Northrop Grumman Federal Credit Union and Subsidiary

Consolidated Financial Statements

December 31, 2007 and 2006

McGladrey & Pullen
Certified Public Accountants

TABLE OF CONTENTS

McGladrey & Pullen
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Supervisory Committee
Northrop Grumman Federal Credit Union
Gardena, California

We have audited the accompanying consolidated statements of financial condition of Northrop Grumman Federal Credit Union (a federally chartered credit union) and Subsidiary as of December 31, 2007 and 2006 and the related consolidated statements of income, comprehensive income, members' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northrop Grumman Federal Credit Union and Subsidiary as of December 31, 2007 and 2006 and the consolidated 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.

McGladrey & Pullen, LLP

Los Angeles, California
March 13, 2008
northr.la.ann.fs.07.nh

NORTHROP GRUMMAN FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2007 AND 2006

ASSETS

	2007	2006
Cash and cash equivalents	$ 34,891,154	$ 39,340,442
Investments		
Available-for-sale	185,304,648	182,032,679
Other	9,941,112	15,219,020
Loans to members, net	357,220,530	320,657,213
Accrued interest receivable	2,297,983	2,171,919
Property and equipment, net	3,934,808	3,245,665
National Credit Union Share Insurance Fund deposit	5,153,324	4,349,504
Other assets	2,642,515	2,248,788
	$ 601,386,074	$ 569,265,230

LIABILITIES AND MEMBERS' EQUITY

	2007	2006
Liabilities		
Members' shares	$ 510,092,027	$ 473,779,608
Notes payable	15,400,000	26,600,000
Accrued expenses and other liabilities	4,424,956	5,610,064
Total liabilities	529,916,983	505,989,672
Commitments and contingent liabilities		
Members' Equity		
Retained earnings	73,443,610	67,300,890
Accumulated other comprehensive loss	(1,974,519)	(4,025,332)
Total members' equity	71,469,091	63,275,558
	$ 601,386,074	$ 569,265,230

The accompanying notes are an integral part of these statements.

NORTHROP GRUMMAN FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
INTEREST INCOME		
Interest on loans to members	$ 20,914,439	$ 18,784,474
Interest on investments and cash equivalents	11,089,802	10,404,871
	32,004,241	29,189,345
INTEREST EXPENSE		
Dividends on members' shares	15,357,741	11,973,595
Interest on notes payable	758,618	1,151,400
	16,116,359	13,124,995
NET INTEREST INCOME	15,887,882	16,064,350
PROVISION FOR LOAN LOSSES	306,013	(156,951)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	15,581,869	16,221,301
NON-INTEREST INCOME		
Fee income	2,873,911	2,751,226
Interchange income	782,891	696,508
Shared branching income	357,080	373,046
Net realized gain on sales of available-for-sale investments	36,382	27,570
Other	1,004,745	925,602
	5,055,009	4,773,952
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and benefits	7,432,118	7,527,508
Operations	5,687,364	5,788,911
Occupancy	1,374,676	1,272,850
	14,494,158	14,589,269
NET INCOME	$ 6,142,720	$ 6,405,984

NORTHROP GRUMMAN FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
NET INCOME	$ 6,142,720	$ 6,405,984
OTHER COMPREHENSIVE INCOME		
Reclassification adjustment for realized gains on investments included in net income	(36,382)	(27,570)
Unrealized holding gains on investments classified as available-for-sale	2,087,195	1,433,023
Other comprehensive income	2,050,813	1,405,453
COMPREHENSIVE INCOME	$ 8,193,533	$ 7,811,437

The accompanying notes are an integral part of these statements.

NORTHROP GRUMMAN FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	Retained Earnings			Accumulated Other Comprehensive Income (Loss)
	Regular Reserve	Unappropriated	Total	
Balance, December 31, 2005	$ 3,559,687	$ 57,335,219	$ 60,894,906	$ (5,430,785)
Net income		6,405,984	6,405,984	
Net change in unrealized gains (losses) on available-for-sale investments				1,405,453
Balance, December 31, 2006	3,559,687	63,741,203	67,300,890	(4,025,332)
Net income		6,142,720	6,142,720	
Net change in unrealized gains (losses) on available-for-sale investments				2,050,813
Balance, December 31, 2007	$ 3,559,687	$ 69,883,923	$ 73,443,610	$ (1,974,519)

The accompanying notes are an integral part of these statements.

