NORTHROP GRUMMAN FEDERAL CREDIT UNION
AND SUBSIDIARY

CONSOLIDATED
FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

TWHC Turner, Warren, Hwang & Conrad AC
Certified Public Accountants & Consultants

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Turner, Warren, Hwang & Conrad AC
Certified Public Accountants & Consultants

100 N. First St., Suite 202
Burbank, CA 91502-1845
Tel 818.955.9537
Fax 818.955.8416
cpa@twhc.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Northrop Grumman Federal Credit Union

We have audited the accompanying consolidated statements of financial condition of Northrop Grumman Federal Credit Union and subsidiary as of December 31, 2009 and 2008, and the related consolidated statements of income, members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the credit union's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 that 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 financial position of Northrop Grumman Federal Credit Union and subsidiary as of December 31, 2009 and 2008, 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.

Turner, Warren, Hwang + Conrad

TURNER, WARREN, HWANG & CONRAD
ACCOUNTANCY CORPORATION

March 15, 2010

Northrop Grumman Federal Credit Union and Subsidiary

Consolidated Statements of Financial Condition

December 31, 2009 and 2008

	2009	2008
ASSETS		
Cash and cash equivalents	$ 54,257,292	$ 40,494,861
Investments		
Securities available for sale	273,489,023	226,755,864
Other	-	12,334,047
Loans to members	423,908,899	389,257,711
Accrued interest receivable	2,583,476	2,255,181
Property and equipment	7,511,516	5,180,159
NCUSIF deposit	6,217,199	5,509,700
Other assets	3,385,996	2,143,360
Total Assets	$ 771,353,401	$ 683,930,883
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' share accounts	$ 672,104,509	$ 552,646,544
Borrowed funds	16,000,000	46,200,000
Accrued expenses and other liabilities	5,021,790	5,003,361
Total Liabilities	693,126,299	603,849,905
Members' equity		
Regular reserve	3,559,687	3,559,687
Undivided earnings	76,271,376	75,394,426
Accumulated other comprehensive income (loss)	(1,603,961)	1,126,865
Total Members' Equity	78,227,102	80,080,978
Total Liabilities and Members' Equity	$ 771,353,401	$ 683,930,883

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

NORTHROP GRUMMAN FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
INTEREST INCOME		
Loans to members	$ 22,372,142	$ 22,034,029
Investments and cash and cash equivalents	11,226,988	11,191,287
Total Interest Income	33,599,130	33,225,316
INTEREST EXPENSE		
Members' share accounts	12,632,410	14,876,525
Borrowed funds	1,071,078	1,202,099
Total Interest Expense	13,703,488	16,078,624
NET INTEREST INCOME	19,895,642	17,146,692
PROVISION FOR LOAN LOSSES	3,420,270	1,230,427
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	16,475,372	15,916,265
NON-INTEREST INCOME		
Fees and charges	2,670,451	2,758,715
Pass-back and recapitalization of NCUSIF deposit	3,802,290	-
Other-than-temporary impairment losses on securities available for sale		
Total other-than-temporary impairment losses	(2,214,732)	-
Less: portion of other-than-temporary impairment losses recognized in other comprehensive income	1,814,732	-
Net impairment losses recognized in earnings	(400,000)	-
Net realized gain on sale of securities available for sale	1,670,041	446,895
Other income	1,800,199	1,997,328
Total Non-Interest Income	9,542,981	5,202,938
NON-INTEREST EXPENSE		
Compensation and benefits	7,657,881	7,671,772
Operations	7,470,074	6,555,939
Occupancy	1,444,532	1,380,989
Loss on impairment of investment in WesCorp capital shares	3,834,047	-
NCUSIF deposit impairment loss and premium assessment	4,734,869	-
Total Non-Interest Expense	25,141,403	15,608,700
NET INCOME	$ 876,950	$ 5,510,503

