable	(970)	(23,404)
Accounts payable and accrued expenses	393,048	(21,035)
Net cash flows from operating activities	17,024,899	12,490,122
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan originations and principal payments, net	(74,127,480)	(28,928,720)
Purchase of property and equipment	(2,331,435)	(751,905)
Increase in deposit in NCUSIF	(114,491)	(512,755)
Net increase in Federal Home Loan Bank stock	(69,600)	(111,700)
Proceeds from investment in corporate credit unions	64,769	-
Purchases of securities available for sale	(27,500,000)	(151,520,000)
Purchases of securities held to maturity	(37,275,000)	(31,560,885)
Proceeds from calls and maturities of securities available for sale	107,590,336	114,058,506
Proceeds from calls and maturities of securities held to maturity	10,000,000	-
Decrease in certificates of deposit with other financial institutions	-	6,984,000
Cash acquired in business combinations	50,864	5,591,605
Proceeds from the sale of foreclosed assets	44,412	462,689
Net cash flows from investing activities	(23,667,625)	(86,289,165)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' share and savings accounts	57,901,098	26,907,271
NET CHANGE IN CASH AND CASH EQUIVALENTS	51,258,372	(46,891,772)
CASH AND CASH EQUIVALENTS - beginning of year	114,722,602	161,614,374
CASH AND CASH EQUIVALENTS - end of year	$ 165,980,974	$ 114,722,602

The accompanying notes are an integral part of these financial statements.

TENNESSEE VALLEY FEDERAL CREDIT UNION

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2014 and 2013

		2014		2013
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash paid during the year for interest	**$**	**1,721,014**	$	1,738,239
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES				
Transfer of loans to foreclosed assets	**$**	**153,538**	$	32,795
Change in unrealized gains (losses) on securities available for sale	**$**	**559,641**	$	(1,436,503)

SUPPLEMENTAL SCHEDULE OF NONCASH OPERATING, INVESTING AND FINANCING INFORMATION

Except for the cash received, the balances acquired in the business combinations described in Note 13 of these financial statements are not included in the above because no cash was paid. Rather, only the transactions impacting cash flows after the date of acquisition are reflected in the corresponding operating, investing and financing sections above.

The following schedule describes the Credit Union's noncash operating, investing and financing activities relating to the business combination during the year ended December 31, 2014.

		Chattanooga Coca-Cola Employees Federal Credit Union
Cash and cash equivalents	$	50,864
Loans receivable		606,718
Deposit in NCUSIF		6,370
Investment in corporate credit unions		5,439
Property and equipment		12,311
Members' share and savings accounts		(485,514)
Dividends accrued and payable		(1,242)
Accounts payable and accrued expenses		(730)
Equity acquired in business combination	$	194,216

The accompanying notes are an integral part of these financial statements.

TENNESSEE VALLEY FEDERAL CREDIT UNION

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2014 and 2013

The following schedule describes the Credit Union's noncash operating, investing and financing activities relating to the business combinations during the year ended December 31, 2013.

	City Employees Credit Union	Church Koinonia Federal Credit Union
Cash and cash equivalents	$ 4,426,787	$ 1,164,818
Loans receivable	3,457,123	1,139,301
Deposit in NCUSIF	13,897	20,767
Investment in corporate credit unions	64,769	21,239
Property and equipment	16,660	6,708
Other assets	13,193	42,330
Members' share and savings accounts	(7,209,982)	(2,094,585)
Dividends accrued and payable	(2,350)	(8,732)
Accounts payable and accrued expenses	(5,830)	(88,380)
Equity acquired in business combinations	$ 774,267	$ 203,466

The accompanying notes are an integral part of these financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Credit Union conform with accounting principles generally accepted in the United States of America (GAAP) and practices within the credit union industry. The Financial Accounting Standards Board (FASB) has adopted the FASB Accounting Standards Codification (ASC) as the single source of authoritative nongovernmental GAAP.

The policies that materially affect financial position and results of operations are summarized as follows:

NATURE OF OPERATIONS - Tennessee Valley Federal Credit Union provides a variety of financial services to its members through its branches in Chattanooga, Soddy Daisy, Ooltewah, Cleveland, Athens, Kimball and Dayton, Tennessee, and Ft. Oglethorpe, Georgia. The Credit Union's primary deposit products are share draft accounts, share savings accounts and share certificates. Its primary lending products are consumer loans and residential real estate loans.

ESTIMATES AND UNCERTAINTIES - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the fair value of investment securities.

CONCENTRATION OF CREDIT RISK - Most of the Credit Union's business activity is with members located in eastern Tennessee. The Credit Union may be exposed to credit risk from a regional economic standpoint due to a significant concentration of its borrowers work or reside in southeast Tennessee. The Credit Union continually monitors its operations, including the loan portfolio, for potential impairment.

Currently, the loan portfolio is well diversified and the Credit Union does not have any significant concentrations of credit risk except new and used automobile loans. The Credit Union's policy for repossessing collateral is that when all other collection efforts have been exhausted, the Credit Union enforces its first lienholder status and repossesses the collateral. The Credit Union has full and complete access to repossessed collateral. Repossessed collateral normally consists of vehicles and residential real estate.