NORTHROP GRUMMAN FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
OPERATING ACTIVITIES		
Net income	$ 6,142,720	$ 6,405,984
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of securities, net	245,957	284,027
Provision for loan losses	306,013	(156,951)
Depreciation and amortization	1,010,272	1,007,649
Net realized gains on sales of available-for-sale investments	(36,382)	(27,570)
Net change in:		
Accrued interest receivable	(126,064)	(138,968)
Other assets	(393,727)	226,589
Accrued expenses and other liabilities	(1,185,108)	1,232,725
Net cash provided by operating activities	5,963,681	8,833,485
INVESTING ACTIVITIES		
Purchases of available-for-sale investments	(62,351,605)	(66,314,603)
Proceeds from maturities of available-for-sale investments	31,806,506	32,112,887
Proceeds from sales of available-for-sale investments	29,114,368	28,278,852
Net change in other investments	5,277,908	2,109,489
Net change in loans to members	(36,869,330)	(24,181,022)
Increase in the National Credit Union Share Insurance Fund deposit	(803,820)	(430,853)
Purchases of property and equipment	(1,699,415)	(1,843,117)
Net cash used in investing activities	(35,525,388)	(30,268,367)
FINANCING ACTIVITIES		
Net increase in members' shares	36,312,419	35,770,119
Repayment of notes payable	(11,200,000)	(13,200,000)
Net cash provided by financing activities	25,112,419	22,570,119
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,449,288)	1,135,237
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	39,340,442	38,205,205
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 34,891,154	$ 39,340,442
SUPPLEMENTAL CASH FLOW INFORMATION		
Dividends paid on members' shares and interest paid on notes payable	$ 15,883,128	$ 12,761,433

The accompanying notes are an integral part of these statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Credit Union and its wholly owned subsidiary, Flight Plan Financial Services, Inc., which provides investment and insurance products for members. Material intercompany balances and transactions have been eliminated in consolidation.

Nature of Operations: Northrop Grumman Federal Credit Union (the Credit Union) is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act. Participation in the Credit Union is limited to those individuals that qualify for membership, including employees and former employees of Northrop Grumman Corporation. The field of membership is defined in the Credit Union's Charter and Bylaws.

Use of Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses.

Concentrations of Credit Risk: Most of the Credit Union's business activity is with its members who reside in Southern California or are employed in the aerospace industry. Therefore, the Credit Union may be exposed to credit risk from a regional economic standpoint. However, the loan portfolio is well diversified and the Credit Union does not have any significant concentrations of credit risk except unsecured loans, which by their nature increase the risk of loss compared to those loans that are collateralized.

Cash and Cash Equivalents: For the purpose of the statements of financial position and the statements of cash flow, cash and cash equivalents includes cash on hand, amounts due from financial institutions, and highly liquid debt instruments classified as cash which were purchased with maturities of three months or less. Amounts due from financial institutions may, at times, exceed federally insured limits.

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 recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

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

Other investments are classified separately and are stated at cost.

Loans to Members: The Credit Union grants mortgage and consumer loans to members. The ability of the members to honor their contracts is dependent upon the real estate and general economic conditions of the area.

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

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

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

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

Allowance for Loan Losses: The allowance for loan losses is established as losses are estimated to have occurred though a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is likely. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of the underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Credit Union's allowance for loan losses, and may require the Credit Union to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

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. Such evaluations consider prior loss experience, the risk rating and the levels of non-performing loans. General allowances are established for loans that can be grouped into pools based on similar characteristics as described in SFAS No. 5, *Accounting for Contingencies*. In this process, general allowance factors are based on an analysis of historical charge-off experience and expected losses given default 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 allowances are subjective and require a high degree of management judgment. These factors include the credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging data.

Other Real Estate Owned: Assets acquired through, or in lieu of, loan foreclosure and included in other assets are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in operating expenses.

Property and Equipment: Land is carried at cost. Property and equipment and facility improvements are carried at cost, less accumulated depreciation and amortization. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of facility improvements is amortized using the straight-line method over the terms of the related leases.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Credit Union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

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

NCUSIF Insurance Premium: The Credit Union is required to pay an annual insurance premium equal to one-twelfth of one percent of total insured shares, unless the payment is waived or reduced by the NCUA Board. The NCUA Board waived the 2007 and 2006 insurance premiums.

Members' Shares: Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. 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 are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates are set by the Credit Union's Board of Directors.

Advertising Costs: Advertising costs are expensed as incurred.

Income Taxes: The Credit Union is exempt, by statute, from federal and state income taxes. The Credit Union's wholly owned subsidiary, however, is subject to federal and state income taxes. Operations of the CUSO resulted in immaterial income taxes for the years ended 2007 and 2006.

Comprehensive Income: Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the members' equity section of the statements of financial condition.

