



# Navigating Growth

2014 AMERICAN AIRLINES FEDERAL CREDIT UNION

This credit union is federally insured by the National Credit Union Administration



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We've had an amazing journey.

In 2014, we watched the New American take flight.

As the integration of American Airlines and US Airways began, we were eager to reach out to the many new hires and begin adding locations wherever the New American was expanding next.

When American announced American Airlines Federal Credit Union as its official financial institution, it further cemented a relationship that has endured for 78 years and it awakened a new spirit here at the Credit Union. We participated in American and Envoy's benefits roadshows, meeting with members at more than 30 events.

We eagerly embraced the many legacy US Airways employees who helped boost our already strong membership growth throughout the year allowing us to end 2014 with 244,800 members, adding 10,300 member-owners to the fold, each ready to enjoy the benefits of Credit Union participation. That growth shows no signs of slowing in 2015.

Our efforts to promote the New American included a number of special offers designed to engage new as well as existing members, including an auto refinance special and unique promotions for membership referrals, share certificates, credit cards and checking accounts. We also provided special moving plans for existing employees relocating to new positions within American.

These programs, including those detailed here, made it possible for us to enjoy a strong year for lending. Our mortgage lending continued to outpace industry levels as we helped 1,130 member-owners realize the dream of home ownership.

Another major success story was 10 consecutive months of more than \$20 million in auto lending, which translated to putting 12,533 drivers behind the wheel of a new or used automobile.

We added more than 18,880 new checking accounts and more than 3,700 new credit cards, which helped us end the year with total assets of \$5.6 billion and a very strong net worth of nearly \$600.7 million.

And, we continued to offer monthly dividend rates that surpassed the national average. We were also particularly proud to close out the year by offering a \$12.7 million bonus dividend to our member-owners, which is our highest bonus dividend payout to date. This included a bonus for multiple product owners and it brought our total dividends returned to members in 2014 to approximately \$48.7 million. The benefits of being a Credit Union member have never been better!

It's been a pleasure to serve you.

One of the most exciting changes experienced last year was the ongoing expansion of the Credit Union presence throughout the country. Branch additions in Miami and LAX were just the beginning, with the relocation of our Irving branch to the new Envoy headquarters building and the relocation of two freshly refurbished spaces in DFW Airport.

Best of all, the first of our new branches in the three major legacy US Airways hub cities opened with our Philadelphia location.

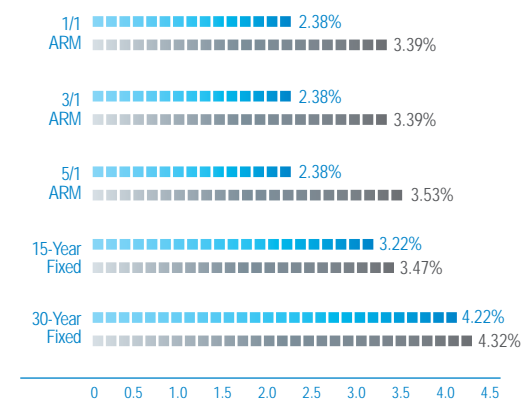
There were a number of terrific new product enhancements throughout 2014. After being among the first credit unions to introduce a chip-enabled prepaid travel card, we began issuing chip-enabled Visa credit cards for consumer and business member-owners. We also waived replacement fees for members to update their cards. This allowed American Airlines employees and other eligible members to benefit from even greater global acceptance when traveling abroad for business or pleasure.

In order to help our members remain financially literate, we followed up on the success of our SavvyMoney Checkup online tool by expanding the feature to include a regularly updated free credit score through our online banking platform. The tool also suggests Credit Union products customized for that member. In addition, we sponsored a number of webinars and seminars on everything from purchasing a car to planning for retirement, attracting hundreds of members to participate in these free informational events. Members in the LAX area also now have access to their own financial advisor from the Flagship Financial Group, located at the Credit Union.

To better serve our members, our Member Advocacy Center was trained to not only open memberships, checking accounts and other deposit products, but also to provide loan referrals processed by our Phone Loan Department. We also expanded the hours of our credit card information services to 24 hours a day.

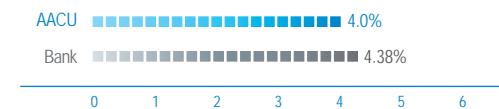


2014 Mortgage Rates



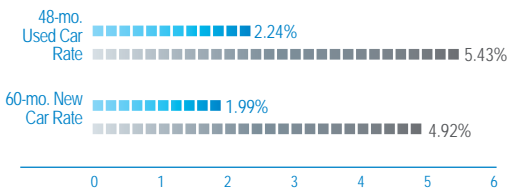
All rates based on the average rates offered in 2014. Bank data supplied by SNL Financial.

2014 Home Equity Line of Credit 80 Percent Loan to Value (LTV)



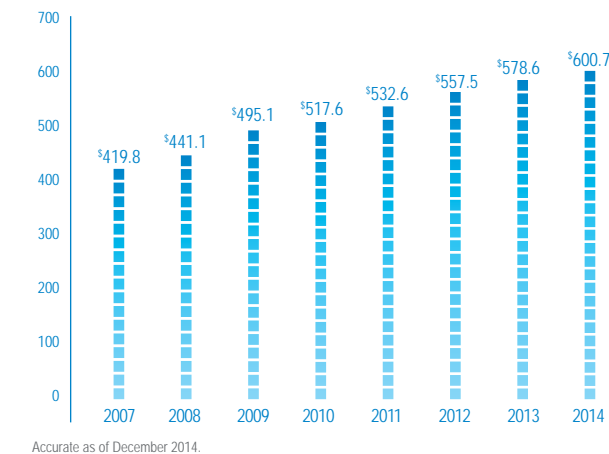
All rates based on the average rate paid by borrowers with a top-tier credit standing (A rating). Bank data supplied by SNL Financial. Accurate as of December 2014.

2014 Auto Lending Rates



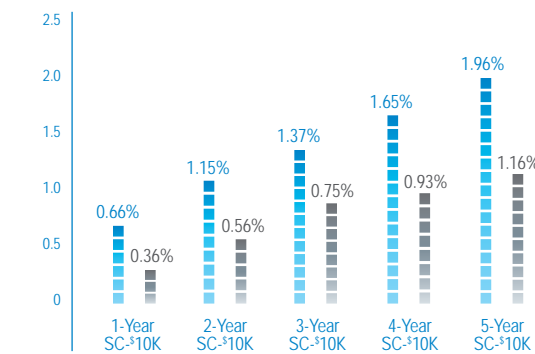
All rates based on the average 48-month used car rates and 60-month new car rates offered in 2014 with 0 percent down payment. Bank data supplied by SNL Financial. Accurate as of December 2014.

Net Worth (In Millions)



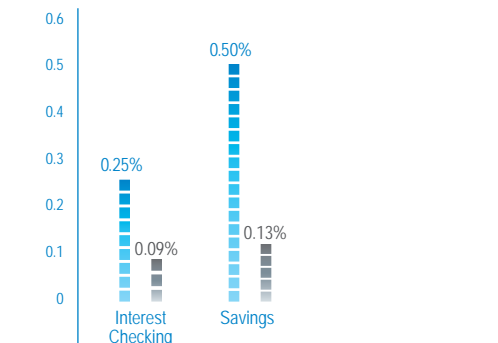
Accurate as of December 2014.

2014 Share Certificate Rates



All rates based on the average rates offered in 2014. Bank data supplied by SNL Financial. Accurate as of December 2014.

2014 Checking and Savings Rates



American Airlines Credit Union checking rate based on average Flagship Checking rate for qualifying balances for 2014. Credit Union Savings rate based on average rate paid in 2014 on regular savings. Bank rates based on average rates paid in 2014. Bank data supplied by SNL Financial. Accurate as of December 2014.

We're proud to give back.

A source of continued pride for me as president and CEO is our employees' unwavering support for organizations and worthwhile charities that work to provide comfort, care and relief for people who are in need. Whether it is funds for research into debilitating diseases, aid to children facing any number of challenges or even occasional support for one of our own employees going through an unexpected financial hardship as a result of a medical emergency, the Credit Union continued to demonstrate its commitment to lending a hand. We provided more than a ton of wish list items and comforts from home for our troops serving overseas and collected nearly 14,000 items of food for the North Texas Food Bank. Throughout the year, we sponsored a number of company-wide fund-raising events and activities earmarked for these worthy causes and we are proud to announce that the Credit Union and its staff surpassed previous totals, raising more than \$179,700 for organizations such as the Children's Miracle Network Hospitals, Something mAAgic/Wish Flight, American Cancer Society, American Diabetes Association, American Heart Association, Cystic Fibrosis Foundation, North Texas Food Bank, Autism Association of North Texas, United Way of Tarrant County, Make-A-Wish of North Texas and many other charities.