CASH AND CASH EQUIVALENTS - For purposes of the statements of financial condition and the statements of cash flows, cash and cash equivalents includes cash on hand, amounts due from financial institutions, interest bearing deposits, and highly liquid debt instruments classified as cash which were purchased with maturities of three months or less. Amounts due from financial institutions may, at times, exceed federally insured limits.

Interest bearing deposits consist of interest-bearing accounts in other institutions for the purpose of maximizing interest yields on a short term basis for excess cash as part of the Credit Union's investment policy while allowing the Credit Union access to the funds daily, if required. As of December 31, 2014, significant interest-bearing accounts include approximately $100 million at the Federal Reserve Bank and $53 million at Volunteer Corporate Credit Union. As of December 31, 2013, the amounts in these accounts were approximately $80 million and $23 million, respectively.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

INVESTMENT SECURITIES - The Credit Union classifies its debt securities into held to maturity or available for sale categories. Debt securities are classified as held to maturity when the Credit Union has the positive intent and ability to hold the securities to maturity. Debt securities for which the Credit Union does not have the intent or ability to hold to maturity are classified as available for sale. Held to maturity securities are stated at amortized cost. Securities available for sale are carried at fair value, with the change in unrealized gains and losses excluded from earnings and reported in other comprehensive income. Realized gains and losses on securities available for sale are included in other income and, when applicable, are reported as a reclassification adjustment in other comprehensive income. Gains and losses on sales of securities are determined on the specific-identification method. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

The Credit Union conducts a regular assessment of its securities portfolio to determine whether any are other-than-temporarily impaired. In estimating other-than-temporary impairment losses, management considers, among other factors, the length of time and extent to which the fair value has been less than cost, the financial condition and near term prospects of the issuer, and the intent and ability of the Credit Union to retain its investment for a period of time sufficient to allow for any anticipated recovery. The term "other-than-temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value for a debt security is determined to be other-than-temporary, the other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

FAIR VALUE MEASUREMENTS - Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Generally accepted accounting principles also establish a three-tier fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value, as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access.

Level 2 - Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active and other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs that reflect the Credit Union's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

COMPREHENSIVE INCOME - Comprehensive income consists of net income and other gains and losses affecting members' equity that, under GAAP, are excluded from net income. For the Credit Union, such items consist of the change in unrealized gains and loses on securities available for sale.

In February 2013, the FASB issued guidance which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. This guidance does not change the current requirements for reporting net income or other comprehensive income in financial statements. This guidance was adopted effective January 1, 2014, and the adoption of this guidance did not impact the Company's financial statements and only impacted the presentation of other comprehensive income in the financial statements.

LOANS HELD FOR SALE - Loans held for sale include residential mortgage loans originated for sale into the secondary market. Loans held for sale are carried at fair value and are classified as Level 2 assets in the fair value hierarchy. Fair value is determined from observable current market prices. Held for investment loans that have been transferred to held for sale are carried at lower of cost or fair value. The credit component of any write down upon transfer to held for sale is reflected in charge offs to the allowance for loan losses.

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

Loans that management has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, less the allowance for loan losses and net deferred loan 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 loans is discontinued at the time the loan is ninety days delinquent unless the credit is well-secured and in process of collection. Credit card loans and other personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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.

As part of management's assessment of the allowance, management divides the loan portfolio into three segments: commercial, consumer real estate, and automobile and other consumer loans. Each segment is then analyzed such that a specific and general allocation of the allowance is estimated for each loan segment.

The general component of the Credit Union's allowance for loan losses is based on historical chargeoff experience and expected loss given default. The model includes each of the three loan portfolio segments and utilizes the incurred losses over the last thirty-six months to estimate future losses. The historic loss percentages derived from this model are then applied to the outstanding loan balance for each loan category. Other adjustments may be made to the allowance for loan losses for each loan category after an assessment of internal and external influences on credit quality that are not fully reflected in historical loss experience.

The Credit Union's allowance for loan losses includes a specific allocation for loans classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. In assessing the adequacy of the allowance, the Credit Union incorporates relevant internal loan review results in the loan impairment determination. In addition, regulatory agencies, as an integral part of their examination process, will periodically review the Credit Union's allowance for loan losses, and may require the Credit Union to record adjustments to the allowance based on their judgment about information available to them at the time of their examinations.

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 and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status 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 member, including the length of the delay, the reasons for the delay, the member's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial, consumer real estate, and automobile and other consumer loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

if the loan is collateral dependent. Large groups of smaller balance homogenous loans are collectively evaluated for impairment. The Credit Union undertakes this process both to ascertain whether there are loans in the portfolio whose credit quality has weakened over time and to assist in the overall evaluation of the risk characteristics of the entire loan portfolio.

TROUBLED DEBT RESTRUCTURINGS - Loans may occasionally be restructured due to economic or legal reasons relating to the borrower's financial condition by granting a concession in an attempt to protect the investment. Examples of such concessions include a reduction in interest, a reduction in principal, a reduction in payment or any combination thereof. This generally occurs when the financial condition of the borrower needs to be given temporary or permanent relief from the original contractual terms of the loan.

