



McGraw-Hill
Federal Credit Union

NOTICE OF SPECIAL MEETING

AMA Executive Conference Center
1601 Broadway
New York, NY 10019

March 11, 2019
5 p.m. EST

February 7, 2019

<<Member Name>>
<<Address 1>>
<<Address 2>>
<<City>>, <<State>> <<Zip>>

Dear <<Member Name>>,

The McGraw-Hill Federal Credit Union ("MHFCU") takes pride in having served our membership and community since 1935. We are a well-capitalized financial institution and are privileged to be a source of financial services to you, our members and your families. To secure and enhance member value, we have been evaluating strategic alternatives to ensure a sustainable future of improved services and product offerings while achieving the scope and scale that can secure our place in an increasingly challenging marketplace. We believe success in our market requires continuous investment in systems, security, employees and our community.

MHFCU engaged industry experts and performed extensive due diligence to assist us to identify and assess available strategic alternatives. In evaluating strategic alternatives, we determined a merger with a credit union of larger scope, scale and similar culture and commitment to member value is the answer. A larger scale operation will be more efficient and allow us to provide more resources to support our membership's current and future needs, as well as ensure the safety and soundness of your private data and accounts. After careful consideration, we believe the membership is best served by a merger of MHFCU with Pentagon Federal Credit Union.

The Board of Directors is comprised entirely of dedicated volunteers who are members of MHFCU and serve without compensation. The Board of Directors has participated in and fully supported management throughout the strategic initiative that produced the proposed merger. The Board and management fully support the proposed merger.

In order for the proposed merger to be approved and consummated, a majority of the members who vote on the merger proposal must vote to approve the merger. Members may cast their votes at the Special Meeting (further details enclosed) or by completing and returning the enclosed Ballot no later than 5 p.m. Eastern Standard Time (EST) on Friday, March 8, 2019.

Pentagon Federal Credit Union (known as PenFed) is well-capitalized and is one of the largest credit unions in the industry, presently with 1.7 million members and \$24 Billion of assets, providing its members with access to over 68,000 ATMs and market leading products and services. Your accounts will continue to be federally insured by the National Credit Union Share Insurance Fund to the maximum extent allowed by law and MHFCU's branches will be maintained and operated by PenFed for at least the next five years with new PenFed signage and systems. PenFed would also commit significant resources over the next five years to support our community and charitable causes identified by the MHFCU Board of Directors. Additionally, MHFCU Directors will be offered continued voluntary service on an advisory board to the PenFed Board of Directors.

Please review the Notice of Special Meeting of Members and the Ballot attached as an exhibit. If you have any questions or comments concerning the proposed merger, please call our Member Care Center at (b)(4) or email us at (b)(4). MHFCU management will respond to you promptly.

BY ORDER OF THE BOARD OF DIRECTORS:

Sincerely,

(b)(6)

Mary Herzich
Board Chair | McGraw-Hill Federal Credit Union



McGraw-Hill
Federal Credit Union

Member Ballot Booklet

Proposed Merger with Pentagon Federal Credit Union

**Notice of Special Meeting of the Members on Proposal
to Merge McGraw-Hill Federal Credit Union**

On July 30, 2018, the MHFCU Board of Directors approved a Merger Resolution authorizing the McGraw-Hill Federal Credit Union ("MHFCU") Management to seek regulatory clearance from the National Credit Union Administration (NCUA) as well as approval from MHFCU's members to merge with Pentagon Federal Credit Union (known as "PenFed"). You are invited to attend the Special Meeting at the AMA Executive Conference Center, 1601 Broadway, New York, NY 10019 on March 11, 2019, at 5 p.m. Eastern Standard Time (EST).

Purpose of the Special Meeting

The Special Meeting has two purposes:

1. To consider and act upon a proposal to merge MHFCU with PenFed (hereinafter referred to as the "Continuing Credit Union" or "PenFed"), whereby all assets and liabilities of MHFCU will be merged with and into the Continuing Credit Union. All members of MHFCU will become members of the Continuing Credit Union and will be entitled to and will receive shares in the Continuing Credit Union for the shares you own in MHFCU on the effective date of the merger.
2. To ratify, confirm and approve the action of the MHFCU Board of Directors in authorizing the officers of MHFCU, subject to the approval of members, to do all things and execute all agreements, documents, and other papers necessary to carry out the proposed merger.