We're ready to take off for a new year.

The next leg of our journey has already been rich with new arrivals and we're looking forward to many more opportunities over each horizon.

Our branch at Charlotte Douglas International Airport in North Carolina opened in the second quarter of 2015 with additional branches coming soon in Phoenix at one of the new American headquarters buildings and the Phoenix Sky Harbor International Airport. We also have a new branch coming to Flagship University in Fort Worth and Ronald Reagan Washington International Airport in Washington, D.C., with the Schiller Park, Ill., location moving to a new space in Rosemont, Ill. All of these actions are designed to broaden our services to our member-owners while continuing to best serve the New American.

We plan to expand our chip-and-PIN technology to debit cards, ensuring our members' transactions are more secure and preventing unauthorized use of their card information. We also plan to introduce a financial advisor from Flagship Financial Group to members in the New York area.

But this summer, we're particularly excited about a new arrival touching down at the Credit Union, our beautiful, intuitive and even more member-friendly online banking platform.

Some of the improvements include new payment options, a unified experience on all platforms, more at-a-glance information on all accounts, new and improved smartphone apps as well as our first app for tablets and so much more.

It promises to be a whole new online world for members and we can't wait to make their journey toward financial prosperity smoother and more beneficial.

Angie Owens, President and CEO

To the Supervisory Committee

American Airlines Federal Credit Union | Fort Worth, Texas

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of American Airlines Federal Credit Union (a federally chartered credit union) which comprise the statements of financial condition as of December 31, 2014 and 2013, and the related statements of income, members' equity, comprehensive income 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 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 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 American Airlines Federal 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 conformity with accounting principles generally accepted in the United States of America.

Dallas, Texas  
March 30, 2015

Supervisory Committee Report

American Airlines Federal Credit Union  
Year ended December 31, 2014

The Supervisory Committee is comprised of a group of volunteer members responsible for helping ensure the safety and soundness of American Airlines Federal Credit Union. This responsibility is exercised in accordance with the Federal Credit Union Act and the Credit Union's bylaws. The Committee fulfilled their responsibilities through the engagement of an external financial auditor, supervision of the internal audit function and review of the National Credit Union Administration's (NCUA) recent examination results and related matters.

At the conclusion of the December 31, 2014 external financial audit, the Committee met with McGladrey LLP representatives to discuss the external financial audit. The results of the external financial audit concluded that the financial statements of the Credit Union present fairly the financial position of the organization and the results of its operations and cash flows. The financial audit supports management's commitment to strong internal controls and accurate financial reporting.

The Committee also reviewed the results of the Credit Union's most recent regulatory examination, conducted by the NCUA. Results of the NCUA examination indicated that the Credit Union is financially sound. The Committee Chairman met with the NCUA examiners to review their finding, which was not significant. Examination results, NCUA recommendations and regulatory guidance are reviewed and acted upon by management in a timely and appropriate manner. The Committee also reviews the results of internal audits and works with audit management to monitor management's commitment to strong internal controls.

The Committee is pleased to report that American Airlines Credit Union continues to be well-managed and in strong financial condition. If the Committee can be of assistance to you, we encourage you to contact the Committee. We would like to express our appreciation to the Board of Directors, management and staff for their dedication and commitment to serving the Credit Union and its members.

Robert D. Bagley, Chairman  
Douglas Cotton  
Daniel Cravens  
Patricia Delgadillo  
Kathryn Kooreny





## Statements of Financial Condition

(in thousands)		
Years Ended December 31	2014	2013
<b>Assets</b>		
Cash and cash equivalents	\$132,644	\$346,781
Investments		
Available-for-sale	2,287,027	2,465,679
Other	3,286	3,228
Loans, net	3,116,531	2,666,080
Accrued interest receivable	11,991	10,728
Share insurance fund deposit	46,997	47,002
Property and equipment, net	22,475	22,567
Other real estate owned (OREO)	2,156	1,825
Other assets	5,657	4,793
<b>TOTAL ASSETS</b>	<b>\$5,628,764</b>	<b>\$5,568,683</b>
<b>Liabilities and Members' Equity</b>		
Liabilities		
Members' shares	\$4,987,714	\$4,947,676
Dividends payable	5,940	6,247
Accrued expenses and other liabilities	30,681	35,218
<b>Total liabilities</b>	<b>5,024,335</b>	<b>4,989,141</b>
Commitments and contingencies (Notes 4 and 7)		
Members' equity		
Retained earnings	600,670	578,598
Accumulated other comprehensive income	3,759	944
<b>Total members' equity</b>	<b>604,429</b>	<b>579,542</b>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$5,628,764</b>	<b>\$5,568,683</b>

The notes are an integral part of the statements. For complete notes, visit us at AACreditUnion.org and click on "Annual Reports" in the "About AA Credit Union" menu.

## Statements of Income

(in thousands)		
Years Ended December 31	2014	2013
<b>Interest Income</b>		
Loans	\$118,131	\$113,890
Investments and cash equivalents	12,676	15,078
<b>Total interest income</b>	<b>130,807</b>	<b>128,968</b>
<b>Interest Expense</b>		
Members' shares	48,730	46,917
<b>Net interest income</b>	<b>82,077</b>	<b>82,051</b>
Provision for loan losses	3,664	8,960
<b>Net interest income after provision for loan losses</b>	<b>78,413</b>	<b>73,091</b>
<b>Non-Interest Income</b>		
Fee income	23,694	22,903
Other operating income	5,977	5,569
Gain on sale of investments	474	1,847
Other gains	553	686
Total non-interest income	30,698	31,005
<b>Income before operating expenses</b>	<b>109,111</b>	<b>104,096</b>
<b>Non-Interest Expenses</b>		
Compensation and benefits	43,761	38,646
Office occupancy	6,107	5,904
Office operations	21,556	21,254
Education and promotional	6,920	5,953
Loan servicing	2,180	1,664
Professional and outside services	2,706	2,954
Insurance premium and assessment	-	3,760
Travel and conference	803	676
Loss (gain) on sale of OREO	103	(250)
Miscellaneous operating	2,903	2,400
<b>Total non-interest expenses</b>	<b>87,039</b>	<b>82,961</b>
<b>NET INCOME</b>	<b>\$22,072</b>	<b>\$21,135</b>

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## Statements of Members' Equity

(in thousands)				
	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance at December 31, 2012</b>	<b>\$61,769</b>	<b>\$495,694</b>	<b>\$9,091</b>	<b>\$566,554</b>
Net Income	-	21,135	-	21,135
Other comprehensive loss	-	-	(8,147)	(8,147)
<b>Balance at December 31, 2013</b>	<b>\$61,769</b>	<b>\$516,829</b>	<b>\$944</b>	<b>\$579,542</b>
Net Income	-	22,072	-	22,072
Other comprehensive income	-	-	2,815	2,815
<b>BALANCE AT DECEMBER 31, 2014</b>	<b>\$61,769</b>	<b>\$538,901</b>	<b>\$3,759</b>	<b>\$604,429</b>

The notes are an integral part of the statements. For complete notes, visit us at AACreditUnion.org and click on "Annual Reports" in the "About AA Credit Union" menu.