DEPOSIT IN NCUSIF - 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.

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

PROPERTY AND EQUIPMENT - Land and construction in progress are carried at cost. Buildings, leasehold improvements, furniture and equipment, and software and data processing equipment are carried at cost, less accumulated depreciation and amortization. Expenditures for repairs and maintenance are charged to expense as incurred and additions and improvements that significantly extend the lives of assets are capitalized. Upon the sale or other retirement of depreciable property, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in operations. Buildings, furniture and equipment, and software and data processing equipment are depreciated using the straight-line method over the estimated useful lives of the assets or the expected terms of the leases, if shorter. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases or the expected terms of the leases, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured. Management reviews premises and equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

MEMBERS' SHARE AND SAVINGS ACCOUNTS - Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' share 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.

MEMBERS' EQUITY - The Credit Union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of undivided earnings, is not available for the payment of interest.

INCOME TAXES - The Credit Union is exempt, by statute, from federal and state income taxes; however, if the Credit Union were to receive significant amounts of unrelated business income (e.g., income from ATM fees received from nonmembers), it may be subject to unrelated business income for federal purposes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

ADVERTISING -Advertising costs are charged to operations as incurred. Advertising expense totaled $997,903 for 2014 and $923,830 for 2013.

RECLASSIFICATIONS - Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

SUBSEQUENT EVENTS - Management has evaluated subsequent events for potential recognition and disclosure through March 16, 2015, the date the financial statements were available to be issued.

NOTE 2 - INVESTMENT IN CORPORATE CREDIT UNIONS

As a requirement of membership, the Credit Union maintains a membership capital account with Volunteer Corporate Credit Union. A membership capital account is a restricted share base that is subject to depletion based on the financial health of the corporate credit union. Therefore, the membership capital account balance is subject to impairment. During 2011, the Credit Union's membership capital account was converted to a Perpetual Contributed Capital (PCC) account and no longer has a three year right of redemption and may not be withdrawn. Additionally, the PCC account has no scheduled maturity. This PCC account may not be pledged as collateral or security for any borrowings or other obligations. No public market exists for the sale of this PCC account. However, it may be transferred to another member or to a nonmember (other than an individual) in accordance with applicable laws and subject to corporate credit union policies, rules, and procedures. The amount of invested capital at Volunteer Corporate Credit Union as of December 31, 2014 and 2013, was $1,037,201 and $1,096,531, respectively.

The Credit Union maintains share accounts at Volunteer Corporate Credit Union that exceed federally insured limits. See Note 1 concerning amounts that exceed federally insured limits.

NOTE 3 - INVESTMENT SECURITIES

As of December 31, 2014 and 2013, investments classified as available for sale consist of the following:

	2014			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Debt securities				
U.S. Government-sponsored enterprises (GSEs)	**$ 174,992,880**	**$ 120,037**	**$ (619,152)**	**$ 174,493,765**
Mortgage-backed securities - GSE residential	**7,619,558**	**59,758**	**(30,919)**	**7,648,397**
Collateralized mortgage obligations	**17,399,468**	**78,927**	**(5,276)**	**17,473,119**
	$ 200,011,906	**$ 258,722**	**$ (655,347)**	**$ 199,615,281**

NOTE 3 - INVESTMENT SECURITIES - continued

	2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
U.S. Government-sponsored enterprises	$ 250,092,528	$ 192,605	$ (1,142,789)	$ 249,142,344
Mortgage-backed securities - GSE residential	9,860,056	37,256	(84,548)	9,812,764
Collateralized mortgage obligations	21,011,341	72,761	(31,551)	21,052,551
	$ 280,963,925	$ 302,622	$ (1,258,888)	$ 280,007,659

As of December 31, 2014, investments classified as held to maturity consist of the following:

	2014			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Debt securities				
U.S. Government-sponsored enterprises	**$ 58,776,571**	**$ 33,161**	**$ (37,017)**	**$ 58,772,715**

As of December 31, 2013, investments classified as held to maturity consist of the following.

	2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
U.S. Government-sponsored enterprises	$ 31,533,974	$ -	$ (151,475)	$ 31,382,499

The scheduled maturities of investment securities as of December 31, 2014, are as follows:

	Available for sale		**Held to maturity**	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 29,119,405	$ 29,153,995	$ -	$ -
Due after one year through five years	145,873,474	145,339,769	58,776,571	58,772,715
Mortgage-backed securities	25,019,027	25,121,517	-	-
	$ 200,011,906	$ 199,615,281	$ 58,776,571	$ 58,772,715

NOTE 3 - INVESTMENT SECURITIES - continued

The following tables present gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2014 and 2013.

