Annual Report

2014

Members Credit Union

Members Credit Union

Board of Directors

Officers

Members Credit Union

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Joint Report

In 2014 Members Credit Union contended with many of the same problems that have plagued the financial services industry since the mortgage bubble and resulting recession that began in 2008. Savings rates remain at historical lows. The economy, while showing improvement, is still sputtering for many in the lower and middle classes, and regulatory burdens are becoming more cumbersome with each passing year.

Members Credit Union continued to grow and prosper in 2014.

Even with the many challenges facing the industry, Members Credit Union continued to grow and prosper in 2014. The credit union's total savings deposits grew by 1.7% to over $225 million; total assets grew 4.2% to over $254 million. The credit union's overall savings deposits increased despite a significant drop in our certificates of deposit, as members move their money to more liquid accounts or into the stock market, willing to accept the greater risk of stocks in order to potentially earn a higher yield.

Members realized the value in borrowing from their credit union as loans grew over 3% in 2014, following an 8% increase in 2013. Our loan portfolio jumped $2.8 million to $92.6 million, rebounding from a low of $83 million just two years ago. In the fall of 2014 we lowered the upper tier of our auto loan rate from 7.25% APR to 4.75% APR, which encouraged more members to seek financing from the credit union.

Our loan delinquency rate, usually a good indicator of the strength of our loan portfolio, is well below the national average. Our financial solutions experts work with our members to help make payment arrangements that are agreeable to both the member and the credit union.

The excellent work of our financial solutions team has led to a sharp decline in our inventory of previously owned vehicles in 2014. As an alternative to repossession, we make every effort to find payment solutions that will enable the member to keep the automobile. Only when all other possible avenues have been exhausted is the collateral repossessed.

As we look ahead to 2015 and beyond, the credit union industry still faces many of the legislative issues that have been troubling for years – credit union taxation, field of membership questions, and the level of capital our regulatory agency, the National Credit Union Administration (NCUA), believes credit unions need to be safe and solvent.

We encourage Congress to enact legislation that will make retailers more accountable for their data security failures.

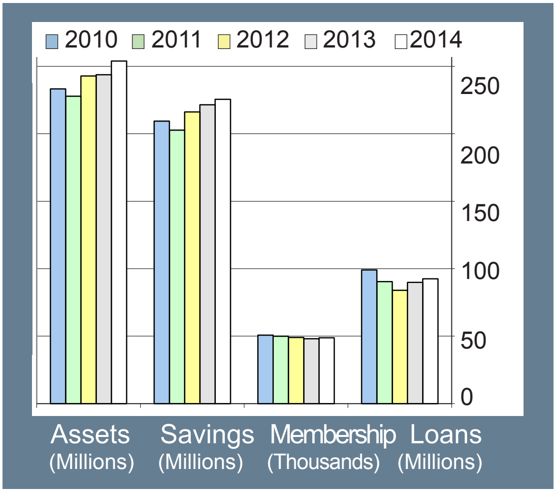
The debate, on Capitol Hill and within the credit union industry, continues to rage on regarding capital requirements. Regardless of the outcome of this decision, rest assured that Members Credit Union's capital reserves will easily meet the demands of the NCUA and are at a level that will allow us to withstand any type of financial stress.

A troubling new issue facing credit unions, and every financial institution that issues credit and debit cards, is the recent data breaches that have occurred at many of the big box retailers. These data breaches put our members' personal information at risk and frequently require new cards to be issued to our members. The cost of reissuing the cards is not the only expense the credit union has to absorb. Members who experience any fraudulent activity on their account must also be reimbursed.

A testament to our financial strength we were once again awarded a 5 star rating, the highest available, from Bauer Financial, an independent rating service

Retailers that have had their computer systems compromised and information stolen face no monetary repercussion from these data breaches, except for a possible decline in business. The financial burden falls squarely on the financial institution issuing the card. Retailers should shoulder some, if not all, of the cost for these data breaches. We encourage Congress to enact legislation that will make retailers more accountable for their data security failures.

The advances in technology continue to move at a dizzying pace in the financial services industry. Members' ability to communicate with the credit



union has never been easier or faster. Emails, texts, Facebook and Twitter are all ways that members can contact the credit union today that were not available even just a decade ago.

Mobile banking has also become a new and important account access mechanism. Today consumers rely more on their mobile smartphone and less on traditional desktop computers. With this change in behavior, the need for the credit union to provide a mobile banking application became evident. After much testing to ensure that personal account information could be safely transmitted through our mobile banking application, we introduced MCUmobile in the fall of 2014. This new technology has been fully embraced by our membership, with over 2,000 downloads in just the first four months that it has been available.

The way we pay for products and services is also changing rapidly. Apple iPay and other new payment delivery systems that allow one to use a smartphone to complete a purchase are fast emerging. The primary advantage that these new payment delivery systems offer is the protection, through tokenization, of the consumer's personal information.

Just as the writing of checks has decreased significantly due to the use of debit cards, these new payment delivery systems may one day take the place of credit and debit cards. We will carefully weigh the costs and member value of these new payment delivery systems as we consider adding them to our stable of products. As always, the safety of our members' personal information will be paramount to our decision.