The MHFCU Board of Directors encourages you to attend the Special Meeting and vote on the proposed merger. **Whether or not you expect to attend the Special Meeting, we urge you to sign, date and by 5 p.m. EST on March 8, 2019, return the enclosed ballot to vote on the proposed merger.**

Other Information Related to the Proposed Merger

The MHFCU Board of Directors has carefully evaluated and analyzed the assets and liabilities and the value of the shares in both credit unions. Attached as an exhibit, you will find the projected Combined Statement of Financial Condition of the Continuing Credit Union.

MHFCU takes pride in having served its membership and community since its founding in 1935. The Board of Directors is comprised entirely of dedicated volunteers who serve without compensation and are also members of MHFCU. The Board of Directors, along with MHFCU Management, has worked hard to enhance the member value proposition on a long term, sustainable basis.

Increased costs of regulatory compliance, compressed operating margins, and the rising costs of cybersecurity systems and trained staff required to ensure the safety and soundness of member private data and accounts have impacted the operating efficiency of the credit union. The mission and purpose of MHFCU has always been to provide exceptional service for the membership. It was determined that a merger with a credit union of larger scope and scale and with a similar culture and commitment to member value is the answer.

PenFed is well-capitalized and is one of the largest credit unions in the industry, presently with 1.7 million members and \$24 Billion of assets, providing its members with access to over 68,000 ATMs and market leading products and services. Member accounts will continue to be federally insured by the National Credit Union Share Insurance Fund to the maximum extent allowed by law. PenFed will also commit significant resources over the next five years to support community and charitable causes identified by the MHFCU Board of Directors, and MHFCU Directors will be offered continued voluntary service on an advisory board to the PenFed Board of Directors.

Share Adjustment or Distribution- Special Share Dividend

If MHFCU members approve the proposed merger, the MHFCU Board of Directors anticipates declaring a one-time special dividend on all regular share* balances of 7% based on members' average balance on the shares for the six-month period ending January 31, 2019, as declared by the MHFCU Board of Directors. The special dividend would be a one-time capital distribution payable to eligible MHFCU members in an aggregate total amount of approximately \$6.5 million. Eligible members are defined as those natural person members having at least one share in their main share account* and who continue to be a member in good standing as of the date the special dividend is paid. The payment of this special dividend would be after member approval and prior to the effective date of the proposed merger.

**Eligible regular share accounts are defined as the following:*

Primary Share, Transactional Share, Secondary Share, Holiday Club, and S³ Prime Companion Savings.

Locations of Merging and Continuing Credit Union

In addition to an award-winning website and mobile banking platform, PenFed has 51 brick and mortar locations world-wide including one in New York:

- Highland Falls, NY (United States Military Academy)

PenFed's main office is located at:

- 7940 Jones Branch Drive, McLean, VA 22102

PenFed intends to maintain MHFCU's two (2) branches for at least five (5) years from the merger effective date, located at:

- 120 Windsor Center Dr., East Windsor, NJ 08520
- 55 Water Street, New York, NY 10041

Services

Upon completion of the proposed merger, you, the members of MHFCU will become members of PenFed and will be able to take advantage of the broad range of products and services available from PenFed including its expanded services, product and rate options. PenFed is considered a market leader in many aspects of consumer banking services, including their real estate and credit cards areas, while offering highly competitive deposit products like their *Access America Checking* accounts and high rate CDs. With access to more than 51 branch locations worldwide and seven days a week call center availability, a friendly PenFed employee is always available to assist.

PenFed will be communicating with our members and providing additional information relating to member accounts, products and services before the effective merger date of May 1, 2019. PenFed is not part of the shared branch network so this service will no longer be available after the merger effective date.

Merger-Related Financial Arrangements

NCUA Regulations require merging credit unions to disclose certain increases in compensation that any of the merging credit unions' officials or the five most highly compensated employees have received, or will receive, in connection with the merger.

PenFed will retain all employees of MHFCU and you will see the same faces when you visit branch locations after the merger.