## Statements of Comprehensive Income

(in thousands)		
Years Ended December 31	2014	2013
Net Income	\$22,072	\$21,135
Other comprehensive income		
Net unrealized gains (losses) on investments available for sale	3,289	(6,300)
Reclassification adjustment for gains realized in net income	(474)	(1,847)
<b>Other comprehensive income (loss)</b>	<b>2,815</b>	<b>(8,147)</b>
<b>COMPREHENSIVE INCOME</b>	<b>\$24,887</b>	<b>\$12,988</b>

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## Statements of Cash Flows

Years Ended December 31	(in thousands)	
	2014	2013
<b>Cash Flows from Operating Activities</b>		
Net income	\$22,072	\$21,135
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on disposition of fixed assets	3	5
(Accretion) amortization of (discount) premium of investment securities, net	(175)	465
Provision for loan losses	3,664	8,960
Depreciation and amortization	3,563	3,534
Gain on sale of investments	(474)	(1,847)
Loss (gain) on sale of OREO	103	(250)
Net change in:		
Accrued interest receivable	(1,263)	(56)
Other assets	(864)	(489)
Accrued expenses, dividends payable and other liabilities	(4,844)	2,041
<b>Net cash provided by operating activities</b>	<b>21,785</b>	<b>33,498</b>
<b>Cash Flows from Investing Activities</b>		
Purchases of available-for-sale investments	(616,124)	(1,040,361)
Proceeds from maturities of available-for-sale investments	438,835	365,377
Proceeds from sales of available-for-sale investments	359,405	1,090,980
Net change in other investments	(58)	242
Net change in loans to members	(457,702)	(172,516)
Increase in share insurance fund deposits	5	47
Proceeds from sale of OREO	3,153	4,989
Purchases of property and equipment	(3,474)	(5,760)
<b>Net cash (used in) provided by investing activities</b>	<b>(275,960)</b>	<b>242,998</b>
<b>Cash Flows from Financing Activities</b>		
Net increase (decrease) in members' shares	40,038	(124,425)
<b>Net cash provided by (used in) financing activities</b>	<b>40,038</b>	<b>(124,425)</b>
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(214,137)</b>	<b>152,071</b>
Cash and cash equivalents, beginning of year	346,781	194,710
<b>Cash and cash equivalents, end of year</b>	<b>\$132,644</b>	<b>\$346,781</b>
<b>Supplemental Cash Flow Information</b>		
<b>Dividends paid on members' shares</b>	<b>\$49,037</b>	<b>\$47,431</b>
<b>Loans transferred to other real estate owned</b>	<b>\$4,081</b>	<b>\$5,226</b>

The notes are an integral part of the statements. For complete notes, visit us at AACreditUnion.org and click on "Annual Reports" in the "About AA Credit Union" menu.

## MANAGEMENT STAFF



Angie Owens  
President and CEO



Faith L. Anderson  
Senior Vice President  
and General Counsel



Brad Aspgrén  
Senior Vice President  
Technology and  
Innovation



Gail K. Enda  
Senior Vice President  
Lending and Product  
Management



Sean Gaven  
Senior Vice President  
Chief Financial Officer



Lori W. Hall  
Senior Vice President  
Marketing and  
Member Services



Elidia Suchomel  
General Auditor

## BOARD OF DIRECTORS

### OFFICERS

**Beverly K. Goulet**  
Chair of the Board

**Patrick O'Keeffe**  
Vice Chairman

**Patrick C. Hancock Jr.**  
Secretary

**Thomas J. Kiernan**  
Treasurer

### DIRECTORS

Nancy Adams-Chapman

Bruce T. Chemel

Robert Ciminelli

John DeLeeuw

Christopher Ducey

Pedro Fabregas

Douglas G. Herring

Tim Lindemann

Angie Owens

Debra Valtman

Peter Warlick

## SUPERVISORY COMMITTEE

**Robert D. Bagley**  
Chairman

**Douglas Cotton**

**Daniel Cravens**

**Patricia Delgadillo**

**Kathryn Kooreny**



For nearly 80 years, American Airlines Federal Credit Union has soared alongside our many partners in the air transportation industry. We've worked hard to understand this business that connects us all. In doing so, we have tailored our financial solutions to fit you. Our mission to help our member-owners realize their goals and enrich their financial welfare through Credit Union participation has kept our foundation strong. But our core ideals – including integrity, respect, creativity, competence and compassion – have helped us reach new heights. We continue to innovate with new products, educate with outreach and complimentary counseling and advance with technological improvements that make your experience with us faster and easier. We want to make sure you get the most out of your relationship with American Airlines Credit Union because we're one of you.

**We work for you.**

- |                   |                  |
|-------------------|------------------|
| BOSTON            | NEW YORK CITY    |
| CHARLOTTE         | ORANGE COUNTY    |
| CHICAGO           | PHILADELPHIA     |
| FORT LAUDERDALE   | PHOENIX          |
| FORT WORTH/DALLAS | RALEIGH/DURHAM   |
| LOS ANGELES       | ST. LOUIS        |
| MIAMI             | SAN FRANCISCO    |
| NASHVILLE         | TULSA            |
| NEWARK            | WASHINGTON, D.C. |

**MD 2100 P.O. BOX 619001, DFW AIRPORT, TX 75261-9001**

For the branch locations nearest you, call our Member Advocacy Center at (800) 533-0035 or visit [AACreditUnion.org](http://AACreditUnion.org).

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# American Airlines Federal Credit Union

Financial Statements  
December 31, 2014 and 2013



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## Independent Auditor's Report

To the Supervisory Committee  
American Airlines Federal Credit Union  
Fort Worth, Texas

### Report on the Financial Statements

We have audited the accompanying financial statements of American Airlines Federal Credit Union (a federally chartered credit union) which comprise the statements of financial condition as of December 31, 2014 and 2013, and the related statements of income, members' equity, comprehensive income and cash flows for the years then ended and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 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 American Airlines Federal 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 conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "McGladrey LLP".

Dallas, Texas  
March 30, 2015

**American Airlines Federal Credit Union**

**Statements of Financial Condition  
December 31, 2014 and 2013  
(In thousands)**

<b>Assets</b>	<b>2014</b>	<b>2013</b>
Cash and cash equivalents	\$ 132,644	\$ 346,781
Investments:		
Available for sale	2,287,027	2,465,679
Other	3,286	3,228
Loans, net	3,116,531	2,666,080
Accrued interest receivable	11,991	10,728
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Other real estate owned (OREO)	2,156	1,825
Other assets	5,657	4,793
	<b>\$ 5,628,764</b>	<b>\$ 5,568,683</b>
<b>Total assets</b>	<b>\$ 5,628,764</b>	<b>\$ 5,568,683</b>
<b>Liabilities and Members' Equity</b>		
Liabilities:		
Members' shares	\$ 4,987,714	\$ 4,947,676
Dividends payable	5,940	6,247
Accrued expenses and other liabilities	30,681	35,218
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Commitments and contingencies (Notes 4 and 7)		
Members' equity:		
Retained earnings	600,670	578,598
Accumulated other comprehensive income	3,759	944
<b>Total members' equity</b>	<b>604,429</b>	<b>579,542</b>
<b>Total liabilities and members' equity</b>	<b>\$ 5,628,764</b>	<b>\$ 5,568,683</b>

See Notes to Financial Statements

**American Airlines Federal Credit Union**

**Statements of Income**  
**Years Ended December 31, 2014 and 2013**  
(In thousands)

	<b>2014</b>	<b>2013</b>
Interest income:		
Loans	\$ 118,131	\$ 113,890
Investments and cash equivalents	<u>12,676</u>	<u>15,078</u>
	<b>130,807</b>	<b>128,968</b>
Interest expense:		
Members' shares	<u>48,730</u>	46,917
	<b>82,077</b>	<b>82,051</b>
<b>Net interest income</b>	<b>82,077</b>	<b>82,051</b>
Provision for loan losses	<u>3,664</u>	8,960
	<b>78,413</b>	<b>73,091</b>
<b>Net interest income after provision for loan losses</b>	<b>78,413</b>	<b>73,091</b>
Non-interest income:		
Fee income	<b>23,694</b>	22,903
Other operating income	<b>5,977</b>	5,569
Gain on sale of investments	<b>474</b>	1,847
Other gains	<u>553</u>	<u>686</u>
	<b>30,698</b>	<b>31,005</b>
<b>Income before operating expenses</b>	<b>109,111</b>	<b>104,096</b>
Non-interest expenses:		
Compensation and benefits	<b>43,761</b>	38,646
Office occupancy	<b>6,107</b>	5,904
Office operations	<b>21,556</b>	21,254
Education and promotional	<b>6,920</b>	5,953
Loan servicing	<b>2,180</b>	1,664
Professional and outside services	<b>2,706</b>	2,954
Insurance premium and assessment	-	3,760
Travel and conference	<b>803</b>	676
Loss (gain) on sale of OREO	<b>103</b>	(250)
Miscellaneous operating	<u>2,903</u>	<u>2,400</u>
	<b>87,039</b>	<b>82,961</b>
<b>Net income</b>	<b>\$ 22,072</b>	<b>\$ 21,135</b>