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

NORTHROP GRUMMAN FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

YEARS ENDED DECEMBER 31, 2009 AND 2008

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2007	$ 3,559,687	$ 69,883,923	$ (1,974,519)	$ 71,469,091
Comprehensive income				
Net income	-	5,510,503	-	5,510,503
Other comprehensive income				
Unrealized gains on securities available for sale	-	-	3,548,279	3,548,279
Less: reclassification adjustment for gains included in net income			(446,895)	(446,895)
				3,101,384
Total comprehensive income	-	-	-	8,611,887
Balance, December 31, 2008	3,559,687	75,394,426	1,126,865	80,080,978
Comprehensive loss				
Net income	-	876,950	-	876,950
Other comprehensive loss				
Unrealized losses on securities available for sale	-	-	(1,460,785)	(1,460,785)
Reclassification adjustment for gains included in net income	-	-	(1,270,041)	(1,270,041)
				(2,730,826)
Total comprehensive loss				(1,853,876)
Balance, December 31, 2009	$ 3,559,687	$ 76,271,376	$ (1,603,961)	$ 78,227,102

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

NORTHROP GRUMMAN FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 876,950	$ 5,510,503
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,188,688	1,074,663
Provision for loan losses	3,420,270	1,230,427
Net amortization of investments	1,578,998	320,142
Amortization of deferred loan origination costs, net	203,981	202,440
Pass-back and recapitalization of NCUSIF deposit	(3,802,290)	-
NCUSIF deposit impairment loss	3,802,290	-
Loss on impairment of WesCorp capital shares	3,834,047	-
Other-than-temporary impairment losses realized on securities available for sale	400,000	-
Gain on sale of securities available for sale	(1,670,041)	(446,895)
Net change in:		
Accrued interest receivable	(328,295)	42,802
NCUSIF deposit	(707,499)	(356,376)
Other assets	(1,242,636)	499,155
Accrued expenses and other liabilities	18,429	(781,826)
Net cash provided by operating activities	7,572,892	7,295,035
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities available for sale	(294,733,537)	(171,136,224)
Proceeds from sales, maturities and principal payments received on securities available for sale	244,960,595	132,913,146
Net (increase) decrease in other investments	8,500,000	(2,392,936)
Net increase in loans to members	(38,275,439)	(33,470,048)
Purchases of property and equipment	(3,520,045)	(2,320,014)
Net cash used in investing activities	(83,068,426)	(76,406,076)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' share accounts	119,457,965	43,914,748
Net increase (decrease) in borrowed funds	(30,200,000)	30,800,000
Net cash provided by financing activities	89,257,965	74,714,748
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,762,431	5,603,707
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	40,494,861	34,891,154
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 54,257,292	$ 40,494,861

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

	2009	2008
Dividends paid on members' share accounts	$ 12,888,616	$ 15,067,942
Interest paid on borrowed funds	1,071,078	1,202,099
Transfer of loans to foreclosed assets	883,132	769,355

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

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business: 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. The credit union provides a variety of financial services to its members. Participation in the credit union is limited to those individuals who qualify for membership as defined in its charter and bylaws. The credit union's primary deposit products are share accounts, and its primary lending products are real estate, automobile and unsecured loans.

The credit union's wholly-owned subsidiary, Flight Plan Financial Services, Inc., provides insurance and investment services for members.

Field of Membership and Sponsor: Participation in the credit union is limited to those individuals who qualify for membership as defined in its charter and bylaws. The primary field of membership of the credit union is employees and former employees of Northrop Grumman Corporation.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Northrop Grumman Federal Credit Union and Flight Plan Financial Services, Inc. All significant intercompany accounts and transactions have been eliminated.

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

Cash and Cash Equivalents: For purposes of the statement of cash flows, cash and cash equivalents include cash on hand and in banks and all highly liquid debt instruments with original maturities of three months or less.

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. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Debt securities in the investment portfolio are assessed for impairment each quarter. Beginning April 1, 2009, when impairment is identified, the entire impairment is recognized in net income if (1) the credit union intends to sell the security, (2) it is more likely than not that the credit union will be required to sell the security before recovery, or (3) the credit union does not expect to recover the entire amortized cost basis of the security. However, if the credit union does not intend to sell the security and it is not more likely than not that the credit union will be required to sell the security but the security has suffered a credit loss, the impairment charge will be separated into the credit loss component, which is recognized in net income, and the remainder which is recorded in other comprehensive income. The impaired value becomes the new amortized cost basis of the debt security. Subsequent increases and decreases, if not an additional other-than-temporary impairment, in the fair value of debt securities are included in other comprehensive income.