Except for the CEO, employees of MHFCU will receive a one-time retention bonus of up to 10% of their salary, not to exceed \$10,000. In addition, severance payments will be available to employees who voluntarily leave PenFed's employment in the first 36 months after the merger completion date, as follows: Receive severance of nine months' salary if they voluntarily depart within six to nine months after the merger; six months' salary if they leave between the ninth and twelfth months after the merger; and three months' salary if they leave between the thirteenth and thirty-sixth months after the merger. This means that the five most highly compensated employees of MHFCU would be eligible to receive the following payments:

- EVP & Chief Financial Officer, Jesus Moreno could receive between \$39,938 and \$119,814 depending on the timing of his voluntary departure;
- VP Information Systems and Technology, Chief Security Officer Ajaiah Roulette could receive between \$32,500 and \$97,500 depending on the timing of her voluntary departure;
- SVP Member Engagement, Cathynn Frank could receive between \$31,177 and \$93,531 depending on the timing of her voluntary departure.
- VP Human Resources, Cynthia Burke could receive between \$30,756 and \$92,268 depending on the timing of her voluntary departure.
- A member of our Board of Directors (all of whom serve as uncompensated volunteers), Stephanie Hoopes would receive between \$12,500 and \$14,500 as a special dividend based upon her share balance relationship, the same method used for calculating the special dividend payable to every other member.

Additionally, President/CEO Michael Sullivan, in the event he voluntarily resigns during the three (3) year period following the merger completion date, will be entitled to severance pay as follows:

- If resignation occurs within six (6) and nine (9) months after the merger completion date, eighteen (18) months of then current salary (\$285,000 based on current salary of \$190,000);
- If resignation occurs within nine (9) and twelve (12) months after the merger completion date, twelve (12) months of then current salary (currently \$190,000);
- If resignation occurs within the second and third year after the merger completion date, six (6) months of then current salary (currently \$95,000 based on current salary of \$190,000).

- Plus, one year of accrued variable compensation (average of last two years, approximately \$36,000) plus the company-paid portion of his medical benefits for one year.
- Additionally, he will be eligible to receive a \$50,000 bonus payable six (6) months after the merger completion date.

Your Board recommends that you vote "YES" to approve the proposed merger.

Please be assured that we have every confidence that you will be pleased by the level of commitment, service, and value that you will receive from PenFed. We firmly believe that the proposed merger will provide continuity of operations, improved services to you, an opportunity for our employees to continue their service and additional support of our community for the long-term.

Please note, to be approved the proposed merger must have the approval of a majority of members of the MHFCU who vote on the proposal.

The independent accounting firm of Verittas Risk Advisors, LLC, which will serve as the Teller of Election, will attest to the balloting process and results.

Enclosed with this Notice of Special Meeting is a Ballot for Merger Proposal. If you cannot attend the meeting, please complete the ballot and return it to the Teller of Election using the enclosed self-addressed and prepaid envelope provided, no later than 5 p.m. EST on March 8, 2019. To be counted, your ballot must reach us by this date and time.

BY ORDER OF THE BOARD OF DIRECTORS:

(b)(6)

Board Chair | McGraw-Hill Federal Credit Union

February 7, 2019

Date

Ballot for Merger Proposal

Name of Member: _____

Account Number: _____

This ballot must be received by mail at the address below by 5 p.m. Eastern Standard Time (EST) on March 8, 2019, or you may personally vote at the Special Meeting on March 11, 2019, at 5 p.m. EST.

Please use the enclosed self-addressed and prepaid envelope and mail to:

McGraw-Hill Federal Credit Union
c/o Verittas Risk Advisors, LLC
P.O. Box 1439
Hightstown, NJ 08520-9819

I have read the Notice of Special Meeting for the members of McGraw-Hill Federal Credit Union.

The meeting will be held on the above date to consider and act upon the merger proposal described in the notice. I vote on the proposal as follows (check one box):

Approve the proposed merger and authorize the Board of Directors to take all necessary action to accomplish the merger.

Do not approve the proposed merger.