See Notes to Financial Statements

**American Airlines Federal Credit Union**

**Statements of Members' Equity  
Years Ended December 31, 2014 and 2013  
(In thousands)**

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2012	\$ 61,769	\$ 495,694	\$ 9,091	\$ 566,554
Net income	-	21,135	-	21,135
Other comprehensive loss	-	-	(8,147)	(8,147)
Balance, December 31, 2013	61,769	516,829	944	579,542
Net income	-	22,072	-	22,072
Other comprehensive income	-	-	2,815	2,815
<b>Balance, December 31, 2014</b>	<b>\$ 61,769</b>	<b>\$ 538,901</b>	<b>\$ 3,759</b>	<b>\$ 604,429</b>

See Notes to Financial Statements

**American Airlines Federal Credit Union**

**Statements of Comprehensive Income  
Years Ended December 31, 2014 and 2013  
(In thousands)**

	<b>2014</b>	2013
Net income	<u>\$ 22,072</u>	<u>\$ 21,135</u>
Other comprehensive income:		
Net unrealized gains (losses) on investments available for sale	3,289	(6,300)
Reclassification adjustment for gains realized in net income	<u>(474)</u>	<u>(1,847)</u>
<b>Other comprehensive income (loss)</b>	<u>2,815</u>	<u>(8,147)</u>
<b>Comprehensive income</b>	<u><u>\$ 24,887</u></u>	<u><u>\$ 12,988</u></u>

See Notes to Financial Statements

**American Airlines Federal Credit Union**

**Statements of Cash Flows**  
**Years Ended December 31, 2014 and 2013**  
(In thousands)

	2014	2013
Cash flows from operating activities:		
Net income	\$ 22,072	\$ 21,135
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on disposition of fixed assets	3	5
(Accretion) amortization of (discount) premium of investment securities, net	(175)	465
Provision for loan losses	3,664	8,960
Depreciation and amortization	3,563	3,534
Gain on sale of investments	(474)	(1,847)
Loss (gain) on sale of OREO	103	(250)
Net change in:		
Accrued interest receivable	(1,263)	(56)
Other assets	(864)	(489)
Accrued expenses, dividends payable and other liabilities	(4,844)	2,041
<b>Net cash provided by operating activities</b>	<b>21,785</b>	<b>33,498</b>
Cash flows from investing activities:		
Purchases of available for sale investments	(616,124)	(1,040,361)
Proceeds from maturities of available for sale investments	438,835	365,377
Proceeds from sales of available for sale investments	359,405	1,090,980
Net change in other investments	(58)	242
Net change in loans to members	(457,702)	(172,516)
Increase in share insurance fund deposits	5	47
Proceeds from sale of OREO	3,153	4,989
Purchases of property and equipment	(3,474)	(5,760)
<b>Net cash (used in) provided by investing activities</b>	<b>(275,960)</b>	<b>242,998</b>
Cash flows from financing activities:		
Net increase (decrease) in members' shares	40,038	(124,425)
<b>Net cash provided by (used in) financing activities</b>	<b>40,038</b>	<b>(124,425)</b>
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(214,137)</b>	<b>152,071</b>
Cash and cash equivalents, beginning of year	346,781	194,710
Cash and cash equivalents, end of year	\$ 132,644	\$ 346,781
Supplemental cash flow information:		
Dividends paid on members' shares	\$ 49,037	\$ 47,431
Loans transferred to other real estate owned	\$ 4,081	\$ 5,226

See Notes to Financial Statements

## American Airlines Federal Credit Union

### Notes to Financial Statements

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#### Note 1. Nature of Operations and Significant Accounting Policies

**Nature of operations:** American Airlines Federal Credit Union (the Credit Union) is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act. The Credit Union provides a variety of financial services to its members. Primary deposit products are share and certificate accounts. The Credit Union's primary lending products are real estate and consumer loans. The Credit Union is subject to competition from other financial institutions and non-credit financial service companies. The Credit Union is subject to the regulation of certain federal agencies and undergoes periodic examination by the National Credit Union Administration (NCUA).

**Significant accounting policies:** The Credit Union follows the accounting standards set by the Financial Accounting Standards Board (FASB). The FASB establishes accounting principles generally accepted in the United States of America (GAAP). References to GAAP issued by the FASB in these footnotes are to The FASB Accounting Standards Codification™ commonly referred to as the Codification or ASC.

**Use of estimates:** 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 expense during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan losses, fair value of investment securities available for sale and the fair value of financial instruments.

**Concentrations of credit risk:** Most of the Credit Union's business activity is with its members who are current or former employees of American Airlines Group, Inc. (AAG). The Credit Union may be exposed to credit risk from a regional economic standpoint as a significant concentration of its borrowers reside in Texas. Although the Credit Union has a diversified loan portfolio, borrowers' ability to repay loans may be affected by the economic climate of either the air transportation industry or the overall geographic region in which they reside.

**Fair value:** The Codification defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement. Fair value is a market-based measurement, not an entity-specific measurement, and the fair value hierarchy gives the highest priority to quoted prices in active markets. Fair value measurements are disclosed by level within the hierarchy. A summary of the Credit Union's financial instruments and other accounts subject to fair value, including methodologies and resulting values, is presented in Note 10 to these financial statements.

**Cash flows:** For purposes of the statement of cash flows, cash and cash equivalents consist of cash on hand and non-term share deposits in various financial institutions. Amounts may exceed the federally insured limits, but the Credit Union has not experienced any losses. Cash flows are reported net for loans and share accounts.

**Investments:** Investments that the Credit Union intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available for sale and are carried at fair value. Unrealized gains and losses on investments classified as available for sale have been accounted for as accumulated other comprehensive income. Losses, if any, associated with credit impairments are recorded through operations.



## American Airlines Federal Credit Union

### Notes to Financial Statements

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Gains and losses on the sale of available for sale investments are determined using the specific identification method. Interest and dividends on investments are included in income when earned. Amortization of premiums and accretion of discounts are recognized in interest income over the period to maturity or until sold. Declines in the fair value of individual available for sale investments below their costs that are other than temporary would result in write-downs of the individual investments to their fair value. Factors affecting the determination of whether an other than temporary impairment has occurred include a downgrading of the investment by a rating agency, a significant deterioration in the financial condition of the issuer, or a determination that management would not have the ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

Other investments are classified separately and are stated at cost.

**Loans:** The Credit Union grants real estate, consumer and business loans to members. The ability of members to honor their contracts may be impacted by the real estate and/or general economic conditions of their particular area of residence.

Loans are stated at the amount of unpaid principal balances, reduced by an allowance for loan losses and net deferred fees and costs. Purchased loans are stated net of unamortized premiums. Interest on loans is recognized over the terms of the loans and is calculated on principal amounts outstanding.

Accrual of interest income is discontinued when loans become 90 days delinquent. Income is subsequently recognized on a cash basis until the loan's delinquency status is less than 90 days.

Loan fees and origination costs are deferred, and the net fee is recognized as an adjustment to interest income using the interest method over the expected lives of the related loans or until such loans are modified or paid in full.

**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 collectability of a loan balance is unlikely. 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 on management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. While management uses the best information available to make its evaluations, further adjustments to the allowance may be necessary if there are significant changes to the economic conditions.

The Credit Union's allowance for loan losses is that amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. General allowances are established for loans that can be grouped into pools based on similar characteristics in compliance with GAAP and regulatory guidelines. In this process, general allowance factors are based on an analysis of historical charge-off experience and expected losses given default ratios derived from the Credit Union's internal risk rating process. These factors are developed and applied to the portfolio by loan type. The qualitative factors associated with the allowance are subjective and require a high degree of management judgment. These factors include credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging data. Specific allowances are maintained for loans with characteristics that distinguish them from the pools of loans with similar, but non-specific characteristics (such as delinquencies of 60 days or more, bankruptcies, troubled debt restructures, impaired loans, etc).

## American Airlines Federal Credit Union

### Notes to Financial Statements

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**Property and equipment:** Land is carried at cost. Buildings, leasehold improvements, and furniture and equipment are carried at cost, less accumulated depreciation and amortization. Buildings, furniture and equipment are depreciated using the straight-line method over the estimated useful life of the asset. The cost of leasehold improvements is amortized using the straight-line method over the lesser of five years or the term of the related lease.