Available for sale securities:

	2014				
	Less Than 12 Months		12 Months or More		
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Total Unrealized Losses
U.S. Government-sponsored enterprises	$ 19,580,554	$ (13,046)	$ 107,058,665	$ (606,106)	$ (619,152)
Mortgage-backed securities - GSE residential	-	-	2,790,758	(30,919)	(30,919)
Collateralized mortgage obligations	1,580,758	(436)	1,599,632	(4,840)	(5,276)
	$ 21,161,312	$ (13,482)	$ 111,449,055	$ (641,865)	$ (655,347)

	2013				
	Less Than 12 Months		12 Months or More		
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Total Unrealized Losses
U.S. Government-sponsored enterprises	$ 144,702,264	$ (1,044,437)	$ 16,807,680	$ (98,352)	$ (1,142,789)
Mortgage-backed securities - GSE residential	1,570,777	(6,728)	3,382,408	(77,820)	(84,548)
Collateralized mortgage obligations	1,633,682	(22,573)	414,420	(8,978)	(31,551)
	$ 147,906,723	$ (1,073,738)	$ 20,604,508	$ (185,150)	$ (1,258,888)

Held to maturity securities:

	2014				
	Less Than 12 Months		12 Months or More		
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Total Unrealized Losses
U.S. Government-sponsored enterprises	$ 7,305,950	$ (13,545)	$ 20,969,030	$ (23,473)	$ (37,017)

NOTE 3 - INVESTMENT SECURITIES - continued

	2013				
	Less Than 12 Months		12 Months or More		
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Total Unrealized Losses
U.S. Government-sponsored enterprises	$ 31,382,499	$ (151,475)	$ -	$ -	$ (151,475)

U.S. Government-sponsored enterprises - As of December 31, 2014, 27 U.S. GSEs available for sale securities had unrealized losses with an aggregate depreciation of 0.49% from the Credit Union's amortized cost basis and six U.S. GSEs held to maturity securities had unrealized losses with an aggregate depreciation of 0.13% from the Credit Union's amortized cost basis. These unrealized losses related principally to changes in market interest rates. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Credit Union does not intend to sell the investments prior to maturity and it is not more likely than not that the Credit Union will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Credit Union does not consider these investments to be other-than-temporarily impaired as of December 31, 2014.

Mortgage-backed securities - As of December 31, 2014, five mortgage-backed securities had unrealized losses with an aggregate depreciation of .60% from the Credit Union's amortized cost basis. These unrealized losses related principally to higher projected collateral losses, wider credit spreads and changes in interest rates. The Credit Union assesses for credit impairment using a cash flow model. Based on that evaluation and the Credit Union's ability and intent to hold these investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Credit Union does not consider these investments to be other-than-temporarily impaired as of December 31, 2014.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES AND DEFERRED LOAN COSTS

The composition of the Credit Union's loan portfolio as of December 31, 2014 and 2013, is as follows:

	2014	2013
Commercial	**$ 91,401,418**	$ 89,696,187
Consumer real estate	**153,276,919**	142,156,968
Automobile and other consumer	**350,460,179**	290,511,787
Total loans	**595,138,516**	522,364,942
Allowance for loan losses	**(3,921,133)**	(3,426,515)
Deferred loan costs, net	**(236,607)**	(424,578)
Loans receivable, net	**$ 590,980,776**	$ 518,513,849

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES AND DEFERRED LOAN COSTS - continued

The aggregate of loans held by the officers and directors of the Credit Union as of December 31, 2014, totaled 14 loans and $823,000. As of December 31, 2013, there were 17 loans outstanding held by the officers and directors of the Credit Union totaling $925,000.

A summary of the activity in the allowance for loan losses for the years ended December 31, 2014 and 2013, is as follows:

	2014	2013
Balance at beginning of year	**$ 3,426,515**	$ 3,043,130
Provision for loan losses	**2,220,380**	1,694,713
Recoveries of loans charged off	**805,586**	688,413
Loans charged off	**(2,531,348)**	(1,999,741)
Balance at end of year	**$ 3,921,133**	$ 3,426,515

Federal regulations require the Credit Union to review its assets on a regular basis. To fulfill this requirement, the Credit Union reviews its loan portfolio to ensure the Credit Union's nonperforming loans are being properly identified. These assets have one or more defined weakness and are characterized by the distinct possibility that the Credit Union will sustain some loss. This process is performed by the Credit Union's management and federal regulators.

The following table outlines the amount of each loan classification and the amount categorized by loan status as of December 31, 2014:

	Commercial	**Consumer Real Estate**	**Automobile and Other Consumer**	**Total**
Performing loans	**$ 91,401,418**	**$ 152,385,119**	**$ 347,409,976**	**$ 591,196,513**
Impaired loans	**-**	**891,800**	**3,050,203**	**3,942,003**
Total loans	**$ 91,401,418**	**$ 153,276,919**	**$ 350,460,179**	**$ 595,138,516**

The following table outlines the amount of each loan classification and the amount categorized by loan status as of December 31, 2013:

	Commercial	Consumer Real Estate	Automobile and Other Consumer	Total
Performing loans	$ 89,695,416	$ 141,667,406	$ 288,411,166	$ 519,773,988
Impaired loans	771	489,562	2,100,621	2,590,954
Total loans	$ 89,696,187	$ 142,156,968	$ 290,511,787	$ 522,364,942

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES AND DEFERRED LOAN COSTS - continued