Signature of Member: _____

Date: _____

COMBINED STATEMENT OF FINANCIAL CONDITION
as of September 30, 2018

[prepared under US GAAP FAS 141R/ASC805 utilizing call reports dated September 30, 2018]

| | PenFed | McGraw-Hill FCU | Merger Adjustments | Combined |
|---------------------------------------|-------------------------|----------------------|-----------------------|-------------------------|
| ASSETS | | | | |
| Total Loans Outstanding | \$20,193,651,061 | \$334,490,240 | \$(3,759,501) | \$20,524,381,800 |
| (Less) Allowance for Loan Losses | (112,109,198) | (1,459,501) | 1,459,501 | (112,109,198) |
| Net Loans | 20,081,541,863 | 333,030,739 | (2,300,000) | 20,412,272,602 |
| Investments | 2,138,699,292 | 43,780,147 | - | 2,182,479,439 |
| Cash | 654,656,581 | 19,573,674 | - | 674,230,255 |
| Land & Building (net) | 253,983,083 | - | - | 253,983,083 |
| Other Fixed Assets (net) | 171,598,649 | 708,717 | - | 172,307,366 |
| Goodwill (net) | 23,156,424 | 40,675 | (36,821,325) | (13,624,226) |
| All Other Assets | 755,074,206 | 24,199,394 | 6,000,000 | 785,273,600 |
| TOTAL ASSETS | 24,078,710,098 | 421,333,346 | (33,121,325) | 24,466,922,11 |
| LIABILITIES AND EQUITY | | | | |
| Accounts Payable | 397,787,400 | 3,162,834 | 5,000,000 | 405,950,234 |
| Dividends Payable | 10,499,144 | - | - | 10,499,144 |
| All Other Liabilities | 2,935,232,122 | 32,550,000 | - | 2,967,782,122 |
| Total Liabilities | 3,343,518,666 | 35,712,834 | 5,000,000 | 3,384,231,500 |
| Total Shares | 18,344,703,392 | 342,799,187 | 4,700,000 | 18,692,202,579 |
| Regulatory/Statutory Reserves | 90,900,456 | 9,124,533 | (9,124,533) | 90,900,456 |
| Net Income | 128,109,328 | (183,156) | 183,156 | 128,109,328 |
| Undivided Earnings | 2,270,770,091 | 34,978,305 | (34,978,305) | 2,270,770,091 |
| Donated Equity | - | - | - | - |
| Other Comprehensive Income | (47,432,034) | - | - | (47,432,034) |
| Unrealized Holding Gain (Loss) | (51,859,801) | (1,098,357) | 1,098,357 | (51,859,801) |
| TOTAL LIABILITIES & EQUITY | \$24,078,710,098 | \$421,333,346 | \$(33,121,325) | \$24,466,922,119 |
| MISCELLANEOUS INFORMATION | | | | |
| a. Number of Members | 1,686,675 | 23,225 | - | 1,709,900 |
| b. Number of potential members | 7,556,641 | 65,375 | - | 7,622,016 |
| c. Probable Asset/Share Ratio | 1.130 | 1.121 | - | 1.130 |



Office of the General Counsel

VIA FEDERAL EXPRESS

March 12, 2019

Mr. Scott Hunt, Director
Office of National Examinations and Supervision
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Re: Certification of Vote on Merger Proposal of McGraw Hill Federal Credit Union

Dear Mr. Hunt:

Pursuant to National Credit Union Administration Rule & Regulation 7086.107, enclosed please find NCUA 6308A (6/05), Certification of Vote on Merger Proposal of McGraw Hill Federal Credit Union.

If you or your staff have any questions or need anything further with regard to the merger, please feel free to contact me either by telephone at (b)(4) or e-mail at

(b)(4)

Thank you for your time and consideration in this matter.