The difference between the new amortized cost basis of debt securities for which an other-than-temporary impairment has been recognized in net income and the cash flows expected to be collected is accreted to interest income using the effective yield method. Significant subsequent increases in the expected or actual cash flows previously expected are recognized as a prospective adjustment of the yield.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prior to April 1, 2009, an identified impairment was generally deemed to be other-than-temporary unless the credit union was able to demonstrate it had the ability and intent to hold the debt security for the period for which recovery was anticipated. Debt securities that were impaired and for which the impairment was deemed to be other-than-temporary were written down to the impaired value, which became the new cost basis in the debt security. Other-than-temporary impairments were recognized in net income.

Other investments are classified separately and are stated at cost.

Loans to Members: The credit union grants mortgage and consumer loans to members. A substantial portion of the loan portfolio is represented by automobile and mortgage loans to members. The ability of members to honor their contracts is dependent upon the real estate and general economic condition of the area.

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

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if management believes, after considering economic conditions, business conditions, and collection efforts, that collection of principal or interest is considered doubtful.

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

Certain loan fees and 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 through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of the underlying collateral, and current 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 loans 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The credit union's allowance for loan losses is that amount considered adequate to absorb probably 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. Specific allowances for loan losses are established for large impaired loss on an individual basis as required per SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*. The specific allowances established for these loans are based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flow, the loan's estimated market value, or the estimated fair value of the underlying collateral. 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.

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.

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

NCUSIF Deposit: The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with the 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 NCUSIF is a revolving fund in the Treasury of the United States under the management of the NCUA Board. The deposit would be refunded to the credit union if its insurance coverage is terminated, if it converts insurance coverage to another source, or if management of the fund is transferred from the NCUA Board. See Note 17 for the impairment loss recorded at March 31, 2009 and the recapitalization of the deposit recorded at June 30, 2009.

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. See Note 17 for NCUA's special insurance premium assessment in 2009.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Members' Share Accounts: Members' share accounts are subordinated to all other liabilities of the credit union upon liquidation. Dividends on members' share accounts are based on available earnings at the end of a dividend period and are not guaranteed by the credit union. Dividend rates on members' share accounts are set by the board of directors, based on an evaluation of current and future market conditions.

Members' Equity: The credit union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of dividends.

Income Taxes: The credit union is exempt from federal and California taxes on income. 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 2009 and 2008.

Recent Accounting Pronouncements: On July 1, 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, "*FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*," which is included in FASB Accounting Standards Codification (ASC) 105 "Generally Accepted Accounting Principles." This new guidance approved the FASB ASC as the single source of authoritative nongovernmental GAAP. The FASB ASC is effective for interim or annual periods ending after September 15, 2009. All existing accounting standards have been superseded and all other accounting literature not included in the FASB ASC will be considered nonauthoritative. The ASC is a restructuring of GAAP designed to simplify access to all authoritative literature by providing a topically organized structure. The adoption of FASB ASC did not impact the credit union's financial condition or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 provides a framework for measuring fair value when such measurements are utilized for accounting purposes. The framework focuses on an exit price in the principal (or, alternatively, the most advantageous) market determined in an orderly transaction between willing market participants. SFAS 157 establishes a three-tiered fair value hierarchy with the highest tier (Level 1) representing quoted prices for identical assets or liabilities in an active market and the lowest tier (Level 3) representing estimated values based on unobservable inputs. Under SFAS 157, related disclosures are segregated for assets and liabilities measured at fair value based on the level used within the hierarchy to determine their fair values.

The credit union has adopted SFAS 157 for financial assets at January 1, 2008 and deferred application as allowed for nonfinancial assets until January 1, 2009. The adoption of SFAS 157 did not have a material impact on the credit union's financial position, results of operations or cash flows. On February 12, 2008, the FASB issued FASB Staff Position (FSP) 157-2, to delay the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. Effective July 1, 2009, the provisions of SFAS 157 are included in ASC 820.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115,* (SFAS 159). SFAS 159 permits fair value accounting to be irrevocably elected for certain financial assets and liabilities on an individual contract basis at the time of acquisition or at a remeasurement event date. Upon adoption of SFAS 159, fair value accounting may also be elected for existing financial assets and liabilities. For those instruments for which fair value accounting is elected, changes in fair value will be recognized in earnings and fees and costs associated with origination or acquisition will be recognized as incurred rather than deferred. SFAS 159 is effective January 1, 2008, with early adoption permitted as of January 1, 2007. The credit union has elected not to adopt SFAS 159 at this time. Effective July 1, 2009, the provisions of SFAS 159 are included in ASC 820.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141R, *Business Combinations*, (SFAS 141R). SFAS 141R requires that the acquisition method of accounting be used for all business combinations including mutual entities such as credit unions that previously used the pooling-of-interests method of accounting. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, with early adoption prohibited. Effective July 1, 2009, the provisions of SFAS 141(R) are included in ASC 805.