Our efforts to give back to the communities we serve remains a primary component of our mission. In May of 2014, we held our 20th

MCU golf tournament and raised over $7,000 in support of two programs that are very important to us – the MCU Scholarship Program and the Wig Walks that we sponsor in Hickory and Lenoir each year. The MCU Scholarship program offers academic and need-based scholarships to members who would like to pursue a college degree. In 2014 we provided 15 scholarships worth $16,500. Since the inception of our program we have assisted 224 members with scholarships.

Our Wig Walks in Hickory and Lenoir are in their second and third year, respectively, and each raised over $6,500 for their local Wig Banks. The Wig Banks provide wigs and financial assistance to those who are battling cancer.

In 2014 we said goodbye to long time MCU employees Jerry Byrd and Maria Justice, as both retired at year's end. Jerry managed our Morganton branch for over 25 years and was also the first branch manager in our Hickory office. Maria worked in our corporate office as a loan officer for nearly eight years. Fluent in both Spanish and English, Maria helped many of our Spanish speaking members with their borrowing needs. Jerry and Maria's contributions to the credit union were invaluable and we thank them for their loyal service to our members.

Our Vice President of Financial Solutions, Paul Sluder, also retired from his full time position after 35 years of dedicated service. Paul will continue to work with the credit union on a part time basis handling our previously owned inventory and working to recover losses on loans that were previously written off from our books as not collectible.

On a much sadder note we mourn the passing of Brenda Oliver, a devoted member of our credit union family, after a long and courageous battle with cancer. Brenda, who worked as a teller in our Elkin office, came to us in July 2009, when Chatham Employees Credit Association, where she had worked for decades, merged into Members Credit Union. She was a fixture for our members in the Elkin community and she will be deeply missed.

Safe and sound operations are of the utmost importance to the board of directors and management of your credit union. Our Supervisory Committee, our State Examiner, and an independent professional auditing firm all performed audits within the last year. All examinations confirmed that our records and operating procedures are sound and our financial standing is strong. As a testament to our financial strength we were once again awarded a 5 star rating, the highest available, from Bauer Financial, an independent rating service that analyzes and reports on the nation's banking industry.

Today, the number of financial service providers from which to choose is innumerable. However, Members Credit Union, with our low fees and expenses and excellent savings and loan rates, still stands out above the rest. Our pledge to you, our member, is to provide the best financial products and services available at an affordable price, just as we have done since our founding in 1953. As member owners of the credit union you deserve nothing less than our total commitment to help you and your family reach your financial goals.

We look forward to being your financial partner in 2015 and beyond. We thank you for your membership.

Jack V. Braswell, Jr.

William A. Tittsworth

Sincerely,

Jack V. Braswell, Jr.
President/CEO

William A. Tittsworth
Chairman of the Board

BUTLER BURKE LLP
CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Members Credit Union
Winston-Salem, North Carolina

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of Members Credit Union, which comprise the statements of financial condition as of December 31, 2014 and 2013, and the related statements of income, comprehensive income, changes in members' equity, and cash flows for the years 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 U.S. generally accepted accounting principles; 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 audits. Conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 Credit Union'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 Credit Union'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 condition of Members Credit Union as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Butler & Burke, LLP

Winston-Salem, North Carolina
March 27, 2015

Statements of Financial Condition
December 31, 2014 and 2013

ASSETS

	2014	2013
Cash and cash equivalents	$ 6,229,539	$ 5,960,710
Investment securities, available-for-sale	77,604,324	61,467,122
Investment securities, held-to-maturity	64,076,933	72,775,761
Loans receivable, net of allowance for loan losses	92,191,935	89,366,620
Assets held for sale	207,579	465,664
Accrued interest receivable	1,024,446	1,093,599
Property and equipment, net	8,266,505	8,554,019
NCUSIF deposit	2,271,606	2,285,011
Other assets	2,042,321	1,810,150
TOTAL ASSETS	$253,915,188	$243,778,656

LIABILITIES AND MEMBERS' EQUITY

	2014	2013
Liabilities		
Members' share and savings accounts	$225,461,138	$221,499,640
Accrued expenses and other liabilities	2,312,853	868,787
Total Liabilities	227,773,991	222,368,427
Members' Equity		
Regular reserve	11,495,417	11,495,417
Undivided earnings	14,208,669	13,189,073
Accumulated other comprehensive income (loss)	437,111	(3,274,261)
Total Members' Equity	26,141,197	21,410,229
TOTAL LIABILITIES AND MEMBERS' EQUITY	$253,915,188	$243,778,656

See accompanying notes to financial statements.

Statements of Income
For the Years Ended December 31, 2014 and 2013

	2014	2013
Interest Income		
Outstanding loans	$5,158,469	$5,125,191
Investment securities	3,340,287	3,658,103
Total Interest Income	8,498,756	8,783,294
Interest Expense		
Members' share and savings accounts	682,289	900,919
Total Interest Expense	682,289	900,919
NET INTEREST INCOME	7,816,467	7,882,375
Provision for Loan Losses	1,013,481	1,098,480
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,802,986	6,783,895
Non-Interest Income		
Fees and other income, net	3,011,767	2,921,714
Rental income	356,771	356,372
Total Non-Interest Income	3,368,538	3,278,086
Non-Interest Expense		
Compensation and benefits	5,368,580	5,242,889
Occupancy	847,214	839,644
Members' account insurance	—	71,782
Office operations	2,182,247	2,188,418
Repossession expenses and losses	332,934	326,912
TCCUSF premium assessment	—	182,801
Other	420,953	323,113
Total Non-Interest Expense	9,151,928	9,175,559
NET INCOME	$1,019,596	$ 886,422

See accompanying notes to financial statements.