Sincerely,
~~ours~~

(b)(6)

Stanley P. Spence
Senior Vice President & Deputy General Counsel

Encls.

cc: National Credit Union Administration
Region 1 – Albany
9 Washington Square
Washington Avenue Extension
Albany, NY 12205

**CERTIFICATION OF VOTE ON MERGER PROPOSAL OF THE
MCGRAW HILL FEDERAL CREDIT UNION**

We, the undersigned officers of the above-named credit union, do hereby certify the completion of the following actions:

1. At a meeting held on July 30, 2018 adopted a resolution approving the merger of our credit union with Pentagon Federal Credit Union.
2. In accordance with the applicable regulation, delivered in person or mailed to every member of our credit union (a) a copy of the Notice of Special Meeting of the Members and Ballot for Merger Proposal, and (b) a copy of the merger plan announced in the Notice, as approved by the National Credit Union Administration.
3. Conducted a special meeting of the members of our credit union at the time and place announced in the Notice to consider and act upon the proposed merger.
4. At the special meeting, explained the merger proposal and any changes in federally insured status to the members present.
5. Conducted the membership vote at the special meeting. A majority of the voting members of our credit union voted in favor of the merger as follows:
 - 41 Number of members present at the special meeting;
 - 4 Number of members present who voted in favor of the merger;
 - 2 Number of members present voted against the merger;
 - i, 531 Number of additional written ballots in favor of the merger;
 - 323 Number of additional written ballots opposed to the merger.
6. Recorded in the meeting minutes the action of the members at the special meeting.

This certification signed the 11th day of March 2019.

(b)(6)

Mary Herzich, Board Presiding Officer

(b)(6)

Gail Miner, Secretary



Office of the General Counsel

May 31, 2019

VIA FEDERAL EXPRESS

Mr. Scott Hunt, Director
Office of National Examinations and Supervision
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Re: Certification of completion of merger between McGraw Hill Federal Credit Union (merging credit union) and Pentagon Federal Credit Union (continuing credit union)

Dear Mr. Hunt:

Pursuant to National Credit Union Administration Rules and Regulations, enclosed please find documents to certify the completion of the above referenced merger.

Please be advised we were unable to locate the original charter or the National Credit Union Share Insurance Fund insurance certificate for the merging credit union. Consequently those documents have not been included with this documentation.

If you or your staff have any questions or require any additional information or documentation, please feel free to contact me either by telephone at (b)(4) or e-mail at (b)(4). Thank you for all of your support and consideration in this matter.

Sincerely yours,

(b)(6)

William D. Heyer
Vice President & Associate General Counsel

WDH:ss
Encls

cc: National Credit Union Administration
Eastern Region
1900 Duke Street, Suite 300
Alexandria, VA 22314-3437

COMBINED STATEMENT OF FINANCIAL CONDITION
AS OF May 1, 2019

[prepared under US GAAP FAS 141R/ASC805 utilizing GL reports dated May 1, 2019]

| | PenFed | McGraw Hill | MERGER ADJUSTMENTS | COMBINED |
|--|--------------------------|-----------------------|------------------------|--------------------------|
| ASSETS | | | | |
| Total Loans Outstanding | \$ 19,695,164,549 | \$ 332,104,911 | \$ (2,402,524) | \$ 20,024,866,936 |
| (Less) Allowance for Loan Losses | (115,897,764) | - | - | (115,897,764) |
| Net Loans | 19,579,266,785 | 332,104,911 | (2,402,524) | 19,908,969,172 |
| Investments | 2,289,194,445 | 619,333 | - | 2,289,813,777 |
| Cash | 910,729,272 | 36,665,324 | - | 947,394,596 |
| Land & Building (net) | 312,680,557 | - | - | 312,680,557 |
| Other Fixed Assets (net) | 189,112,316 | 595,223 | - | 189,707,539 |
| Goodwill (net) | 23,156,423 | 40,675 | (32,047,051) | (8,849,953) |
| All Other Assets | 1,002,908,670 | 10,662,597 | 4,144,935 | 1,017,716,202 |
| TOTAL ASSETS | 24,307,048,468 | 380,688,062 | (30,304,640) | 24,657,431,890 |
| LIABILITIES AND EQUITY | | | | |
| Accounts Payable | 23,037,717 | 555,457 | 3,250,000 | 26,843,174 |
| Dividends Payable | 12,425,435 | - | - | 12,425,435 |
| All Other Liabilities | 2,760,085,413 | - | - | 2,760,085,413 |
| Total Liabilities | 2,795,548,565 | 555,457 | 3,250,000 | 2,799,354,022 |
| Total Shares | 18,772,096,798 | 346,872,382 | (294,416) | 19,118,674,763 |
| Regulatory/Statutory Reserves | 90,900,456 | - | - | 90,900,456 |
| Net Income | 56,497,873 | - | - | 56,497,873 |
| Undivided Earnings | 2,642,385,123 | 33,260,224 | (33,260,224) | 2,642,385,123 |
| Donated Equity | - | - | - | - |
| Other Comprehensive Income | (32,132,135) | - | - | (32,132,135) |
| Unrealized Holding Gain(Loss) | (18,248,212) | - | - | (18,248,212) |
| TOTAL LIABILITIES & EQUITY | \$ 24,307,048,468 | \$ 380,688,062 | \$ (30,304,640) | \$ 24,657,431,890 |
| | | | | |
| CLASSIFICATION OF LOANS OUTSTANDING | | | | |
| a. Current and less than 2 months delinquent | No. 1,133,146 | Amount 19,480,962,160 | Amount 330,212,538 | Amount 19,811,174,698 |
| b. 2 to less than 6 months delinquent | 7,164 | 115,420,974 | 1,109,852 | 116,530,826 |
| b. 6 to 12 months delinquent | 2,076 | 53,920,543 | 305,684 | 54,226,227 |
| d. 12 or more months delinquent | 540 | 44,860,872 | 476,837 | 45,337,709 |
| e. Total Loans | 1,142,926 | 19,695,164,549 | 332,104,911 | 20,027,269,460 |
| MISCELLANEOUS INFORMATION | | | | |
| a. Number of Members | | 1,743,696 | 21,921 | 1,765,617 |
| b. Number of potential members | | 328,849,020 | 65,375 | 328,714,395 |
| c. Probable Asset/Share Ratio | | 1.146 | 1.091 | 1.145 |