Reclassifications: Certain account reclassifications have been made to the 2006 consolidated financial statements in order to conform to classifications used in the current year.

Recent Accounting Pronouncements: In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS No. 157, fair value measurements are disclosed by level within that hierarchy. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, except for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis for which delayed application is permitted until fiscal years beginning after November 15, 2008. The Credit Union is currently assessing the potential effect of SFAS No. 157 on its financial position, results of operations and cash flows.

In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS No. 159"). SFAS No. 159 permits companies to elect to follow fair value accounting for certain financial assets and liabilities in an effort to mitigate volatility in earnings without having to apply complex hedge accounting provisions. The standard also establishes presentation and disclosure requirements designed to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Credit Union is currently evaluating the impact of the adoption of SFAS No. 159, if any, on our financial position, results of operations and cash flows.

2. INVESTMENTS

Investments classified as available-for-sale consist of the following:

December 31, 2007	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Federal agencies securities	$ 52,323,993	$ 198,847	$ (47,183)	$ 52,475,657
Mortgage-backed securities	134,955,174	127,318	(2,253,501)	132,828,991
	$ 187,279,167	$ 326,165	$ (2,300,684)	$ 185,304,648
December 31, 2006				
Federal agencies securities	$ 47,243,279	$ 593	$ (668,419)	$ 46,575,453
Mortgage-backed securities	138,814,732	121,205	(3,478,711)	135,457,226
	$ 186,058,011	$ 121,798	$ (4,147,130)	$ 182,032,679

Gross realized gains and losses on sales of investments available-for-sale were $100,556 and $64,174 in 2007 and $64,553 and $36,983 in 2006, respectively.

Securities held in safekeeping at the corporate credit union totaling approximately $13,751,000 are pledged as collateral for borrowings advanced under the line of credit agreement as more fully described in Note 7.

Investments by maturity as of December 31, 2007 are summarized as follows:

	Available-for-sale		
	Amortized Cost	Fair Value	Other
No contractual maturity	$ 0	$ 0	$ 3,441,112
Less than 1 year maturity	7,297,676	7,272,445	4,000,000
1 – 5 years maturity	31,138,244	31,283,323	2,500,000
5 – 10 years maturity	13,888,073	13,919,889	0
Mortgage-backed securities	134,955,174	132,828,991	0
	$ 187,279,167	$ 185,304,648	$ 9,941,112

Expected maturities of mortgage-backed securities may differ from contractual maturities because borrowers may have the right to call or prepay the obligations and are, therefore, classified separately with no specific maturity date. Member and permanent capital accounts have been classified with no contractual maturity.

Gross unrealized losses and fair value by length of time that the individual available-for-sale securities have been in a continuous unrealized loss position at December 31, 2007 and 2006 are as follows:

		Continuous Unrealized Losses Existing For:		
December 31, 2007	Fair Value	Less Than 12 Months	More Than 12 Months	Total Unrealized Losses
Federal agencies securities	$ 21,185,099	$ (11,886)	$ (35,297)	$ (47,183)
Mortgage-backed securities	117,764,796	(260,284)	(1,993,217)	(2,253,501)
	$ 138,949,895	$ (272,170)	$ (2,028,514)	$ (2,300,684)
December 31, 2006				
Federal agencies securities	$ 42,550,453	$ (39,265)	$ (629,154)	$ (668,419)
Mortgage-backed securities	111,643,977	(109,122)	(3,369,589)	(3,478,711)
	$ 154,194,430	$ (148,387)	$ (3,998,743)	$ (4,147,130)

At December 31, 2007, the investment portfolio included 92 securities, 74 of which have current unrealized losses which have existed for longer than one year. At December 31, 2006, the investment portfolio included 97 securities, 87 of which have current unrealized losses which have 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 an anticipated 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.

Other investments consist of the following:

	December 31	
	2007	2006
Certificates in a corporate credit union	$ 6,500,000	$ 11,500,000
Member capital account in a corporate credit union	2,441,112	2,719,020
Permanent capital account in a corporate credit union	1,000,000	1,000,000
	$ 9,941,112	$ 15,219,020

Certificates are generally non-negotiable and non-transferable, and may incur substantial penalties for withdrawal prior to maturity.

Permanent capital accounts are uninsured equity capital accounts and are redeemable only if called by the corporate credit union. Member capital accounts are uninsured equity capital accounts that may be redeemed with a three-year notice. The fair value of other investments approximates book value.