**Other real estate owned and foreclosed assets:** Other real estate owned is recorded at fair value less the estimated costs to sell the property at the date of transfer to other real estate owned, establishing a new cost basis. At the time a loan is transferred to other real estate owned, any carrying amount in excess of the fair value less estimated costs to sell the property is charged off to the allowance for loan losses. Subsequently, should the fair value of an asset, less the estimated costs to sell, decline to less than the carrying amount of the asset, the deficiency is recognized in the period in which it becomes known and is included in non-interest income. Maintenance costs of properties are included in non-interest expense. Gains and losses realized from sales of other real estate owned are recorded in non-interest income.

**Other revenue recognition:** Revenue from service charges and fees on member deposits is recognized as the services are provided.

**National Credit Union Share Insurance Fund (NCUSIF) deposit:** The deposit in the NCUSIF is in accordance with NCUA regulations, which requires the maintenance of a deposit by each federally insured Credit Union in an amount equal to 1 percent of its insured members' shares. The deposit would be refunded to the Credit Union if its insurance coverage was terminated, if it converted its insurance coverage to another source, or if management of the fund was transferred from the NCUA Board.

**Members' shares:** Members' shares are the deposit accounts of the owners of the Credit Union. Share ownership entitles members to vote in the annual election of the Board of Directors. Irrespective of the amount of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members' shares, excluding share certificates, are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates are approved by the Credit Union's Board of Directors.

**Income taxes:** By statute, the Credit Union is exempt from federal and state income taxes.

**Comprehensive income:** Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on investments.

**Reclassifications:** Certain amounts in the 2013 financial statements have been reclassified to conform to the 2014 financial statements' presentation. The reclassifications had no effect on net income or members' equity.

**Recent accounting pronouncements:** In January 2014, the FASB issued ASU 2014-04, *Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)*. The ASU clarifies that a substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of the residential real estate property collateralizing the consumer mortgage loan, upon either (a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosures of both (a) the amount of foreclosed residential real estate property held by the creditor and (b) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU 2014-04 is effective for annual periods beginning after December 15, 2014. Adoption is not expected to have a material impact on the Credit Union's financial statements.

## American Airlines Federal Credit Union

### Notes to Financial Statements

**Subsequent events:** The Credit Union has evaluated subsequent events through March 30, 2015, the date on which the financial statements were available to be issued.

#### Note 2. Investments

Investments classified as available for sale consist of the following (in thousands):

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<b>December 31, 2014:</b>				
Government agencies	\$ 759,720	\$ 728	\$ (55)	\$ 760,393
Negotiable certificates	343,071	117	(17)	343,171
Mortgage-backed securities	1,180,477	3,461	(475)	1,183,463
	<u>\$2,283,268</u>	<u>\$ 4,306</u>	<u>\$ (547)</u>	<u>\$2,287,027</u>
<b>December 31, 2013:</b>				
Government agencies	\$1,068,378	\$ 947	\$ (429)	\$1,068,896
Negotiable certificates	170,199	28	(8)	170,219
Mortgage-backed securities	1,226,158	2,587	(2,181)	1,226,564
	<u>\$2,464,735</u>	<u>\$ 3,562</u>	<u>\$ (2,618)</u>	<u>\$2,465,679</u>

Mortgage-backed securities held by the Credit Union are issued by US government sponsored enterprises.

Gross realized gains and losses on sales of investments available for sale were \$474,000 and \$0 in 2014 and \$1,847,000 and \$0 in 2013, respectively.

Investments by maturity as of December 31, 2014, are summarized as follows (in thousands):

	Available for Sale	
	Amortized Cost	Fair Value
No contractual maturity	\$ -	\$ -
Less than 1 year maturity	717,568	718,286
1-5 years maturity	385,223	385,278
Mortgage-backed securities	1,180,477	1,183,463
	<u>\$ 2,283,268</u>	<u>\$ 2,287,027</u>

As of December 31, 2014 and 2013, there were no securities pledged.

## American Airlines Federal Credit Union

### Notes to Financial Statements

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2014 and 2013, are as follows (in thousands):

Description of Securities	Fair Value	Continuous Unrealized Losses Existing For		Total Unrealized Losses
		Less Than 12 Months	More Than 12 Months	
<u>Available for Sale</u>				
<b>2014:</b>				
Government agencies	\$ 61,658	\$ 53	\$ 2	\$ 55
Negotiable certificates	172,983	17	-	17
Mortgage-backed securities	229,102	64	411	475
	<b>\$ 463,743</b>	<b>\$ 134</b>	<b>\$ 413</b>	<b>\$ 547</b>
<b>2013:</b>				
Government agencies	\$ 338,772	\$ 258	\$ 171	\$ 429
Negotiable certificates	85,191	8	-	8
Mortgage-backed securities	489,395	1,912	269	2,181
	<b>\$ 913,358</b>	<b>\$ 2,178</b>	<b>\$ 440</b>	<b>\$ 2,618</b>

As of December 31, 2014, the investment portfolio included 122 securities, 16 of which had unrealized losses that existed for longer than one year. As of December 31, 2013, the investment portfolio included 110 securities, 12 of which had unrealized losses that existed for longer than one year. All of these securities are considered to be acceptable credit risks. Based upon an evaluation of the available evidence, including recent changes in market rates, credit rating information and information obtained from regulatory filings, management believes the decline in fair value for these securities is temporary. In addition, the Credit Union has the intent and ability to hold these investment securities for a period of time sufficient to allow for recovery.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period in which the other than temporary impairment is identified. The Credit Union has not recognized any other than temporary impairment on any securities for the years ended December 31, 2014 or 2013.

Other investments consist of the following (in thousands):

	<b>2014</b>	2013
Share certificate in other credit union	\$ 250	\$ 100
Member capital accounts in corporate credit unions	750	750
Federal Home Loan Bank (FHLB) stock	<b>2,286</b>	2,378
	<b>\$ 3,286</b>	<b>\$ 3,228</b>

As of December 31, 2014, FHLB stock of \$2,286,000 and Catalyst Corporate Federal Credit Union Perpetual Contributed Capital of \$750,000 are classified with no contractual maturity. A certificate of \$250,000 in a natural person credit union is classified with less than one year maturity.

## American Airlines Federal Credit Union

### Notes to Financial Statements

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**FHLB of Dallas stock:** Although the stock is an equity interest in the FHLB, it does not have a readily determinable fair value, as ownership is restricted and a market does not exist. The stock can be sold back to the FHLB or another member institution at its par value, subject to approval by the FHLB. Management periodically evaluates the carrying amount of the stock for impairment and has determined that no impairment occurred during the years ended December 31, 2014 and 2013.

#### Note 3. Loans and Allowance for Loan Losses

Loans consist of the following at December 31 (in thousands):

	<u>2014</u>	<u>2013</u>
Real estate loans:		
Mortgage loans	\$ 1,408,757	\$ 1,376,421
Home equity loans	110,096	119,672
Total real estate loans	<u>1,518,853</u>	<u>1,496,093</u>
Consumer and business loans:		
Vehicle loans	411,389	367,833
Other consumer loans, including purchased loans	1,212,068	833,558
Total consumer and business loans	<u>1,623,457</u>	<u>1,201,391</u>
Total loans receivable	3,142,310	2,697,484
Deferred net loan origination fees	(1,465)	(2,115)
Allowance for loan losses	<u>(24,314)</u>	<u>(29,289)</u>
	<u>\$ 3,116,531</u>	<u>\$ 2,666,080</u>

The Credit Union originates real estate, consumer and business loans to its members. The loan balances, interest rates, loan terms and collateral requirements vary according to the type of loan offered and credit worthiness of the borrowing member.

**Real estate:** The Credit Union grants long-term mortgage loans secured by what is a member's principal residence. Home equity fixed rate loans with maturities up to 15 years and home equity lines of credit with maturities up to 25 years may also be offered. Acceptable property types include: single-family detached or attached housing, single condominium units, single units in a planned-unit-development, and 1- 4 family residences. The Credit Union requires an analysis of collateral value and credit worthiness to determine the capacity of the borrower to repay the obligation.

**Consumer:** The Credit Union grants consumer loans which consist of vehicle, share secured, and unsecured products. The Credit Union requires an analysis of credit worthiness to determine the capacity of the borrower to repay the obligation.

**Business:** The Credit Union grants business loans which consist of 1- 4 family dwellings that are not a member's primary residence, commercial real estate, term loans (secured), and revolving lines of credit (secured and unsecured). The Credit Union requires an analysis that includes collateral valuation (where applicable) and projected income and cash flow that allows for adequate coverage of required payments and obligations.