**PROBABLE ASSET/SHARE RATIO
COMBINED CREDIT UNION
AS OF May 1, 2019**

| | PenFed | | McGraw Hill | | COMBINED |
|--|-----------------------|-----------------------|---------------------|---------------------|-----------------------|
| | Recorded Book Value | Adjustments To Book | Recorded Book Value | Adjustments To Book | |
| Additions | | | | | |
| Cash | 910,729,272 | 910,729,272 | 36,665,324 | - | 947,394,596 |
| Loans | 19,579,266,785 | 19,579,266,785 | 332,104,911 | (2,402,524) | 19,908,969,172 |
| Investments | 2,289,194,445 | 2,289,194,445 | 619,333 | - | 2,289,813,777 |
| Fixed Assets | 501,792,872 | 501,792,872 | 595,223 | - | 502,388,096 |
| Other Assets | 1,026,065,094 | 1,026,065,094 | 10,662,597 | 4,144,935 | 1,040,872,626 |
| Total (A) | 24,307,048,468 | 24,307,048,468 | 380,647,387 | 1,742,411 | 24,689,438,266 |
| Deductions | | | | | |
| Accounts Payable | 23,037,717 | 23,037,717 | 555,457 | 3,250,000 | 26,843,174 |
| Other Recorded Liabilities | 2,772,510,848 | 2,772,510,848 | - | - | 2,772,510,848 |
| Contingent and/or Unrecorded Liabilities | - | - | - | - | - |
| Subsidiary Ledger Differences (Losses) | - | - | - | - | - |
| Other Losses | - | - | - | - | - |
| Total (B) | 2,795,548,565 | 2,795,548,565 | 555,457 | 3,250,000 | 2,799,354,022 |
| Net Value of Assets (A-B) | 21,511,499,902 | 21,511,499,902 | 380,091,930 | (1,507,589) | 21,890,084,244 |
| Net Value of Assets/Total Shares | | 1.1459 | | 1.0914 | 1.1450 |