The following table shows the allowance for loan losses allocation by loan classification for performing and impaired loans as of December 31, 2014:

	Commercial	Consumer Real Estate	Automobile and Other Consumer	Unallocated	Total
Allowance related to -					
Performing loans	**$ 928,447**	**$ 190,497**	**$ 1,762,598**	**$ 823,396**	**$ 3,704,938**
Impaired loans	**-**	**-**	**216,195**	**-**	**216,195**
Total allowance	**$ 928,447**	**$ 190,497**	**$ 1,978,793**	**$ 823,396**	**$ 3,921,133**

The following table shows the allowance for loan losses allocation by loan classification for performing and impaired loans as of December 31, 2013:

	Commercial	Consumer Real Estate	Automobile and Other Consumer	Unallocated	Total
Allowance related to -					
Performing loans	$ 907,747	$ 169,796	$ 1,472,428	$ 644,645	$ 3,194,616
Impaired loans	300	31,978	199,621	-	231,899
Total allowance	$ 908,047	$ 201,774	$ 1,672,049	$ 644,645	$ 3,426,515

The following table details the changes in the allowance for loan losses for the year ended December 31, 2014, by loan classification:

	Commercial	Consumer Real Estate	Automobile and Other Consumer	Unallocated	Total
Balance at beginning of year	**$ 908,047**	**$ 201,774**	**$ 1,672,049**	**$ 644,645**	**$ 3,426,515**
Provision for loan losses	**20,680**	**141,966**	**1,878,983**	**178,751**	**2,220,380**
Recoveries of loans charged off	**-**	**3,267**	**802,319**	**-**	**805,586**
Loans charged off	**(280)**	**(156,510)**	**(2,374,558)**	**-**	**(2,531,348)**
Balance at end of year	**$ 928,447**	**$ 190,497**	**$ 1,978,793**	**$ 823,396**	**$ 3,921,133**

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES AND DEFERRED LOAN COSTS - continued

The following table details the changes in the allowance for loan losses for the year ended December 31, 2013, by loan classification:

	Commercial	Consumer Real Estate	Automobile and Other Consumer	Unallocated	Total
Balance at beginning of year	$ 1,050,729	$ 217,653	$ 1,133,738	$ 641,010	$ 3,043,130
Provision for loan losses	(142,682)	201,393	1,726,175	(90,173)	1,694,713
Recoveries of loans charged off	-	-	594,605	93,808	688,413
Loans charged off	-	(217,272)	(1,782,469)	-	(1,999,741)
Balance at end of year	$ 908,047	$ 201,774	$ 1,672,049	$ 644,645	$ 3,426,515

The Credit Union follows the loan impairment accounting guidance in the ASC Topic 310, *Receivables*. Impaired loans include nonperforming commercial loans and loans modified in trouble debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in interest rates, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collections.

The following tables present summary information pertaining to impaired loans by loan classification:

	As of December 31, 2014			Year Ended December 31, 2014	
	Recorded Investment	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
Impaired loans without a valuation allowance -					
Commercial	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Consumer real estate	**891,800**	**891,800**	**-**	**674,692**	**28,877**
Automobile and other consumer	**1,916,870**	**1,916,870**	**-**	**1,540,304**	**71,316**
	2,808,670	**2,808,670**	**-**	**2,214,996**	**100,193**
Impaired loans with a valuation allowance -					
Commercial	**-**	**-**	**-**	**386**	**-**
Consumer real estate	**-**	**-**	**-**	**15,989**	**684**
Automobile and other consumer	**1,133,333**	**1,133,333**	**216,195**	**1,035,108**	**47,926**
	1,133,333	**1,133,333**	**216,195**	**1,051,483**	**48,610**
Total impaired loans	**$ 3,942,003**	**$ 3,942,003**	**$ 216,195**	**$ 3,266,479**	**$ 148,803**

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES AND DEFERRED LOAN COSTS - continued

	As of December 31, 2013			Year Ended December 31, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans without a valuation allowance -					
Commercial	$ -	$ -	$ -	$ -	$ -
Consumer real estate	457,584	457,584	-	422,370	18,077
Automobile and other consumer	1,163,738	1,163,738	-	611,424	28,309
	1,621,322	1,621,322	-	1,033,794	46,386
Impaired loans with a valuation allowance -					
Commercial	771	771	300	2,691	-
Consumer real estate	31,978	31,978	31,978	15,989	684
Automobile and other consumer	936,883	936,883	199,621	1,529,418	70,812
	969,632	969,632	231,899	1,548,098	71,496
Total impaired loans	$ 2,590,954	$ 2,590,954	$ 231,899	$ 2,581,892	$ 117,882

The following table presents an aged analysis of past due loans as of December 31, 2014:

	Commercial	**Consumer Real Estate**	**Automobile and Other Consumer**	**Total**
Past due 2 to 6 months	**$ -**	**$ 147,724**	**$ 850,238**	**$ 997,962**
Past due 7 to 12 months	**-**	**99,049**	**196,216**	**295,265**
Past due more than 12 months	**-**	**85,234**	**4,727**	**89,961**
Total past due loans	**-**	**332,007**	**1,051,181**	**1,383,188**
Current loans	**91,401,418**	**152,944,912**	**349,408,998**	**593,755,328**
Total loans	**$ 91,401,418**	**$ 153,276,919**	**$ 350,460,179**	**$ 595,138,516**

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES AND DEFERRED LOAN COSTS - continued

The following table presents an aged analysis of past due loans as of December 31, 2013:

	Commercial	Consumer Real Estate	Automobile and Other Consumer	Total
Past due 2 to 6 months	$ -	$ 138,806	$ 635,445	$ 774,251
Past due 7 to 12 months	-	57,662	142,546	200,208
Past due more than 12 months	-	-	-	-
Total past due loans	-	196,468	777,991	974,459
Current loans	89,696,187	141,960,500	289,733,796	521,390,483
Total loans	$ 89,696,187	$ 142,156,968	$ 290,511,787	$ 522,364,942

Management determined that total loans past due ninety days or more and still accruing interest as of December 31, 2014 and 2013, were not significant.

Impaired loans also include loans that the Credit Union has elected to formally restructure when, due to the weakening credit status of a borrower, the restructuring may facilitate a repayment plan that seeks to minimize the potential losses that the Credit Union may have to otherwise incur. Loans that have been restructured that were performing at the restructure date are reported as troubled debt restructurings.

The following table presents a summary of loans that were modified as troubled debt restructurings during the year ended December 31, 2014:

	Number of Contracts	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Commercial	**-**	**$ -**	**$ -**
Consumer real estate	**-**	**$ -**	**$ -**
Automobile and other consumer	**72**	**$ 713,463**	**$ 748,910**

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES AND DEFERRED LOAN COSTS - continued

The following table presents a summary of loans that were modified as troubled debt restructurings during the year ended December 31, 2013:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	-	$ -	$ -
Consumer real estate	1	$ 170,192	$ 174,516
Automobile and other consumer	76	$ 753,079	$ 696,744

The following table presents a summary of loans that were modified as troubled debt restructurings during the year ended December 31, 2014, and for which there was a payment default during the year:

	Number of Contracts	**Recorded Investment**
Commercial	**-**	**$ -**
Consumer real estate	**-**	**$ -**
Automobile and other consumer	**47**	**$ 481,324**

The following table presents a summary of loans that were modified as troubled debt restructurings during the year ended December 31, 2013, and for which there was a payment default during the year:

	Number of Contracts	Recorded Investment
Commercial	-	$ -
Consumer real estate	-	$ -
Automobile and other consumer	42	$ 433,459

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following major classifications:

	2014	2013
Land	$ 6,549,137	$ 6,549,137
Buildings	15,684,420	15,680,060
Furniture and equipment	7,638,944	7,206,253
Software and data processing equipment	7,534,115	6,732,635
Leasehold improvements	777,122	777,122
Construction in progress (estimated additional cost to complete is $450,000 as of December 31, 2014)	1,122,565	56,615
	39,306,303	37,001,822
Less accumulated depreciation	(19,102,168)	(17,604,080)
	$ 20,204,135	$ 19,397,742

The Credit Union leases certain branch facilities under long-term lease agreements which expire at various dates through 2017. Total rents paid under these leases were $37,484 for 2014 and 2013.

The following is a schedule by year of future minimum rental payments required under these lease agreements as of December 31, 2014:

Year ending	
December 31, 2015	$ 19,640
December 31, 2016	$ 19,640
December 31, 2017	$ 3,273

NOTE 6 - MEMBERS' SHARE AND SAVINGS ACCOUNTS

Members' share and savings accounts are summarized as follows:

	2014	2013
Share savings	$ 418,723,825	$ 366,994,027
Share draft	200,144,880	186,806,252
Money market	133,885,416	140,833,053
Club	23,675,503	22,186,377
Individual retirement accounts	49,258,980	47,466,633
Share escrow	651,467	540,707
	826,340,071	764,827,049
Share certificates	98,008,727	101,135,137
	$ 924,348,798	$ 865,962,186

NOTE 6 - MEMBERS' SHARE AND SAVINGS ACCOUNTS - continued

The aggregate amounts of members' share and savings accounts over $100,000 were approximately $404,000,000 and $367,000,000 as of December 31, 2014 and 2013, respectively.

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

Year ending		
December 31, 2015	$	80,676,168
December 31, 2016		12,114,005
December 31, 2017		2,229,828
December 31, 2018		1,558,708
December 31, 2019		1,430,018
	$	98,008,727

NOTE 7 - PROFIT SHARING PLAN

The Credit Union has a salary reduction/profit-sharing plan under the provisions of Section 401(k) of the Internal Revenue Code. The Plan covers all employees who have worked at least 500 hours per year, have attained the age of 21 and have completed six months of service. The Credit Union matches employee contributions at 100 percent of employees' contributions up to 3 percent of compensation and 50 percent for contributions over 3 percent up to 5 percent of compensation for a maximum match of 4 percent. In addition, an additional percentage determined by the Board of Directors is contributed at year-end to all eligible employees whether or not they are making a contribution. Employees are immediately vested in employee and employer contributions. Amounts contributed to the Plan totaled $694,936 for 2014 and $655,016 for 2013.