**Work out:** The Credit Union grants workout loans to members who may be experiencing a change in financial condition and who have demonstrated a willingness and ability to repay their debts. Depending on the specific circumstance, workout options include loan refinance or loan modification, for consumer loans, and repayment plan/forbearance agreement, loan modification, loan refinance, or troubled debt restructuring for real estate loans.

## American Airlines Federal Credit Union

### Notes to Financial Statements

**Impairment:** 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. The Credit Union assesses real estate loans that are four or more months past due for impairment. Impairment is considered to exist when the unpaid balance of the loan exceeds the appraised property value less estimated costs to sell. Real estate loans considered a troubled debt restructuring are also evaluated for impairment. Impairment is the greater of the difference between the original loan contract and the present value of future discounted cash flows of the restructured loan contract versus the difference between the outstanding loan balance and the market value of the property less costs to sell (assuming the outstanding loan balance is higher). Additionally, all loan balances of \$1 million or more are assessed for impairment. Impairment is the difference between the outstanding loan balance and the market value of the property (assuming the outstanding loan balance is higher). Consumer loans under a bankruptcy court repayment plan are also assessed for impairment. Impairment exists when the remaining bankruptcy court ordered repayment is less than the remaining loan principal.

The schedule below is impaired loans and nonperforming loans by class at December 31 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<b>2014:</b>					
Impaired loans with no related allowance recorded	\$ -	\$ -	\$ -	\$ -	\$ -
Impaired loans with an allowance recorded:					
Real estate loans:					
Mortgage loans	17,208	17,208	2,504	22,932	366
Home equity loans	2,032	2,032	314	3,021	78
Total real estate loans	<u>19,240</u>	<u>19,240</u>	<u>2,818</u>	<u>25,953</u>	<u>444</u>
Consumer and business loans:					
Vehicle loans	3,045	3,045	1,812	3,219	125
Other consumer loans, including purchased loans	4,115	4,115	2,354	3,457	103
Total consumer and business loans	<u>7,160</u>	<u>7,160</u>	<u>4,166</u>	<u>6,676</u>	<u>228</u>
Impaired loans with an allowance recorded	<u>26,400</u>	<u>26,400</u>	<u>6,984</u>	<u>32,629</u>	<u>672</u>
<b>Total impaired loans</b>	<b><u>\$ 26,400</u></b>	<b><u>\$ 26,400</u></b>	<b><u>\$ 6,984</u></b>	<b><u>\$ 32,629</u></b>	<b><u>\$ 672</u></b>
<b>2013:</b>					
Impaired loans with no related allowance recorded	\$ -	\$ -	\$ -	\$ -	\$ -
Impaired loans with an allowance recorded:					
Real estate loans:					
Mortgage loans	28,655	28,655	4,166	30,548	653
Home equity loans	4,009	4,009	438	4,079	148
Total real estate loans	<u>32,664</u>	<u>32,664</u>	<u>4,604</u>	<u>34,627</u>	<u>801</u>
Consumer and business loans:					
Vehicle loans	3,394	3,394	1,826	3,496	214
Other consumer loans, including purchased loans	2,798	2,798	1,460	2,557	113
Total consumer and business loans	<u>6,192</u>	<u>6,192</u>	<u>3,286</u>	<u>6,053</u>	<u>327</u>
Impaired loans with an allowance recorded	<u>38,856</u>	<u>38,856</u>	<u>7,890</u>	<u>40,680</u>	<u>1,128</u>
<b>Total impaired loans</b>	<b><u>\$ 38,856</u></b>	<b><u>\$ 38,856</u></b>	<b><u>\$ 7,890</u></b>	<b><u>\$ 40,680</u></b>	<b><u>\$ 1,128</u></b>

## American Airlines Federal Credit Union

### Notes to Financial Statements

A summary of impaired loans also classified as TDRs at December 31 is follows (in thousands):

	<u>2014</u>	<u>2013</u>
Consumer	\$ 728	\$ 3,163
Workout loans	4,939	6,149
Real estate	2,353	2,245
	<u>\$ 8,020</u>	<u>\$ 11,557</u>

The schedule below presents the recorded investment in non-accrual loans by loan category as of December 31 (in thousands):

	<u>2014</u>	<u>2013</u>
Mortgage loans	\$ 6,656	\$ 11,595
Home equity loans	1,150	1,479
Vehicle loans	909	899
Other consumer loans, excluding credit cards and purchased loans	1,288	1,476
	<u>\$ 10,003</u>	<u>\$ 15,449</u>

The following table presents the aging of the recorded investment in past due loans as of December 31 by class of loans (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	90 Days or greater Past Due	Total	Loans Not Past Due	Total Loans
<b>2014:</b>						
<b>Real estate loans:</b>						
Mortgage loans	\$ 14,195	\$ 2,946	\$ 6,656	\$ 23,797	\$ 1,384,960	\$ 1,408,757
Home equity loans	2,549	526	1,150	4,225	105,871	110,096
Total real estate loans	<u>16,744</u>	<u>3,472</u>	<u>7,806</u>	<u>28,022</u>	<u>1,490,831</u>	<u>1,518,853</u>
<b>Consumer and business loans:</b>						
Vehicle	2,780	556	909	4,245	407,144	411,389
Other consumer loans, including purchased loans	3,742	1,488	3,176	8,406	1,203,662	1,212,068
Total consumer and business loans	<u>6,522</u>	<u>2,044</u>	<u>4,085</u>	<u>12,651</u>	<u>1,610,806</u>	<u>1,623,457</u>
	<u>\$ 23,266</u>	<u>\$ 5,516</u>	<u>\$ 11,891</u>	<u>\$ 40,673</u>	<u>\$ 3,101,637</u>	<u>\$ 3,142,310</u>
<b>2013:</b>						
<b>Real estate loans:</b>						
Mortgage loans	\$ 15,031	\$ 3,484	\$ 11,595	\$ 30,110	\$ 1,346,311	\$ 1,376,421
Home equity loans	2,266	571	1,479	4,316	115,356	119,672
Total real estate loans	<u>17,297</u>	<u>4,055</u>	<u>13,074</u>	<u>34,426</u>	<u>1,461,667</u>	<u>1,496,093</u>
<b>Consumer and business loans:</b>						
Vehicle	3,699	757	899	5,355	362,478	367,833
Other consumer loans, including purchased loans	2,404	1,373	2,988	6,765	826,793	833,558
Total consumer and business loans	<u>6,103</u>	<u>2,130</u>	<u>3,887</u>	<u>12,120</u>	<u>1,189,271</u>	<u>1,201,391</u>
	<u>\$ 23,400</u>	<u>\$ 6,185</u>	<u>\$ 16,961</u>	<u>\$ 46,546</u>	<u>\$ 2,650,938</u>	<u>\$ 2,697,484</u>

The Credit Union generally recommends a charge-off when a loan has been past due for over 180 days. Mortgage loans are charged off at four months past due. Loans are classified by delinquency status.

## American Airlines Federal Credit Union

### Notes to Financial Statements

During the period ended December 31, 2014 and 2013, the terms of certain loans were modified as troubled debt restructurings. The modification of such loans was a reduction of the stated interest rate or extension of the loan term. Real estate troubled debt restructures are included in the allowance as either the greater of the difference between the present value of the original loan contract and the present value of future discounted cash flows of the restructured loan contract or the difference between the outstanding loan balance and the market value of the property less costs to sell (assuming the outstanding loan balance is higher). Consumer loan troubled debt restructures are included in the allowance when the outstanding balance of the loan exceeds the total remaining bankruptcy court ordered loan repayments. The troubled debt restructures are considered in default when the borrower becomes three months past due under the new contract terms.

The following is a summary of troubled debt restructurings during the twelve months ended December 31, 2014 and 2013 and loans that have been restructured during the previous twelve months ended December 31, 2013 and 2012 that subsequently defaulted during the twelve months ended December 31 2014 and 2013: (dollar amount in thousands).