PROBABLE ASSET/SHARE RATIO

McGraw Hill

Merging CU

AS OF May 1, 2019

| |
|---|
| Additions Cash Total Loans Outstanding (Less) Allowance for Loan Losses Net Loans Investments Fixed Assets Other Assets Total (A) Deductions Accounts Payable Other Recorded Liabilities Contingent and/or Unrecorded Liabilities Subsidiary Ledger Differences (Losses) Other Losses Total (B) Net Value of Assets (A-B) Net Value of Assets/Total Shares |
|---|

| McGraw Hill | | |
|---------------------|---------------------|------------------------|
| Recorded Book Value | Adjustments To Book | On-Going Concern Value |
| 36,665,324 | - | 36,665,324 |
| 332,104,911 | (2,402,524) | 329,702,387 |
| - | - | - |
| 332,104,911 | (2,402,524) | 329,702,387 |
| 619,333 | - | 619,333 |
| 595,223 | - | 595,223 |
| 10,662,597 | 4,144,935 | 14,807,532 |
| 380,647,387 | | 382,389,799 |
| (40,675) | | |
| 555,457 | 3,250,000 | 3,805,457 |
| - | - | - |
| - | - | - |
| - | - | - |
| - | - | - |
| 555,457 | | 3,805,457 |
| 380,091,930 | (1,507,589) | 378,584,342 |
| 1.0958 | | 1.0914 |

EXPLANATION OF PROVISION FOR UNDIVIDED EARNINGS
PenFed/McGraw Hill FCU MERGER
AS OF May 1, 2019

| CATEGORY | AMOUNT CR (DR) |
|--|----------------------------------|
| Adjustments to Equity prior to Merger: | 0 |
| CONTINGENT AND/OR UNRECORDED LIABILITIES: | |
| Reclassify Allowance for Loan Losses to Loans | 0 |
| Adjust Loans for additional & estimated loan losses | (5,516,607) |
| Estimated Fair Value of investment securities portfolio | 0 |
| Estimated Fair Value of loan portfolio to current market rates | 3,114,083 |
| Other Liabilities- accrual for unrecorded liabilities | (3,250,000) |
| Estimated Fair Value of share portfolio | 294,416 |
| Recognition of core deposit/share premium | 4,144,935 |
| TOTAL | <u><u>(1,213,173)</u></u> |

McGraw Hill
ANALYSIS OF ALLOWANCE FOR LOAN LOSS
AS OF May 1, 2019

| | Loans Outstanding | Required Allowance For Loan Loss |
|------------------|----------------------|-------------------------------------|
| Current Loans | 327,058,014 | 601,898 |
| Delinquent Loans | | |
| 0-2 Month | 3,154,524 | 1,577,262 |
| 2-6 Months | 1,109,852 | 554,926 |
| 6-12 Months | 305,684 | 305,684 |
| Over 12 Months | 476,837 | 476,837 |

additional reserve- 2% indirect loans due to loss exposure

2,000,000

Required Allowance For Loan Loss

5,516,607

Current Balance

0

Additional amount to be funded

5,516,607

Metrics- ALL to total loans % -- premerger
 ALL to total loans %- as adjusted

0.42%
1.56%

Note- beyond the increases in the loan loss reserve based on delinquent loans detailed above, an additional reserve has been established for approximately 2% of the indirect portfolio as of May 1, 2019 that has more risk and thus an additional reserve has been established for these indirect loans

RECONCILIATION REVIEW OF GOODWILL- McGraw Hill FCU

| | |
|---|----------------------------|
| Total McGraw Hill Assets per GL report | \$ 380,688,062 |
| Less- adjustments to McGraw Hill cash/equity prior to merger | \$ - |
| Total Adjusted McGraw Hill Assets per GL report | \$ 380,688,062 |
| FV adjustment for credit quality - loans | (5,516,607) |
| FV adjustment for interest rate market-to-market- Loans | 3,114,083 |
| FV adjustment for interest rate market-to-market- inv. Securities | - |
| FV adjustment for Core Deposit premium | 4,144,935 |
| Total McGraw Hill FCU Assets adjusted to FV | \$ 382,430,474 [A] |
| Total McGraw Hill Liabilities per GL report | \$ 347,427,838 |
| Adjustment for unrecorded liabilities | \$ 3,250,000 |
| FV adjustment for interest rate market-to-market- shares | \$ (294,416) |
| Total McGraw Hill FCU Liabilities adjusted to FV | \$ 350,383,422 [B] |
| Net Tangible Assets (NTA)- FV- Negative Goodwill/Bargain Gain | \$ 32,047,051 [A] less [B] |

MERGER AGREEMENT

This agreement made and entered into this 1st day of May, 2019, by and between Pentagon Federal Credit Union (continuing credit union) and McGraw Hill Federal Credit Union (merging credit union).