3. LOANS TO MEMBERS

Loans to members consist of the following:

	December 31	
	2007	2006
Mortgage loans:		
Fixed rate	$ 141,557,096	$ 133,069,589
Hybrid	15,509,566	10,473,318
Variable rate	1,247,396	2,089,518
Home equity line of credit, variable rate	50,829,616	61,376,141
Home equity line of credit, fixed rate	30,144,620	0
	239,288,294	207,008,566
Vehicle loans	97,529,852	94,645,243
Consumer loans, primarily unsecured	21,067,630	20,256,977
	357,885,776	321,910,786
Deferred net loan origination costs (fees)	332,255	(38,573)
Allowance for loan losses	(997,501)	(1,215,000)
	$ 357,220,530	$ 320,657,213

The Credit Union offers hybrid mortgages to its members. Hybrid loans consist of loans that are fixed for an initial period of three or five years. After this period, the mortgages are converted to variable rate using the fully indexed rate, which can result in significant payment shock to the borrower. These loans may have significantly different credit risk characteristics than traditional fixed and variable rate mortgages. However, the Credit Union believes it has established prudent underwriting standards as well as adequate risk management functions to monitor these additional risks.

Vehicle loans shown above are pledged as collateral for borrowings advanced under the line of credit agreement as more fully described in Note 7.

The following is an analysis of the allowance for loan losses:

	Years Ended December 31	
	2007	2006
Balance, beginning of year	$ 1,215,000	$ 1,920,000
Provision for loan losses	306,013	(156,951)
Recoveries	244,620	289,440
Loans charged off	(768,132)	(837,489)
Balance, end of year	$ 997,501	$ 1,215,000

4. LOAN SERVICING

Mortgage loans serviced for Fannie Mae are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of these loans at December 31, 2007 and 2006 are $13,608,202 and $14,633,341, respectively.

5. PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

	December 31	
	2007	2006
Land	$ 872,994	$ 869,902
Data processing equipment	5,899,484	5,900,103
Furniture and equipment	2,688,578	3,194,943
Facility improvements	3,060,881	2,934,162
Construction in progress	596,494	0
	13,118,431	12,899,110
Accumulated depreciation and amortization	(9,183,623)	(9,653,445)
	$ 3,934,808	$ 3,245,665

The Credit Union leases four 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, 2007 are as follows:

Years Ending December 31	
2008	$ 856,000
2009	365,000
2010	126,000
2011	83,000
2012	35,000
	$ 1,465,000

Rental expense for the years ended December 31, 2007 and 2006 for all facilities leased under operating leases totaled $1,095,000 and $975,000, respectively.

6. MEMBERS' SHARES

Members' shares are summarized as follows:

	December 31	
	2007	2006
Regular shares	$ 111,996,189	$ 127,132,569
Share draft accounts	65,691,442	67,074,254
Money market accounts	111,722,891	108,613,406
Non-term individual retirement accounts	4,812,493	5,144,389
Certificates (including IRA certificates)	214,508,781	164,687,990
	508,731,796	472,652,608
Dividends payable	1,360,231	1,127,000
	$ 510,092,027	$ 473,779,608

Shares by maturity as of December 31, 2007 are summarized as follows:

No contractual maturity	$ 294,223,015
0 – 1 year maturity	185,589,101
1 – 2 years maturity	12,095,275
2 – 3 years maturity	4,711,148
3 – 4 years maturity	2,823,029
4 – 5 years maturity	9,290,228
	$ 508,731,796

Regular shares, share draft accounts, money market accounts, and individual retirement account shares have no contractual maturity. Certificate accounts have maturities of five years or less.

The National Credit Union Share Insurance Fund insures members' shares up to $100,000, and certain individual retirement and Keogh accounts up to $250,000.

The aggregate amount of certificates in denominations of $100,000 or more at December 31, 2007 and 2006 is approximately $75,199,000 and $50,327,000, respectively.

7. NOTES PAYABLE

The Credit Union utilizes a Master Loan and Security Agreement with a corporate credit union. The terms of the agreement call for the pledging of all vehicle loans plus investment securities held in safekeeping at the corporate credit union to secure the outstanding balances. The agreement provides for a credit limit of $85 million with interest rates determined at the time of the advance. As of December 31, 2007 and 2006, borrowings under this agreement total $15,400,000 and $26,600,000, respectively. At December 31, 2007, advances have interest rates ranging from 3.35% to 4.54% and maturity dates as follows:

	Balance
Less than 1 year maturity	$ 9,200,000
1 – 2 years maturity	6,200,000
	$ 15,400,000

In addition to the agreement described above, the Credit Union utilizes demand loan agreements with two corporate credit unions. The terms of these agreements call for the pledging of all assets not already pledged as collateral under other borrowing agreements as security for any and all obligations taken by the Credit Union. The agreements provide for a combined credit limit of $10 million with interest charged at a rate determined by the lenders on a periodic basis. At December 31, 2007 and 2006, there were no borrowings under these agreements. The agreements are reviewed for continuation by the lenders and the Credit Union annually.