Statements of Comprehensive Income
For The Years Ended December 31, 2014 and 2013

	2014	2013
Net Income	$1,019,596	$ 886,422
Other Comprehensive Income		
Unrealized holding gains (losses) arising during the period on securities available-for-sale	3,711,372	(5,675,349)
TOTAL COMPREHENSIVE INCOME	$4,730,968	$(4,788,927)

Statements of Changes in Members' Equity
For The Years Ended December 31, 2014 and 2013

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2013	$10,762,795	$12,531,165	$2,401,088	$25,695,048
Comprehensive Income	228,514	657,908	(5,675,349)	(4,788,927)
Acquired in merger	504,108	—	—	504,108
Balance, December 31, 2013	11,495,417	13,189,073	(3,274,261)	21,410,229
Comprehensive Income	—	1,019,596	3,711,372	4,730,968
Balance, December 31, 2014	$11,495,417	$14,208,669	$ 437,111	$26,141,197

See accompanying notes to financial statements.

Statements of Cash Flows
For The Years Ended December 31, 2014 and 2013

	2014	2013
OPERATING ACTIVITIES		
Net income	$ 1,019,596	$ 886,422
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	495,916	435,512
Amortization of investment premium (discounts), net	8,533	(22,704)
Provision for loan losses	1,013,481	1,098,480
Net changes in operating assets and liabilities:		
(Increase) decrease in interest receivable	69,153	150,256
(Increase) decrease in other assets	(232,171)	(280,397)
Increase in accrued expenses and other liabilities	1,444,066	24,885
Net Cash Provided by Operating Activities	3,818,574	2,292,454
INVESTING ACTIVITIES		
Proceeds from maturities of investment securities, held-to-maturity	35,768,793	28,303,450
Proceeds from sale/call of investment securities, held-to-maturity	10,000,000	3,000,000
Purchases of investment securities, held-to-maturity	(37,000,100)	(41,000,000)
Proceeds from maturities of investment securities, available-for-sale	24,146,561	49,836,067
Proceeds from sale/call of investment securities, available-for-sale	2,000,000	8,000,000
Purchases of investment securities, available-for-sale	(38,650,789)	(46,597,725)
Net increase in loans to members	(3,838,796)	(6,933,094)
Purchases of property and equipment	(221,959)	(90,887)
Net proceeds from sale of property and equipment	13,557	—
Change in NCUSIF deposit	13,405	(76,647)
Decrease in assets held for sale	258,085	142,675
Cash acquired in merger	—	1,144,846
Net Cash Used in Investing Activities	(7,511,243)	(4,271,315)
FINANCING ACTIVITIES		
Net increase in members' share and savings accounts	3,961,498	2,062,451
Net Cash Provided by Financing Activities	3,961,498	2,062,451
INCREASE IN CASH AND CASH EQUIVALENTS	268,829	83,590
Cash and Cash Equivalents, Beginning	5,960,710	5,877,120
Cash and Cash Equivalents, Ending	$6,229,539	$5,960,710
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for interest	$ 682,765	$ 901,443
Unrealized gains (losses) arising during the year on investment securities, available-for-sale	$3,711,372	$ (5,675,349)

See accompanying notes to financial statements.

NOTE A: ORGANIZATION

Members Credit Union is a member-owned, nonprofit cooperative organized under the laws of the State of North Carolina. Its members are principally employees of sponsor companies affiliated with the Credit Union.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Credit Union conform to U.S. generally accepted accounting principles (GAAP). A brief description of significant policies is presented below.

Cash and Cash Equivalents - Cash and cash equivalents include cash and amounts on deposit with commercial banks with an original maturity of three months or less. These accounts at times may exceed federally insured limits. The Credit Union has not experienced any losses in these accounts and management does not believe it is exposed to any significant credit risk.

Investment Securities -The Credit Union's investment securities are classified and accounted for as follows:

Held-to-Maturity - Investment securities which the Credit Union has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts which are recognized in interest income using the interest method.

Available-for-Sale - Investment securities are classified as available-for-sale when the Credit Union anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments, and other market and economic factors. These securities are reported at fair value.

Unrealized gains and losses on securities available-for-sale are recognized as direct increases or decreases in other comprehensive income. 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 the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and the costs of securities sold are determined using the specific identification method.

The Credit Union does not maintain a trading portfolio.

Loans Receivable and Allowance for Loan Losses - Loans receivable are stated at unpaid principal balances, 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.

Loan fees and certain direct loan origination costs are not deferred, since the effect of deferral and amortization as an adjustment of loan yield is not material to the financial statements of the Credit Union.

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, generally when the loan is six months past due without receipt of a payment in the last ninety days. Subsequent recoveries, if any, are credited to the allowance.

Note B: Summary of Significant Accounting Policies (Continued)

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 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, prevailing economic conditions, and historical experience. The loan portfolio is evaluated by category for impairment. Accordingly, the Credit Union does not separately identify individual loans for impairment. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Accrual of interest on loans is discontinued when management believes, after considering economics, business conditions, and collection efforts that the borrower's financial condition is such that collection of interest is doubtful. All loans continue to accrue interest until they are 90 days past due.