On October 10, 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-3, *Determining the Fair Value of a Financial Asset When a Market for That Asset Is Not Active* (FSP FAS 157-3). FSP FAS 157-3 was effective upon its release and clarifies the application of SFAS No.157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that asset is not active. FSP FAS 157-3 did not have a material impact on the credit union's financial position, results of operations or cash flows. Effective July 1, 2009, the provisions of FSP FAS 157-3 are included in ASC 820.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, which modifies existing requirements for determining when an other-than-temporary impairment exists, and how such other-than-temporary impairments are measured and reported. This FSP changes the presentation and amount of the other-than-temporary impairment recognized in the statement of earnings by separating impairment into (a) the amount of impairment related to the credit loss and (b) the amount of the total impairment related to all other factors.

The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings and the amount of the total impairment related to all other factors is recognized in other comprehensive income. The total other-than-temporary impairment is presented in the statement of earnings with an offset for the amount of total other-than-temporary impairment that is recognized in other comprehensive income. FSP No. 115-2 and FAS 124-2 is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. If an entity elects to adopt early this FSP, it is required to adopt FSP FAS 157-4. The adoption of FSP FAS 115-2 and FAS 124-2 resulted in recognition of the credit component of other-than-temporary impairment of debt securities of $400,000 in earnings and the noncredit component of $1,814,732 in other comprehensive income for the year ended December 31, 2009. Effective July 1, 2009, the provisions of FSP FAS 115-2 and 124-2 are included in ASC 820.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In April 2009, the FASB issued FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, which provides additional guidance for estimating fair value in accordance with SFAS No. 157, *Fair Value Measurements*, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP No FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009, and is required if an entity has early adopted FSP No. FAS 115-2 and FAS 124-2. The adoption of FSP FAS 157-4 had no material effect on the credit union's financial position, results of operations or cash flows. Effective July 1, 2009, the provisions of FSP FAS 157-4 are included in ASC 820.

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, *Subsequent Events* (SFAS165). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. It sets forth the period after the balance sheet date during which events or transactions must be evaluated for recognition or disclosure, the circumstances under which events or transactions occurring after the balance sheet date should be recognized in the financial statements, and the related disclosures that should be made. SFAS 165 is effective for interim and annual financial statements ending after June 15, 2009. The adoption of SFAS No. 165 had no material impact on the credit union's financial position, results of operations or cash flows.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 166, *Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140* (SFAS 166). SFAS166 removes the concept of a qualifying special-purpose entity (QSPE) from Statement 140 and removes the exception from applying FIN 46 to QSPEs. It clarifies Statement 140's objective of determining whether a transferor has surrendered control over transferred financial assets, and limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the entire financial asset has not been transferred and/or when the transferor has continuing involvement with the transferred financial asset. SFAS 166 defines the term participating interest to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale. If the transfer does not meet those conditions, a transferor must account for the transfer as a sale only if it transfers an entire financial asset and surrenders control over the entire transferred asset in accordance with the conditions in Statement 140, as amended. SFAS 166 requires that a transferor recognize and initially measure at fair value all assets obtained and liabilities incurred as a result of a transfer of a financial asset. SFAS 166 also requires enhanced financial statement disclosures about transfers of financial assets and a transferor's continuing involvement in transferred financial assets. SFAS 166 is effective as of the beginning of the reporting entity's first annual reporting period that begins after November 15, 2009 and for interim periods within that first annual reporting period. Early application is prohibited. The credit union is evaluating the provisions of SFAS 166. Once effective, SFAS 166 will be ASC Topic 860, *Transfers and Servicing*.

Subsequent Events: Subsequent events have been evaluated through March 15, 2010, which is the date the financial statements were available to be issued.