The continuing credit union and the merging credit union agree to the following terms:

1. The merging credit union will transfer to the continuing credit union all of its assets, rights, and property.
2. The continuing credit union will assume and pay all the liabilities of the merging credit union. In addition, the continuing credit union will issue all members of the merging credit union the same amount of shares they currently own in the merging credit union, subject to the following share adjustments(if any): As described in the Merger Plan.

Pentagon Federal Credit Union by:

(b)(6)

Edward B. Cody
Chairman, Board of Directors

(b)(6)

Sandra L. Patricola
Treasurer

McGraw Hill Federal Credit Union by:

(b)(6)

Mary Herzich
Presiding Officer, Board of Directors

(b)(6)

Sue Young
Treasurer

Commonwealth of Virginia

City/County of FALLS CHURCH

Before me a Notary Public (or other officer authorized) appeared the above named Edward B. Cody and Sandra L. Patricola, Board Presiding Officer and Treasurer of Pentagon Federal Credit Union, who being personally known to me as (or proved by the oath of credible witnesses to be) the persons who executed the annexed instrument acknowledged the same to be their free act and deed and in their respective capacities the free act and deed of said credit union.

(SEAL)

(b)(6)

Notary Public

My commission expires December 31, 2020.



State of ~~New York~~ New Jersey

City/County of ~~New York~~ Mercer

Before me a Notary Public (or other officer authorized) appeared the above named Mary Herzich and Sue Young, Board Presiding Officer and Treasurer of McGraw Hill Federal Credit Union, who being personally known to me as (or proved by the oath of credible witnesses to be) the persons who executed the annexed instrument acknowledged the same to be their free act and deed and in their respective capacities the free act and deed of said credit union.

(SEAL)

(b)(6)

Notary Public

My commission expires May 31, 2022.

DAGMAR DOLLARD
NOTARY PUBLIC OF NEW JERSEY
Comm. # 50060977
My Commission Expires 5/28/2022



**CERTIFICATION OF COMPLETION OF MERGER OF
PENTAGON FEDERAL CREDIT UNION**

We, the undersigned officers of the above-named credit union, do hereby certify to the National Credit Union Administration as follows:

1. That the merger of our credit union with McGraw Hill Federal Credit Union was completed as of May 1, 2019 in accordance with the terms and plan approved by this Board of Directors by a resolution adopted at the meeting held on July 31, 2018. We previously provided a copy of the resolution to the National Credit Union Administration.
2. We completed all required steps for the merger and transferred the merging credit union's assets.

Attached to this certification are the following documents:

1. Financial reports for each credit union immediately prior to the completion of the merger;
2. A consolidated financial report for the continuing credit union immediately following the completion of the merger;
3. The charter of the merging federal credit union, if available;
4. The insurance certificate for the merging federally insured credit union, if available; and
5. A copy of the executed merger agreement, Form NCUA 6304.

This certification signed the 28th day of May, 2019.

(b)(6)

Edward B. Cody
Board Presiding Officer

(b)(6)

for Sandra L. Patricola
Treasurer *GC, ASS'T SECRETARY*



National Credit Union Administration
Office of National Examinations and Supervision

June 14, 2019

SENT BY EMAIL

Mr. William D. Heyer
Vice President and Associate General Counsel
Pentagon Federal Credit Union
7940 Jones Branch Drive
McLean, VA 22102

Dear Mr. Heyer

The merger of McGraw Hill Federal Credit Union (FCU) into Pentagon FCU (PenFed) is complete. Accordingly, we are canceling McGraw Hill FCU's insurance certificate effective May 1, 2019.

The capitalization balance of McGraw Hill FCU will be credited to PenFed's capitalization account. Please verify the consolidated balance when you receive your next share insurance statement. If the balance is incorrect, please contact the Office of the Chief Financial Officer at (703) 518-6570.

If you have any questions, please contact the Office of National Examinations and Supervision at (703) 518-6640 or ONESMAIL@NCUA.GOV.

Sincerely,

(b)(6)

Scott A. Hunt
Director

ONES/RRD: rd