Effective January 1, 2014, the Credit Union executed a participating employer adoption agreement for Credit Union Retirement Plan Association 401(k) Plan, a multiple employer 401(k) plan for members of the Credit Union Retirement Plan Association. All assets of the Plan were transferred to the multiple employer plan effective January 1, 2014.

NOTE 8 - SHORT-TERM BORROWINGS AND LINE OF CREDIT

The Credit Union has available $85,897,877 in lines of credit with Volunteer Corporate Credit Union and the Federal Home Loan Bank (FHLB). Any borrowings with the FHLB would be secured by all of the Credit Union's 1-4 family mortgages. No amounts were outstanding under these lines of credit as of December 31, 2014 or 2013.

NOTE 9 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Credit Union is a party to financial instruments with off-balance-sheet credit risk in the normal course of business to meet the financing needs of its members and to reduce its own exposure to fluctuations in interest rates. These financial instruments are commitments to extend credit. These instruments involve, to varying degrees, elements of credit and market risk in excess of the amounts recognized in the statements of financial condition. The contract or notional amounts of these instruments reflect the extent of involvement the Credit Union has in particular classes of financial instruments.

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

As of December 31, 2014, the Credit Union had floating interest rate loan commitments outstanding of $38,829,136 under home equity lines of credit to members and $14,803,596 under unsecured line-of-credit arrangements.

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

NOTE 10 - FAIR VALUE MEASUREMENTS

The Credit Union uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with GAAP, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. 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 estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Generally accepted accounting principles provide a consistent definition of fair value, which focuses on exit price in an orderly transaction between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

NOTE 10 - FAIR VALUE MEASUREMENTS - continued

The following methods and assumptions were used by the Credit Union in estimating fair value disclosures for financial instruments:

Cash and cash equivalents and certificates of deposit with other financial institutions

The carrying amounts of cash and cash equivalents and certificates of deposit with other financial institutions approximate fair values based on the short-term nature of the assets.

Securities available for sale and Federal Home Loan Bank stock

Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange. Level 2 securities include mortgage-backed securities, corporate bonds and U.S. Government agency securities.

The carrying value of Federal Home Loan Bank stock approximates fair value based on the redemption provisions of the Federal Home Loan Bank.

Loans Held for Sale

The carrying value of the loans held for sale is a reasonable approximation of fair value.

Loans receivable

For variable-rate loans that re-price frequently and with no significant change in credit risk, fair values approximate carrying values. Fair values for fixed-rate loans are estimated using discounted cash flow analyses, using market interest rates for comparable loans. Loans 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 are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with ASC 310-30-30. The fair value of impaired loans is estimated using several methods including collateral value, liquidation value and 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. As of December 31, 2014 and 2013, substantially all of the total impaired loans were evaluated based on the fair value of collateral. In accordance with GAAP, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Credit Union records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Credit Union records the impaired loan as nonrecurring Level 3.

NOTE 10 - FAIR VALUE MEASUREMENTS - continued

Deposit in the National Credit Union Share Insurance Fund

The carrying amount of the deposit in the National Credit Union Share Insurance Fund is a reasonable approximation of fair value.

Investment in corporate credit unions

The carrying amount of the investment in corporate credit unions is a reasonable approximation of fair value.

Cash surrender value of life insurance

The carrying amounts of cash surrender value of life insurance approximate their fair value.

Members' share and savings accounts

The fair value of deposits with no stated maturity, such as share drafts, regular share savings and IRA savings accounts, is equal to the amount payable on demand at the measurement date. Fair values for fixed-rate share certificates are estimated using a discounted cash flow calculation that applies market interest rates on comparable instruments to a schedule of aggregated expected monthly maturities on time deposits.

Assets and liabilities measured at fair value on a recurring basis are summarized as follows:

	Fair Value as of December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale				
Debt securities -				
U.S. Government-sponsored enterprises	$ 174,493,765	$ -	$ 174,493,765	$ -
Mortgage-backed securities - GSE residential	7,648,397	-	7,648,397	-
Collateralized mortgage obligations	17,473,119	-	17,473,119	-
	$ 199,615,281	$ -	$ 199,615,281	$ -
Loans held for sale	$ 546,023	$ -	$ 546,023	$ -

NOTE 10 - FAIR VALUE MEASUREMENTS - continued

	Fair Value as of December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale				
Debt securities -				
U.S. Government-sponsored enterprises	$ 249,142,344	$ -	$ 249,142,344	$ -
Mortgage-backed securities - GSE residential	9,812,764	-	9,812,764	-
Collateralized mortgage obligations	21,052,551	-	21,052,551	-
	$ 280,007,659	$ -	$ 280,007,659	$ -
Loans held for sale	$ 652,670	$ -	$ 652,670	$ -

Certain assets and liabilities are measured at fair value on a nonrecurring basis, which means the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The tables below presents information about assets on the statements of financial condition as of December 31, 2014 and 2013, for which a nonrecurring change in fair value was recorded.