In situations where, for economic or legal reasons related to a member's financial difficulties, the Credit Union grants a concession for other than an insignificant period of time to the member that the Credit Union would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). The Credit Union strives to identify members in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms include payment relief in the terms of an extension of the original maturity date and short-term payment reductions. The Credit Union does not provide its members rate reductions, principal forgiveness, or reductions of accrued interest. In cases where management has identified a TDR, an analysis is performed to determine whether the loan is impaired.

Assets Held for Sale - Assets held for sale is comprised of automobiles repossessed by the Credit Union due to non-payment on loans. When repossessed, the carrying value of the automobiles are adjusted to the lower of the loan balance outstanding or fair market value based on published prices from a national automobile dealership association, with losses initially recorded in the provision for loan losses. Any subsequent expenses that do not significantly increase the vehicles value and actual losses on sale are recorded as repossession expenses and losses in the accompanying statements of income.

Property and Equipment - Land is carried at cost. Office buildings, furniture, fixtures, equipment, and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Buildings, furniture, fixtures, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings and 3 to 20 years for equipment and furniture. The cost of leasehold improvements is amortized using the straight-line method over terms ranging from 3 to 10 years.

NCUSIF Deposit - The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is maintained 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.

NCUSIF Insurance Premiums and TCCUSF Assessments - Credit unions are required to pay an annual insurance premium equal to one-twelfth of one percent of total insured shares, unless the payment is waived or reduced by the NCUA Board. For an extended period of years prior to 2009 this assessment

Note B: Summary of Significant Accounting Policies (Continued)

was waived by the NCUA board. The NCUA Board approved a 0.08% premium assessment in 2013, which totaled $182,801 for the Credit Union. The entire 0.08% assessed was to repay a portion of the Temporary Corporate Credit Union Stabilization Fund (TCCUSF). The NCUA Board waived the premium in 2014.

Members' Share and Savings Accounts - Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members' share and savings accounts are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend 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 retained earnings, is not available for the payment of dividends.

Fair Value Measurements - Financial assets and liabilities required to be measured on a recurring basis (at least annually) are classified under a three-tier hierarchy. Fair value is the amount that would be received to sell an asset, or paid to settle a liability, in an orderly transaction between market participants at the measurement date.

The classification of assets and liabilities within the hierarchy is based on whether inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources while unobservable inputs reflect estimates about market data. See Note L for assets of the Credit Union measured at fair value on a recurring basis.

Income Taxes - The Credit Union is exempt by statute, from federal and state income taxes. Accordingly, income tax expense is limited to activities that are deemed by the Internal Revenue Service to be unrelated to their exempt purpose.

The Credit Union's primary tax positions relate to its status as an entity exempt from income taxes and classification of activities related to its exempt purpose. It is the opinion of management that the Credit Union has no uncertain tax positions that would be subject to change upon examination.

The Credit Union is required to file a federal exempt organization tax return (Form 990) annually to retain its exempt status. The Credit Union is also required to file an exempt organization business income tax return (Form 990-T) for any year unrelated business income exceeds $1,000. The Credit Union's Form 990 filings are generally subject to examination by the Internal Revenue Service for three years after they are filed.

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events - The Credit Union has evaluated its subsequent events (events occurring after December 31, 2014) through the date of this report, which represents the date the financial statements were available to be issued and determined that all significant events and disclosures are included in the financial statements.

Note C: Investment Securities

Investment securities have been classified in the statements of financial condition according to management's intent. The carrying amount of securities and their approximate fair values at December 31, 2014 and 2013, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale				
December 31, 2014:				
U.S. government and federal agency securities	$49,588,211	$1,111,009	$ (811,336)	$49,887,884
Deposits in other financial institutions	24,888,863	87,406	—	24,976,269
Mortgage-backed securities	2,690,139	50,032	—	2,740,171
	$77,167,213	$1,248,447	$ (811,336)	$77,604,324
December 31, 2013:				
U.S. government and federal agency securities	$54,240,119	$ 733,541	$(4,140,311)	$50,833,349
Deposits in other financial institutions	7,368,046	69,108	—	7,437,154
Mortgage-backed securities	3,133,218	63,401	—	3,196,619
	$64,741,383	$ 866,050	$(4,140,311)	$61,467,122
Securities held-to-maturity				
December 31, 2014:				
U.S. government and federal agency securities	$52,343,554	$1,609,627	$ (467,982)	$53,485,199
Deposits in other financial institutions	9,408,830	—	—	9,408,830
Mortgage-backed securities	2,324,549	190,634	(2)	2,515,181
	$64,076,933	$1,800,261	$ (467,984)	$65,409,210
December 31, 2013:				
U.S. government and federal agency securities	$49,255,940	$1,078,541	$(1,868,587)	$48,465,894
Deposits in other financial institutions	20,055,976	—	—	20,055,976
Mortgage-backed securities	3,463,845	240,299	—	3,704,144
	$72,775,761	$1,318,840	$(1,868,587)	$72,226,014

Note C: Investment Securities (Continued)

The scheduled maturities of held-to-maturity and available-for-sale securities at December 31, 2014, are as follows:

	Securities held-to-maturity		Securities available-for-sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 7,500,000	$7,500,000	$24,888,863	$24,976,269
Due from one to five years	19,129,281	19,211,814	1,237,823	1,328,881
Due from five to ten years	35,123,103	36,182,215	48,350,388	48,559,003
	61,752,384	62,894,029	74,477,074	74,864,153
Mortgage-backed securities	2,324,549	2,515,181	2,690,139	2,740,171
	$64,076,933	$65,409,210	$77,167,213	$77,604,324

Included in the above mortgage-backed securities, the Credit Union has mortgage-related derivatives in the form of collateralized mortgage obligations. At December 31, 2014, the amortized cost of those collateralized mortgage obligations was $2,990,245 and the estimated market value was $3,043,341.