NOTE 2 – INVESTMENTS

The amortized cost and fair value of securities available-for-sale are as follows:

2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Federal agency securities	$ 23,360,125	$ 119,803	$ (9,164)	$ 23,470,764
Mortgage-backed securities	251,732,859	1,959,311	(3,673,911)	250,018,259
	$ 275,092,984	$ 2,079,114	$ (3,683,075)	$ 273,489,023

2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Federal agency securities	$ 8,048,523	$ 38,309	$ -	$ 8,086,832
Mortgage-backed securities	217,580,476	3,268,491	(2,179,935)	218,669,032
	$ 225,628,999	$ 3,306,800	$ (2,179,935)	$ 226,755,864

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, 2009 are as follows:

Description	Fair Value	Continuous Unrealized Losses Existing for: Less Than 12 Months	Continuous Unrealized Losses Existing for: 12 Months Or Longer	Total
Federal agency securities	$ 6,011,562	$ (9,164)	$ -	$ (9,164)
Mortgage-backed securities	127,089,821	(1,423,141)	(2,250,770)	(3,673,911)
	$ 133,101,383	$ (1,432,305)	$ (2,250,770)	$ (3,683,075)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (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 issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

There are a total of 36 investments that have been in a continuous unrealized loss position for less than 12 months and four investments that have been in a continuous unrealized loss position for 12 months or longer as of December 31, 2009. The unrealized losses associated with these investments are considered temporary as the credit union has both the intent and ability to hold these investments for a period of time sufficient to allow for any anticipated recovery in fair value.

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.

A loss for other-than-temporary-impairment of available for sale non-government backed mortgage-backed securities totaling $400,000 has been recognized in net income for the year ended December 31, 2009 due to a significant deterioration in the credit quality of the underlying loans comprising these securities.

NOTE 2 – INVESTMENTS (CONTINUED)

The amortized cost and fair value of investments by contractual maturity at December 31, 2009 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

A summary of securities by maturity at December 31, 2009 is as follows:

Maturity	Securities Available for Sale – Amortized Cost	Securities Available for Sale – Fair Value
No maturity	$ 3,500,370	$ 3,532,130
Less than one year	14,452,560	14,501,589
One to five years	4,458,260	4,473,503
Five to ten years	948,935	963,542
	23,360,125	23,470,764
Mortgage-backed securities	251,732,859	250,018,259
	$ 275,092,984	$ 273,489,023

Other investments consisted of the following:

	2009	2008
Certificates of deposit	$ -	$ 8,500,000
Member capital shares in a corporate credit union	-	2,834,047
Permanent capital shares in a corporate credit union	-	1,000,000
	$ -	$ 12,334,047

As discussed in Note 17, WesCorp was placed under conservatorship by the NCUA Board. The credit union recorded a full impairment of $3,834,047on its permanent and member capital shares at WesCorp during the year ended December 31, 2009 based on the announcement that WesCorp's member capital accounts had been depleted to cover losses that exceeded retained earnings as of December 31, 2008.

NOTE 3 – LOANS TO MEMBERS

The composition of loans to members is as follows:

	2009	2008
Mortgage loans:		
Fixed rate	$ 191,571,166	$ 155,056,116
Hybrid	16,256,935	21,135,240
Variable rate	1,204,865	1,196,408
Home equity line of credit, variable rate	60,331,748	52,097,113
Home equity line of credit, fixed rate	40,833,528	47,146,108
	310,198,242	276,630,985
Vehicle loans	85,437,791	91,714,076
Other consumer loans, primarily unsecured	31,159,640	22,260,838
	426,795,673	390,605,899
Net deferred loan origination costs	386,131	191,812
Allowance for loan losses	(3,272,905)	(1,540,000)
	$ 423,908,899	$ 389,257,711

NOTE 3 – LOANS TO MEMBERS (CONTINUED)

A summary of the changes in the allowance for loan losses is as follows:

	2009	2008
Balance, beginning of year	$ 1,540,000	$ 997,501
Provision charged to operations	3,420,270	1,230,427
Loans charged-off	(1,811,844)	(1,034,438)
Recoveries	124,479	346,510
Balance, end of year	$ 3,272,905	$ 1,540,000

Loans to officials totaled $1,546,581 and $1,800,162 at December 31, 2009 and 2008, respectively.