8. OFF-BALANCE SHEET ACTIVITIES

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 consolidated financial statements.

The Credit Union's exposure to credit loss is represented by the contractual amount of these commitments. The Credit Union follows the same credit policies in making commitments as it does for those loans recorded in the consolidated financial statements.

Outstanding loan commitments at December 31, 2007 and 2006 total approximately $0 and $525,000, respectively.

Unfunded loan commitments under lines of credit are summarized as follows:

	December 31	
	2007	2006
Home equity	$ 80,186,000	$ 60,325,000
Other consumer	83,904,000	85,584,000
	$ 164,090,000	$ 145,909,000

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's credit worthiness on a case-by-case basis. 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 customers. These lines-of-credit are uncollateralized 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.

9. COMMITMENTS AND CONTINGENT LIABILITIES

The Credit Union is a party to various legal actions normally associated with collections 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.

10. EMPLOYEE BENEFITS

The Credit Union staff are participants in the pension plan of Northrop Grumman Corporation. Since the Credit Union staff are only fractional participants in the plan, it is not practicable to disclose actuarial benefit data. The Credit Union funds the plan through Northrop Grumman Corporation.

11. MEMBERS' EQUITY

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 consolidated 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 generally accepted accounting principles. The Credit Union's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth to total assets. Further, credit unions 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 Credit Union's RBNW requirements as of December 31, 2007 and 2006 were 7.1% and 7.0%, respectively. The minimum requirement to be considered "complex" under the regulatory framework is 6%. Management believes, as of December 31, 2007 and 2006, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2007, the most recent call reporting period, and 2006, the NCUA categorized the Credit Union as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Credit Union must maintain a minimum net worth ratio of 7.1% of assets. There are no conditions or events since that notification that management believes have changed the institution's category.

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

	December 31, 2007		December 31, 2006	
	Amount	Ratio/Requirement	Amount	Ratio/Requirement
➢ Amount needed to be classified as "adequately capitalized"	$ 42,698,411	7.1%	$ 39,848,566	7.0%
➢ Amount needed to be classified as "well capitalized"	$ 42,698,411	7.1%	$ 39,848,566	7.0%
➢ Actual net worth	$ 73,443,610	12.2%	$ 67,300,890	11.8%

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

12. RELATED PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends credit to directors, supervisory committee members and executive officers. The aggregate loans to related parties at December 31, 2007 and 2006 are $1,317,461 and $2,028,415, respectively. Deposits from related parties at December 31, 2007 and 2006 amounted to $2,866,177 and $3,414,751, respectively.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Credit Union's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Credit Union.

The following methods and assumptions were used by the Credit Union in estimating fair values of financial instruments as disclosed herein:

Cash and Cash Equivalents: The carrying amounts of cash and cash equivalents approximate their fair value.

Available-for-Sale Investments: Fair values for investments are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

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

Loans to Members: For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. The estimated fair value for all fixed rate loans is determined by discounting the estimated cash flows using the current rate at which similar loans would be made to borrowers with similar credit ratings and maturities. The impact of delinquent loans on the estimation of the fair values described above is not considered to have a material effect and, accordingly, delinquent loans have been disregarded in the valuation methodologies employed.

Accrued Interest: 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 share draft and money market accounts are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term share certificates approximate their fair values at the reporting date. Fair values for fixed-rate shares and share certificates are estimated using a discounted cash flow calculation that applies interest rates currently being offered on shares and certificates to a schedule of aggregated expected monthly maturities on shares and certificates.

Notes Payable: The fair value of notes payable is estimated by discounting the estimated cash flows using the current rate at which similar borrowings could be obtained.

Off-Balance-Sheet Credit-Related Instruments: Fair values for off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value for such financial instruments is nominal.

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

	December 31, 2007		December 31, 2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	$ 34,891,000	$ 34,891,000	$ 39,340,000	$ 39,340,000
Investments available-for-sale	185,305,000	185,305,000	182,033,000	182,033,000
Other investments	9,941,000	9,941,000	15,219,000	15,219,000
Loans to members, net	357,221,000	356,357,000	320,657,000	316,591,000
Accrued interest receivable	2,298,000	2,298,000	2,172,000	2,172,000
Financial Liabilities:				
Members' shares	510,092,000	510,771,000	473,780,000	474,061,000
Notes payable	15,400,000	15,437,000	26,600,000	26,201,000