	Fair Value as of December 31, 2014	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Impaired loans, net of allowance for loan losses	**$ -**	**$ -**	**$ 3,725,808**	**$ -**

	Fair Value as of December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans, net of allowance for loan losses	$ 2,359,055	$ -	$ 2,359,055	$ -

NOTE 10 - FAIR VALUE MEASUREMENTS - continued

The carrying amount and estimated fair value of the Credit Union's financial instruments as of December 31, 2014 and 2013, are as follows (in thousands):

	2014		2013	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	**$ 165,981**	**$ 165,981**	$ 114,723	$ 114,723
Securities available for sale	**$ 199,615**	**$ 199,615**	$ 280,008	$ 280,008
Securities held to maturity	**$ 58,777**	**$ 58,773**	$ 31,534	$ 31,382
Loans held for sale	**$ 546**	**$ 546**	$ 653	$ 653
Loans receivable	**$ 590,981**	**$ 590,235**	$ 518,514	$ 518,729
Federal Home Loan Bank stock	**$ 1,484**	**$ 1,484**	$ 1,414	$ 1,414
Deposit in NCUSIF	**$ 8,388**	**$ 8,388**	$ 8,267	$ 8,267
Certificates of deposit with other financial institutions	**$ 992**	**$ 992**	$ 992	$ 992
Investment in corporate credit unions	**$ 1,037**	**$ 1,037**	$ 1,097	$ 1,097
Cash surrender value of life insurance	**$ 5,875**	**$ 5,875**	$ 6,147	$ 6,147
Liabilities				
Members' share and savings accounts	**$ 924,349**	**$ 924,312**	$ 865,962	$ 866,049

NOTE 11 - 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 opinion, would not be material to the financial condition or results of operations of the Credit Union.

NOTE 12 - REGULATORY MATTERS

The Credit Union is subject to regulatory net worth ratio requirements administered by the NCUA. Failure to meet minimum net worth or Risk-Based Net Worth Requirements (RBNWR) 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 Unions assets, liabilities and certain off-balance-sheet items as calculated under GAAP. 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 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 and 2013, was 5.04% and 5.58%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes, as of December 31, 2014 and 2013, 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, NCUA categorized the Credit Union 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 and meet any applicable RBNWR. 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 as of December 31, 2014 and 2013, are also presented in the table:

	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**
December 31, 2014	**$130,126,877**	**12.3 %**	**$63,623,095**	**6.0 %**	**$74,226,944**	**7.0 %**
December 31, 2013	$118,144,603	11.9 %	$59,343,740	6.0 %	$69,234,363	7.0 %

NOTE 13 - BUSINESS COMBINATIONS

Effective March 31, 2013, the Credit Union merged in City Employees Credit Union (CECU), a federally insured credit union. The merger was facilitated and approved by the NCUA. CECU's field of membership was added to the Credit Union's field of membership.

Effective September 30, 2013, the Credit Union merged in Church Koinonia Federal Credit Union (CKFCU), a federally insured credit union. The merger was facilitated and approved by the NCUA. CKFCU's field of membership was added to the Credit Union's field of membership.

Effective December 31, 2014, the Credit Union merged in Chattanooga Coca-Cola Employees Federal Credit Union (CCCEFCU), a federally insured credit union. The merger was facilitated and approved by the NCUA. CCCEFCU's field of membership was added to the Credit Union's field of membership.

These mergers were accounted for as purchase business combinations with no payment considerations involved. The name of the entity after these business combinations remains Tennessee Valley Federal Credit Union. Accordingly, the books and records of the merged credit unions were fully integrated into the Credit Union, thereby resulting in a single reporting unit. Tennessee Valley Federal Credit Union recorded a gain from a bargain purchase of $194,216 and $977,733 in the years ending December 31, 2014, and 2013, respectively, that represents the members' equity of the merged credit unions as of the merger dates.

Below are the statements of financial condition of CECU, CKFCU and CCCEFCU which were recorded at fair value on the Credit Union's books as of the acquisition dates above.

	City Employees Credit Union	Church Koinonia Federal Credit Union	Chattanooga Coca-Cola Employees Federal Credit Union
Assets			
Cash and cash equivalents	$ 4,426,787	$ 1,164,818	$ 50,864
Loans receivable	3,457,123	1,139,301	606,718
Deposit in NCUSIF	13,897	20,767	6,370
Investment in corporate credit unions	64,769	21,239	5,439
Property and equipment	16,660	6,708	12,311
Other assets	13,193	42,330	-
Total assets	$ 7,992,429	$ 2,395,163	$ 681,702
Liabilities and members' equity			
Members' share and savings accounts	$ 7,209,982	$ 2,094,585	$ 485,514
Dividends accrued and payable	2,350	8,732	1,242
Accounts payable and accrued expenses	5,830	88,380	730
Members' equity	774,267	203,466	194,216
Total liabilities and members' equity	$ 7,992,429	$ 2,395,163	$ 681,702


Tennessee Valley
FEDERAL CREDIT UNION
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