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

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities available-for-sale				
U.S. government and federal agency securities	$811,336	$26,518,664	$ —	$ —
Mortgaged-backed securities	—	—	—	—
	$811,336	$26,518,664	$ —	$ —
Securities held-to-maturity				
U.S. government and federal agency securities	$460,752	$ 9,059,248	$7,230	$5,992,770
Mortgaged-backed securities	2	10,653	—	—
	$460,754	$ 9,069,901	$7,230	$5,992,770

Note C: Investment Securities (Continued)

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The Credit Union had nineteen debt securities with unrealized losses at December 31, 2014. All of these securities were either guaranteed by the U.S. Government or secured by mortgage loans. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As the Credit Union has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

Note D: Loans Receivable

The composition of loans to members at December 31 is as follows:

	2014	2013
Automobile	$58,561,400	$56,977,698
Mortgage	8,885,307	9,622,102
Unsecured	22,265,203	20,022,294
Share secured	2,753,767	2,995,506
Other	226,906	229,570
	92,692,583	89,847,170
Less allowance for loan losses	(500,648)	(480,550)
	$92,191,935	$89,366,620

Allowance for Loan Losses - The Credit Union has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risk and losses inherent in the Credit Union's portfolio. For purposes of determining the allowance for loan losses, the Credit Union segments certain loans in its portfolio by product type. The Credit Union's loans are segmented into the following pools: automobiles, mortgages, unsecured, share secured, and other. The Credit Union also sub-segments two of these segments into classes based on credit risk. Mortgages are divided into the following classes: (a) First mortgages, (b) home equity loans, and (c) land loans. Unsecured loans are divided into the following classes: (a) signature loans and credit cards, and (b) personal debt consolidation. Each class of loan requires significant judgment to determine the estimation method that fits the credit risk characteristic of its portfolio segment. The Credit Union uses internally developed models for this process. Management must use judgment in establishing additional input metrics for the modeling process. The models and assumptions used to determine the allowance are independently validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational process, reporting practices, and end-user controls are appropriate and properly documented.

Note D: Loans Receivable (Continued)

The following are the factors the Credit Union uses to determine the balance of the allowance account for each segment or class of loans.

Automobile **- Automobile loans are not assessed at an underlying class level. The Credit Union uses a six month rolling average historical loss time frame for the segment. These time frames are based on historical loss experience modeling and other quantitative and mathematical migration techniques over the loss emergence period.**

Mortgage **- Mortgage loans are pooled by portfolio class and a historical loss percentage is applied to each class. The Credit Union uses a six month rolling average historical loss time frame for each class. These time frames are based on historical loss experience modeling and other quantitative and mathematical migration techniques over the loss emergence period.**

Unsecured **- Unsecured loans are pooled by portfolio class and a historical loss percentage is applied to each class. The Credit Union uses a six month rolling average historical loss time frame for each class. These time frames are based on historical loss experience modeling and other quantitative and mathematical migration techniques over the loss emergence period.**

Share Secured **- Share secured loans are not assessed at an underlying class level. Furthermore, the Credit Union does not have a historical loss on these loans as they are fully collateralized by deposits held by the Credit Union.**

Other **- Other loans are not assessed at an underlying class level. The Credit Union uses a six month rolling average historical loss time frame for the segment. These time frames are based on historical loss experience modeling and other quantitative and mathematical migration techniques over the loss emergence period.**

Loans by Segment **- The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Credit Union considers the allowance for loan losses of $500,648 adequate to cover loan losses inherent in the loan portfolio at December 31, 2014. The following table presents by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans. In addition, the allowance for loan losses as of December 31, 2013 is presented for comparative purposes.**

Note D: Loans Receivable (Continued)

2014

	Automobile	Mortgage	Unsecured	Share Secured	Other	Total
Allowance for loan losses:						
Beginning Balance	$ 169,337	$ —	$ 311,213	$ —	$ —	$ 480,550
Charge-offs	(508,132)	—	(582,293)	—	—	(1,090,425)
Recoveries	—	—	97,042	—	—	97,042
Provision	500,439	—	513,042	—	—	1,013,481
Ending Balance	$ 161,644	$ —	$ 339,004	$ —	$ —	$ 500,648
Ending Balance: collectively evaluated for impairment	$ 161,644	$ —	$ 339,004	$ —	$ —	$ 500,648
Financing Receivables:						
Ending Balance	$58,561,400	$ 8,885,307	$22,265,203	$2,753,767	$226,906	$92,692,583
Ending Balance: collectively evaluated for impairment	$58,561,400	$ 8,885,307	$22,265,203	$2,753,767	$226,906	$92,692,583