	Troubled Debt Restructurings During the 12 Months Ended December 31			Troubled Debt Restructurings During the Previous 12 Months That Subsequently Defaulted During the 12 Months Ended December 31	
	Number of Contracts	Pre- Restructuring Outstanding Recorded Investment	Post- Restructuring Outstanding Recorded Investment	Number of Contracts	Recorded Investment
<b>2014:</b>					
Real estate loans:					
Mortgage loans	13	\$ 3,047	\$ 2,350	-	\$ -
Home equity loans	5	118	109	-	-
Consumer and business loans:					
Vehicle	34	418	260	38	387
Other consumer loans	7	37	34	-	-
	<b>59</b>	<b>\$ 3,620</b>	<b>\$ 2,753</b>	<b>38</b>	<b>\$ 387</b>
<b>2013:</b>					
Real estate loans:					
Mortgage loans	17	\$ 2,716	\$ 2,650	1	\$ 144
Home equity loans	5	164	155	-	-
Consumer and business loans:					
Vehicle	76	1,627	753	34	189
Other consumer loans	2	4	3	-	-
	<b>100</b>	<b>\$ 4,511</b>	<b>\$ 3,561</b>	<b>35</b>	<b>\$ 333</b>



**Notes to Financial Statements**

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**Allowance for loan losses:** Management categorizes loans into risk categories based on class of loans (e.g., real estate, consumer and business). Loan risk categories are reserved based on historical loss ratios, delinquency status, and legal status of the loan (bankruptcy).

The general component of the allowance for loan losses covers unimpaired loans and is based on the historical loss experience of the Credit Union adjusted for other qualitative factors. The factors used by management to establish a qualitative reserve are: unemployment trends, primary sponsor status, changes to lending policies, underwriting standards, second lien equities and delinquency trends. The reserve for non-bankrupt delinquent consumer loans relates to loans that are classified as 60 or more days past due. When the Credit Union restructures a real estate loan there is an additional component to its allowance calculation. This component will be the greater of the difference between the original loan contract and the present value of the future discounted cash flows of the restructured loan contract versus the difference between the market value less costs to sell of the impaired loan and the current balance of the loan secured by the property. Factors considered by management in determining impairment include, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls are not classified as impaired. Impairment is measured on a loan-by-loan basis for non-homogeneous loans, including one-to-four family residential real estate loans with balances in excess of \$1 million. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, consumer and one-to-four family residential real estate loans with balances less than \$1 million are not separately identified for impairment, unless such loans are the subject of a restructuring agreement.

## American Airlines Federal Credit Union

### Notes to Financial Statements

The table below presents the activity in the allowance for loan losses and the recorded investment in loans by portfolio segment based on impairment method as of and for the year ended December 31 (in thousands).

	Real Estate		Consumer and Business		Total
	Mortgage	Home Equity	Vehicle	Other	
<b>2014:</b>					
<b>Allowance for loan losses:</b>					
Balance, beginning of the year	\$ 9,931	\$ 865	\$ 4,700	\$ 13,793	\$ 29,289
Provision for loan losses	(3,313)	28	1,075	5,874	3,664
Loans charged to allowance	(349)	(284)	(2,232)	(8,293)	(11,158)
Recoveries of loans previously charged-off	353	55	610	1,501	2,519
<b>Balance, end of the year</b>	<b>\$ 6,622</b>	<b>\$ 664</b>	<b>\$ 4,153</b>	<b>\$ 12,875</b>	<b>\$ 24,314</b>
<b>Period-ended amount allocated to:</b>					
Individually evaluated for impairment	\$ 2,504	\$ 314	\$ 1,812	\$ 2,354	\$ 6,984
Collectively evaluated for impairment	4,118	350	2,341	10,521	17,330
<b>Ending balance</b>	<b>\$ 6,622</b>	<b>\$ 664</b>	<b>\$ 4,153</b>	<b>\$ 12,875</b>	<b>\$ 24,314</b>
<b>Loans:</b>					
Individually evaluated for impairment	\$ 17,208	\$ 2,032	\$ 3,045	\$ 4,115	\$ 26,400
Collectively evaluated for impairment	1,391,549	108,064	408,344	1,207,953	3,115,910
<b>Total ending loan balance</b>	<b>\$ 1,408,757</b>	<b>\$ 110,096</b>	<b>\$ 411,389</b>	<b>\$ 1,212,068</b>	<b>\$ 3,142,310</b>
<b>2013:</b>					
<b>Allowance for loan losses:</b>					
Balance, beginning of the year	\$ 11,608	\$ 1,394	\$ 5,581	\$ 12,775	\$ 31,358
Provision for loan losses	(567)	(41)	1,020	8,548	8,960
Loans charged to allowance	(1,197)	(677)	(2,607)	(8,874)	(13,355)
Recoveries of loans previously charged-off	87	189	706	1,344	2,326
<b>Balance, end of the year</b>	<b>\$ 9,931</b>	<b>\$ 865</b>	<b>\$ 4,700</b>	<b>\$ 13,793</b>	<b>\$ 29,289</b>
<b>Period-ended amount allocated to:</b>					
Individually evaluated for impairment	\$ 4,166	\$ 438	\$ 1,826	\$ 1,460	\$ 7,890
Collectively evaluated for impairment	5,765	427	2,874	12,333	21,399
<b>Ending balance</b>	<b>\$ 9,931</b>	<b>\$ 865</b>	<b>\$ 4,700</b>	<b>\$ 13,793</b>	<b>\$ 29,289</b>
<b>Loans:</b>					
Individually evaluated for impairment	\$ 28,655	\$ 4,009	\$ 3,394	\$ 2,798	\$ 38,856
Collectively evaluated for impairment	1,347,766	115,663	364,439	830,760	2,658,628
<b>Total ending loan balance</b>	<b>\$ 1,376,421</b>	<b>\$ 119,672</b>	<b>\$ 367,833</b>	<b>\$ 833,558</b>	<b>\$ 2,697,484</b>

## American Airlines Federal Credit Union

### Notes to Financial Statements

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#### Note 4. Property and Equipment

Property and equipment are summarized as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Land	\$ 1,711	\$ 1,711
Building	17,982	17,982
Furniture and equipment	30,239	30,230
Leasehold improvements	11,596	9,947
Construction in process	483	33
	<u>62,011</u>	<u>59,903</u>
Accumulated depreciation and amortization	<u>(39,536)</u>	<u>(37,336)</u>
	<u><u>\$ 22,475</u></u>	<u><u>\$ 22,567</u></u>

During the period ended December 31, 2014 and 2013, \$1,362,000 and \$1,534,000, respectively, of property and equipment were retired.

The Credit Union leases multiple offices. The operating leases contain renewal options and provisions requiring the Credit Union to pay property taxes and operating expenses over base period amounts. All rental payments are dependent only upon the lapse of time.

Minimum rental payments under operating leases with initial or remaining terms of one year or more at December 31, 2014, are as follows (in thousands):

Years ending December 31:	
2015	\$ 1,034
2016	924
2017	723
2018	317
2019	190
Subsequent years	<u>339</u>
	<u><u>\$ 3,527</u></u>

Rental expense for the years ended December 31, 2014 and 2013, for all facilities leased under operating leases totaled \$1,023,000 and \$1,170,000, respectively.

## American Airlines Federal Credit Union

### Notes to Financial Statements

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#### Note 5. Members' Shares

Members' shares are summarized as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Regular shares	\$ 2,661,790	\$ 2,567,464
Share draft accounts	268,157	231,894
401(k) shares	1,101,090	1,193,280
Individual retirement account shares	167,450	180,940
Certificates	789,227	774,098
	<u>\$ 4,987,714</u>	<u>\$ 4,947,676</u>

Shares by maturity as of December 31, 2014, are summarized as follows (in thousands):

No contractual maturity	\$ 4,198,487
0-1 year maturity	262,669
Greater than 1 year to 2 years maturity	189,691
Greater than 2 years to 3 years maturity	174,031
Greater than 3 years to 4 years maturity	78,077
Greater than 4 years to 5 years maturity	84,759
	<u>\$ 4,987,714</u>

Regular, share draft, 401(k) and individual retirement account shares have no contractual maturity. Certificate accounts have maturities of five years or less.

NCUSIF insures members' share accounts up to a maximum federal deposit insurance level of \$250,000. This includes all account types, such as regular share, share draft, and share certificates. 401(k) shares and individual retirement account coverage at \$250,000 is separate from other types of accounts owned. 401(k) shares represent funds which participants of AAG's various 401(k) plans have elected to invest in the Credit Union cash option of those plans.

The aggregate amount of certificates in denominations of \$250,000 or more at December 31, 2014 and 2013 is approximately \$22,794,000 and \$21,342,000, respectively.

#### Note 6. Borrowings

The Credit Union has a \$944,152,000 and \$913,500,000 line of credit available with the Federal Home Loan Bank at December 31, 2014 and 2013, respectively. The line of credit is secured by the general assets of the Credit Union and accrues interest at variable interest rates, which depend on market interest rates. As of December 31, 2014 and 2013, there were no amounts outstanding under this line of credit. There is no expiration on this line of credit.

The Credit Union has a \$95,000,000 line of credit available with Catalyst Corporate Federal Credit Union at December 31, 2014 and 2013. This line of credit is secured by the general assets of the Credit Union with variable interest rates, which depend on market interest rates. As of December 31, 2014 and 2013, there were no amounts outstanding under this line of credit.

## American Airlines Federal Credit Union

### Notes to Financial Statements

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#### Note 7. Commitments and Contingencies

The Credit Union is a party to various legal actions normally associated with the collection of loans and other business activities of financial institutions, the aggregate effect of which, in management's opinion, would not have a material adverse effect on the financial condition or results of operations of the Credit Union.

The Credit Union is party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit which include lines of credit, credit cards and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the financial statements. The Credit Union follows the same credit policies in making commitments as it does for those loans recorded in the financial statements.

Outstanding mortgage loan commitments at December 31, 2014 and 2013, total approximately \$52,513,000 and \$20,523,000, respectively.

Unfunded loan commitments under lines of credit are summarized as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Home equity	\$ 41,673	\$ 37,376
Credit card	232,901	205,893
Other consumer	416,312	401,625
	<u>\$ 690,886</u>	<u>\$ 644,894</u>

Commitments to extend credit are agreements to lend to a member consistent with conditions established in the contract. Certain commitments have fixed expiration dates or other termination clauses. Because some of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The amount of collateral obtained to secure borrowing on the lines of credit is based on management's credit evaluation of the member.

Unfunded commitments under revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing members. These lines of credit are generally uncollateralized but may be protected by a cross-collateralization clause or statutory lien if the member has other secured consumer loans or deposits with the Credit Union and usually do not contain a specified maturity date and ultimately may not be drawn upon to the total extent to which the Credit Union is committed.

#### Note 8. Regulatory Matters

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines that involve quantitative measures of the Credit Union's assets, liabilities and certain off-balance sheet items as calculated under GAAP.

## American Airlines Federal Credit Union

### Notes to Financial Statements

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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 to total assets. Further, credit unions with over \$10,000,000 in assets are also required to calculate a Risk-Based Net Worth (RBNW) requirement which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The minimum requirement to be considered "complex" under the regulatory framework is 6 percent. The Credit Union's RBNW requirements as of December 31, 2014 and 2013 were 4.43% and 4.17%, respectively. Management believes, as of December 31, 2014 and 2013, that the Credit Union meets all capital adequacy requirements to which it is subject.

Key aspects of the Credit Union's minimum capital amounts and ratios are summarized as follows as of December 31 (dollar amounts in thousands):

	2014		2013	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Amount needed to be classified as "adequately capitalized"	\$ 337,726	6.0%	\$ 334,121	6.0%
Amount needed to be classified as "well capitalized"	394,013	7.0%	389,808	7.0%
Actual net worth	600,670	10.7%	578,598	10.4%

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

#### Note 9. Related Party Transactions

Compensation and benefits of approximately \$42,864,000 and \$37,420,000 in 2014 and 2013, respectively, represent costs of payroll, benefit plans, and employee health and life insurance that are paid by AAG, and reimbursed by the Credit Union. In addition, AAG provides facilities at its headquarters and at various airports and provides other services to the Credit Union. Reimbursement to AAG for such items was approximately \$2,067,000 and \$1,932,000 in 2014 and 2013, respectively.

In the normal course of business, the Credit Union extends credit to Directors, Supervisory Committee members and executive officers (related parties) on the same terms and conditions as to other Credit Union members, with the exception of limited discounts offered to employees. The aggregate loans to related parties at December 31, 2014 and 2013 were approximately \$4,173,000 and \$4,152,000, respectively. Member shares from related parties at December 31, 2014 and 2013 amounted to approximately \$4,840,000 and \$5,328,000, respectively.

Notes to Financial Statements

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**Note 10. Fair Value Measurements**

Accounting guidance on fair value measurements defines fair value, establishes a framework for measuring fair value using a hierarchy system and requires disclosure of fair value measurements. The hierarchy is intended to maximize the use of observable inputs and minimize the use of unobservable inputs and includes three levels based upon the valuation techniques used. The three levels are as follows:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

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

Level 3 – Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

**Investments available for sale:** Where quoted prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. Level 1 investments would include highly liquid government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using quoted prices of investments with similar characteristics for Level 2 investments or using pricing models or discounted cash flows for Level 3 investments. Level 2 would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset-backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, investments are classified within Level 3 of the valuation hierarchy.

**Impaired loans:** Impaired loans represent certain loans for which an allowance for loan losses has been calculated as the greater of the difference between the original loan contract and the present value of future discounted cash flows of the restructured loan contract or the difference between the market value of the collateral less costs to sell of the impaired loan and the current balance of the loan secured by the property if the loan balance is higher. When significant adjustments have been made to unobservable inputs, the resulting fair value measurement is categorized as a Level 3 measurement.

**Other real estate owned (OREO):** OREO is initially recorded and subsequently carried at fair value and generally based on a current independent third party appraisal. The use of significant unobservable inputs by which to assess or estimate appraised values of collateral resulted in a Level 3 classification.

There have been no changes in valuation techniques used for any assets or liabilities measured at fair value during the year ended December 31, 2014.

## American Airlines Federal Credit Union

### Notes to Financial Statements

The following table represents assets and liabilities reported on the statement of financial condition at their fair value as of December 31 by level within the fair value measurement hierarchy (in thousands):

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2014:</b>			
<b>Measured on a recurring basis:</b>			
<b>Assets:</b>			
Government agencies	\$ 760,393	\$ -	\$ 760,393
Negotiable certificates	343,171	-	343,171
Mortgage-backed securities	1,183,463	-	1,183,463
<b>Measured on a nonrecurring basis:</b>			
<b>Assets:</b>			
Impaired loans	19,416	-	19,416
OREO	2,156	-	2,156
<b>December 31, 2013:</b>			
<b>Measured on a recurring basis:</b>			
<b>Assets:</b>			
Government agencies	1,068,896	-	1,068,896
Negotiable certificates	170,219	-	170,219
Mortgage-backed securities	1,226,564	-	1,226,564
<b>Measured on a nonrecurring basis:</b>			
<b>Assets:</b>			
Impaired loans	30,967	-	30,967
OREO	1,825	-	1,825

Accounting guidance on fair value measurements requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet for which it is practicable to estimate that value. Certain financial instruments and all non-financial instruments are excluded from these disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying fair value of the Credit Union. The methodologies for financial instruments measured at fair value are described previously. The methodologies for other financial assets and liabilities are described below:

**Cash and cash equivalents:** The carrying amounts of cash and cash equivalents are equal to their fair value.

**Other investments:** The carrying value approximates fair value based on the redemption provisions of the underlying investments.

**Loans:** For loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (for example, one-to-four family residential), credit card loans, and other consumer loans are estimated using a discounted cash flow calculation that applies interest rates currently being offered on similar loans to a schedule of aggregated expected monthly maturities of these loans.

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

**Members' shares:** The fair values disclosed for regular share and share draft accounts are by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). Fair values for share certificates are estimated using a discounted cash flow calculation that applies interest rates currently being offered on share certificates to a schedule of aggregated expected monthly maturities on the Credit Union's share certificates.



## American Airlines Federal Credit Union

### Notes to Financial Statements

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**Dividends payable:** The carrying amount of dividends payable is equal to the amount payable at the report date, therefore it is fair value.

**Commitments to originate and extend credit:** The fair value of commitments to originate and extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. The fair value as of December 31, 2014 and 2013 was not considered to be material.

The estimated fair value of the Credit Union's financial instruments is summarized as follows (in thousands):

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 132,644	\$ 132,644	\$ 346,781	\$ 346,781
Investments available for sale	2,287,027	2,287,027	2,465,679	2,465,679
Other investments	3,286	3,286	3,228	3,228
Loans, net	3,116,531	3,202,495	2,666,080	2,634,337
Accrued interest receivable	11,991	11,991	10,728	10,728
Financial liabilities:				
Members' shares	4,987,714	5,000,238	4,947,676	4,962,611
Dividends payable	5,940	5,940	6,247	6,247