2013

	Automobile	Mortgage	Unsecured	Share Secured	Other	Total
Allowance for loan losses:						
Beginning Balance	$ 93,428	$ 6,116	$ 357,526	$ —	$ —	$ 457,070
Charge-offs	(425,519)	—	(768,828)	—	—	(1,194,347)
Recoveries	—	—	104,346	—	—	104,346
Provision	501,428	(6,116)	618,169	—	—	1,113,481
Ending Balance	$ 169,337	$ —	$ 311,213	$ —	$ —	$ 480,550
Ending Balance: collectively evaluated for impairment	$ 169,337	$ —	$ 311,213	$ —	$ —	$ 480,550
Financing Receivables:						
Ending Balance	$56,977,698	$ 9,622,102	$20,022,294	$2,995,506	$229,570	$89,847,170
Ending Balance: collectively evaluated for impairment	$56,977,698	$ 9,622,102	$20,022,294	$2,995,506	$229,570	$89,847,170

Note D: Loans Receivable (Continued)

Credit Quality Information - The following table represents credit exposures by creditworthiness category as of December 31, 2014 and 2013. The use of creditworthiness categories to grade loans permits management's use of migration analysis to estimate a portion of the credit risk. The Credit Union's internal creditworthiness grading system is based on experiences with similarly graded loans. Loans that trend upward toward higher levels generally have a lower risk factor associated; whereas, loans that migrate toward lower ratings generally will result in a higher risk factor being applied to those loan balances.

The Credit Union's internal risk ratings based on Beacon scores are as follows:

- **740 and above – Members may pose little to no additional risk.**
- **680 to 739 – Members may pose nominal risk of loss.**
- **620 to 679 – Members may show average risk.**
- **560 to 619 – Members may show above average risk.**
- **559 and below – Members may show high risk.**

2014

	740 and Above	680 to 739	620 to 679	560 to 619	559 and Below	Total
Automobile	$11,964,905	$11,765,255	$22,023,732	$11,190,726	$1,616,782	$58,561,400
Mortgage						
First Mortgage	1,470,206	696,841	1,088,394	198,423	_	3,453,864
Home Equity	1,874,402	888,420	1,387,620	252,974	_	4,403,416
Land	437,600	207,412	323,955	59,060	_	1,028,027
Unsecured						
Signature Loans and Unsecured Lines of Credit	3,369,701	4,844,265	7,722,922	2,864,214	395,821	19,196,923
Personal Debt Consolidation	1,172,727	1,791,854	89,658	_	14,041	3,068,280
Share Secured	423,996	880,078	910,631	371,074	167,988	2,753,767
Other	34,937	72,517	75,035	30,576	13,841	226,906
Total	$20,748,474	$21,146,642	$33,621,947	$14,967,047	$2,208,473	$92,692,583

2013

	740 and Above	680 to 739	620 to 679	560 to 619	559 and Below	Total
Automobile	$12,007,954	$12,300,357	$20,770,147	$10,320,961	$1,578,279	$56,977,698
Mortgage						
First Mortgage	1,723,115	686,725	951,034	235,691	_	3,596,565
Home Equity	2,335,792	930,902	1,289,187	319,495	_	4,875,376
Land	551,042	219,611	304,135	75,373	_	1,150,161
Unsecured						
Signature Loans and Unsecured Lines of Credit	3,363,172	4,542,957	6,196,860	2,121,916	296,853	16,521,758
Personal Debt Consolidation	1,271,043	2,016,646	188,343	4,628	19,876	3,500,536
Share Secured	914,404	380,694	653,136	551,113	496,159	2,995,506
Other	70,078	29,179	50,055	42,236	38,022	229,570
Total	$22,236,600	$21,107,071	$30,402,897	$13,671,413	$2,429,189	$89,847,170

Note D: Loans Receivable (Continued)

Age Analysis of Past Due Financing Receivables - Following is a table which includes an aging analysis of the recorded investment of past due financing receivables as of December 31, 2014 and 2013.

2014

	0-2 Months Past Due	2-3 Months Past Due	Greater than 3 Months Past Due	Current	Total Financing Receivable	Greater than 3 Months Past Due Accruing
Automobile	$387,720	$103,104	$ 34,969	$58,035,607	$58,561,400	$ —
Mortgage						
First Mortgage	—	—	—	3,453,864	3,453,864	—
Home Equity	—	29,986	—	4,373,430	4,403,416	—
Land	16,689	—	—	1,011,338	1,028,027	—
Unsecured						
Signature Loans and Unsecured Lines of Credit	155,114	89,203	146,869	18,805,737	19,196,923	—
Personal Debt Consolidation	17,657	13,575	3,096	3,033,952	3,068,280	—
Share Secured	—	268	—	2,753,499	2,753,767	—
Other	—	—	—	226,906	226,906	—
Total	$577,180	$236,136	$184,934	$91,694,333	$92,692,583	$ —

2013

	0-2 Months Past Due	2-3 Months Past Due	Greater than 3 Months Past Due	Current	Total Financing Receivable	Greater than 3 Months Past Due Accruing
Automobile	$436,845	$243,748	$ 52,129	$56,244,976	$56,977,698	$ —
Mortgage						
First Mortgage	—	—	—	3,596,565	3,596,565	—
Home Equity	—	49,271	9,155	4,816,950	4,875,376	—
Land	—	—	—	1,150,161	1,150,161	—
Unsecured						
Signature Loans and Unsecured Lines of Credit	175,583	137,630	130,362	16,078,183	16,521,758	—
Personal Debt Consolidation	28,633	13,709	8,066	3,450,128	3,500,536	—
Share Secured	1,025	523	595	2,993,363	2,995,506	—
Other	—	—	—	229,570	229,570	—
Total	$642,086	$444,881	$200,307	$88,559,896	$89,847,170	$ —

Note D: Loans Receivable (Continued)

Nonaccrual Loans - Accrual of interest on loans is discontinued when management believes, after considering economics, business conditions, and collection efforts that the borrower's financial condition is such that collection of interest is doubtful. When automobiles are repossessed due to non-payment then accrual of interest is discontinued. All loans continue to accrue interest until they are 90 days past due. A period of 90 more days may pass before they are written off. Following is a table which includes nonaccrual loans by class as of December 31, 2014 and 2013.

	2014	2013
Automobiles	$ 34,969	$ 52,129
Mortgage	—	9,155
Unsecured	149,965	138,428
Share Secured	—	595
	$184,934	$200,307

Loans to directors and officers of the Credit Union totaled $1,301,324 and $833,805 at December 31, 2014 and 2013, respectively.

Note E: Property and Equipment

Property and equipment at December 31 is summarized as follows:

	2014	2013
Land	$3,641,984	$ 3,641,984
Buildings	5,057,865	4,993,983
Computer equipment	2,720,454	2,607,265
Furniture and office equipment	1,534,691	1,564,168
Leasehold improvements	203,779	230,919
	13,158,773	13,038,319
Less accumulated depreciation	(4,892,268)	(4,484,300)
	$ 8,266,505	$ 8,554,019

Depreciation expense totaled $495,916 and $435,512 in 2014 and 2013, respectively.

Note F: Line of Credit

The Credit Union has available $50,850,000 in multiple lines of credit with various financial institutions, collateralized by certain assets of the Credit Union. There were no outstanding balances at December 31, 2014 or 2013.

Note G: Members' Share and Savings Accounts

Members' share and savings accounts at December 31 are summarized as follows:

	2014	2013
Checking	$ 33,737,235	$ 30,370,526
Money market	16,987,007	16,797,522
Super 60	55,150,156	53,514,377
Share savings	64,735,703	60,099,428
IRA shares	10,992,678	10,801,127
	181,602,779	171,582,980
Share and IRA certificates	43,858,359	49,916,660
	$225,461,138	$221,499,640

At December 31, 2014 and 2013, the aggregate amount of members' share and savings accounts over $250,000 was $1,997,120 and $3,686,120, respectively.

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

2015	$25,801,677
2016	9,107,025
2017	6,068,923
2018	1,591,680
2019	1,289,054
	$43,858,359

Interest expense on members' share and savings accounts for the years ended December 31, 2014 and 2013 is summarized as follows:

	2014	2013
Checking	$ 15,894	$ 18,391
Money market	35,636	36,577
Super 60	160,958	196,241
Share savings	94,902	102,393
Share certificates and IRAs	374,899	547,317
	$682,289	$900,919

Note H: Retirement Plan

The Credit Union sponsors a 401(k) retirement plan. Employees with more than 90 days of service who work more than 1,000 hours annually and have attained the age of 21 are eligible to participate. The Credit Union will contribute a dollar for dollar match up to 4% of regular pay. Additionally, the Credit Union contributes 2.5% of regular pay, regardless of participation by the employee. Retirement plan expense totaled $215,435 and $211,689 in 2014 and 2013, respectively.

Note I: Commitments and Contingent Liabilities

The principal commitments of the Credit Union are as follows:

Lease Commitments - At December 31, 2014, the Credit Union was obligated under noncancelable operating leases at fourteen branch locations. Net rent expense under operating leases, included in occupancy expenses, was $214,793 and $208,467 in 2014 and 2013, respectively.

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

2015	$ 97,688
2016	28,055
2017	28,897
2018	4,840
	$159,480

Loan Commitments - At December 31, 2014, the Credit Union had outstanding commitments to members for variable rate unused lines of credit that are not reflected in the accompanying financial statements as follows:

Total approved lines of credit	$34,494,350
Amounts borrowed	(20,851,147)
Unused lines of credit	$13,643,203

Financial Instruments With Off-Balance-Sheet Risk - The Credit Union does not write options, offer standby letters of credit and financial guarantees, write interest rate caps or floors, or secure interest rate swaps or forward or futures contracts. Consequently, the Credit Union does not have exposure to credit loss in the event of non-performance by another party to such financial instruments.

Note J: Capital Requirements

The Credit Union is subject to various regulatory capital requirements administered by the NCUA, as well as similar state 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 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 principles. 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 following) of net worth to total assets. 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. To qualify as complex, a credit union must have more than 50 million dollars in assets and a RBNWR ratio greater than 6.0%. A complex credit union will be considered

Note J: Capital Requirements (Continued)

under capitalized if its net worth ratio does not exceed its RBNWR ratio. The Credit Union's RBNWR ratio as of December 31, 2014 and 2013 was 8.23% and 8.47%, respectively. The Credit Union meets all capital adequacy requirements as of December 31, 2014 and 2013.

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 7.0% 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 at December 31, 2014 and 2013 are as follows:

	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						
Net Worth	$25,704,086	10.09%	$15,234,911	6.0%	$17,774,063	7.0%
RBNWR	$20,897,220	8.23%	N/A	N/A	N/A	N/A
December 31, 2013						
Net Worth	$24,684,490	10.13%	$14,626,719	6.0%	$17,064,506	7.0%
RBNWR	$20,648,052	8.47%	N/A	N/A	N/A	N/A

Because the RBNWR is less than the net worth ratio, the Credit Union continues to be categorized as well capitalized. Further, in performing its calculation of total assets, the Credit Union used the quarter-end balance option, as permitted by regulation.

Note K: Fair Value of Financial Instruments

The fair values of the Credit Union's financial instruments, including cash, available-for-sale investment securities, accrued interest, loans receivable, and members' share and savings accounts approximate the carrying amounts reflected in the accompanying financial statements. At December 31, 2014, the fair value of held-to-maturity investment securities exceeded the carrying value by $1,332,277. At December 31, 2013, the carrying value of held-to-maturity investment securities exceeded the fair value by $549,747.

Note L: Fair Value Measurements

Valuation techniques used to measure fair value are prioritized into the following hierarchy:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Credit Union has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The Credit Union uses fair value accounting to report available-for-sale investment securities. These securities are valued based on quoted market prices, when available, or on market prices provided by recognized broker dealers.

The fair value methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Credit Union believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Credit Union's assets measured at fair value on a recurring basis as of December 31, 2014 and 2013, respectively:

2014	Level 1	Level 2	Level 3	Total
Securities available-for-sale				
U.S. government and federal agency securities	$ —	$49,887,884	$ —	$49,887,884
Mortgage-backed securities	—	2,740,171	—	2,740,171
Deposits in other financial institutions	24,976,269	—	—	24,976,269
Total assets at fair value	$24,976,269	$52,628,055	$ —	$77,604,324

2013	Level 1	Level 2	Level 3	Total
Securities available-for-sale				
U.S. government and federal agency securities	$ —	$50,833,349	$ —	$50,833,349
Mortgage-backed securities	—	3,196,619	—	3,196,619
Deposits in other financial institutions	7,437,154	—	—	7,437,154
Total assets at fair value	$ 7,437,154	$54,029,968	$ —	$61,467,122

Your savings federally insured to at least $250,000
and backed by the full faith and credit of the United States Government

NCUA

National Credit Union Administration, a U.S. Government Agency

Services

Savings Services

- Savings Accounts
- Checking Accounts
- VISA Debit Cards
- MCU Cash Card
- Christmas Club
- Share Certificates
- Money Market Accounts
- Custodian Accounts
- Individual Retirement Accounts (IRAs)
- Super 60 Savings
- Savings Quest
- MyFi Checking
- MyFi Savings

Loan Services

- New Car Loans
- Used Car Loans
- Auto Refinancing
- MCU Auto Buying Service
- Debt Consolidation
- First Mortgage Loans
- Equity Access Loans
- VISA Credit Cards
- Lines of Credit
- Payment Protection Insurance
- PhoneLOAN

Miscellaneous Services

- Payroll Deduction
- TELL-COM
- Direct Deposit
- MEMBERS Financial Services
- Online Check Imaging
- Family Membership
- MCU@Home — Home Banking
- MCUmobile — Mobile Banking
- eStatement@MCU — Electronic Statements
- eBill@MCU — FREE Bill Paying
- MCUCars.com — MCU's pre-owned vehicles
- memcu.com — Credit Union Website

EQUAL HOUSING LENDER

Branch Locations

Clinton
100 Fayetteville Street
Clinton, NC 28328
(910) 590-3222 or (877) 590-3222

Durham
101 City Hall Plaza
Durham, NC 27701
(919) 560-4177 or (866) 560-4177

Elkin
827 N. Bridge Street
Elkin, NC 28621
(336) 526-0373 or (888) 526-0373

Fayetteville
458 Whitfield Street
Fayetteville, NC 28306
(910) 609-0608

Greensboro
4160 Piedmont Parkway, Suite 150
Greensboro, NC 27410
(336) 852-1424 or (800) 960-1426

Hickory
2142 12th Avenue, NE
Hickory, NC 28601
(828) 327-3232 or (800) 960-3232

High Point
Westchester Commons
1677 Westchester Drive, Suite 144
High Point, NC 27262
(336) 886-4415 or (800) 738-4415

Hope Mills
5466 Trade Street
Hope Mills, NC 28348
(910) 425-6806 or (800) 738-6806

Kernersville
1407 Highway 66 S, Suite A
Kernersville, NC 27284
(336) 993-3059 or (877) 993-3059

Lenoir
1501-A Norwood Street, SW
Lenoir, NC 28645
(828) 757-3299 or (800) 280-3299

Lincolnton
1822 N. Aspen Street
Lincolnton, NC 28092
(704) 732-2980 or (888) 326-2980

Lumberton
4344 Fayetteville Road
Lumberton, NC 28358
(910) 738-2100 or (877) 738-2100

Morganton
106 East Fleming Drive
Morganton, NC 28655
(828) 438-0070 or (800) 738-0070

Newton
2475 Northwest Boulevard
Newton, NC 28658
(828) 464-0333 or (866) 654-6961

Thomasville
100 Lines Street
Thomasville, NC 27360
(336) 475-5922 or (800) 310-5922

Valdese
835 Main Street, West
Valdese, NC 28690
(828) 874-3900 or (888) 874-3900

Winston-Salem
2098 Frontis Plaza Blvd. (Corp.)
Winston-Salem, NC 27103
(336) 748-4800 or (800) 951-8000

Oak Summit Shopping Center
446 E. Hanes Mill Road
Winston-Salem, NC 27105
(336) 377-2336 or (888) 774-1289