The credit union had non-accrual of loans in the amount of $1,615,015 and $475,996 as of December 31, 2009 and 2008, respectively. If interest had been accrued at the original rates, interest income would have increased by $15,845 and $7,194 as of December 31, 2009 and 2008, respectively.

NOTE 4 – LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying statements of financial condition. The unpaid principal balance of loans serviced for Fannie Mae was $10,776,195 and $13,008,488 at December 31, 2009 and 2008, respectively.

NOTE 5 – PROPERTY AND EQUIPMENT

The composition of property and equipment is summarized as follows:

	2009	2008
Land	$ 1,110,140	$ 872,994
Building and improvements	3,938,288	-
Data processing equipment	6,764,219	6,309,231
Leasehold improvements	2,841,725	2,870,960
Furniture and equipment	3,693,894	2,796,808
	18,348,266	12,849,993
Accumulated depreciation and amortization	(10,836,750)	(9,853,435)
Construction in progress	-	2,183,601
	$ 7,511,516	$ 5,180,159

NOTE 6 – MEMBERS' SHARE ACCOUNTS

A summary of members' share accounts by type is as follows:

	2009	2008
Regular shares	$ 127,835,267	$ 113,372,791
Share drafts	72,876,276	64,886,840
Money market	173,823,762	128,178,568
Share certificates	225,417,057	191,242,943
Individual retirement accounts	72,152,147	54,965,402
	$ 672,104,509	$ 552,646,544

NOTE 6 – MEMBERS' SHARE ACCOUNTS (CONTINUED)

Dividend rates are set by the board of directors and dividends are charged to operations. The aggregate amount of certificates in denomination of $100,000 or more were $119,344,511 and $101,137,820 at December 31, 2009 and 2008, respectively.

A summary of members' share accounts by maturity at December 31, 2009 is as follows:

No contractual maturity	$ 381,637,504
Within one year	238,139,470
One to three years	34,404,894
Three to five years	17,922,641
	$ 672,104,509

NOTE 7 – BORROWINGS

The credit union is a borrower under a Master Loan and Security Agreement (Master Agreement) with a corporate credit union. Fixed rate loan advances currently outstanding under the Master Agreement bear interest at rates from 3.96% to 4.73% and are collateralized by all consumer loans plus three specified investment securities held in safekeeping at the corporate credit union. A Demand Loan and Security agreement under the master loan agreement provides for a credit limit of $85 million with interest rates determined at the time of the advance. As of December 31, 2009 and 2008, fixed rate loans under the agreement total $16,000,000 and $46,200,000, respectively.

In addition to the agreement described above, the credit union utilizes demand loan agreements with two other 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, 2009 and 2008, there were no borrowings under these agreements. The agreements are reviewed for continuation by the lenders and the credit union annually.

NOTE 8 – LEASE COMMITMENTS

The credit union leases three 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, 2009 are as follows:

Years Ending December 31,	
2010	$ 1,080,011
2011	1,065,076
2012	1,046,423
2013	1,041,913
2014	1,073,171
Thereafter	5,031,007
	$ 10,337,601

Rent expense was $1,128,296 and $1,082,464 for the years ended December 31, 2009 and 2008, respectively.

NOTE 9 – OFF-BALANCE-SHEET ACTIVITIES

The credit union is a 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 first mortgage and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements.

Outstanding loan commitments at December 31, 2009 totaled approximately $534,100.

The credit union's exposure to credit loss is represented by the contractual notional amount of these instruments. The credit union uses the same credit policies in making commitments as it does for loans recorded in the financial statements.

Home equity lines of credit	$	91,575,492
Lines of credit		67,400,885
Credit card		13,677,768
Courtesy pay program		10,380,079
Total commitments to extend credit	$	183,034,224

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

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 uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the credit union is committed.

NOTE 10 – LEGAL CONTINGENCIES

The credit union is a party to various legal actions normally associated with financial institutions, the aggregate effect of which, in management's and legal counsel's opinion, would not be material to the financial condition of the credit union.

NOTE 11 – CONCENTRATION OF CREDIT RISK

At December 31, 2009, the credit union had no cash at various financial institutions that exceeded federally insured limits.

The NCUA has approved the Temporary Corporate Credit Union Share Guarantee Program (TCCUSGP) on January 28, 2009 effective March 1, 2009, and last updated on November 23, 2009. The program provides temporarily guarantee by the NCUSIF of all shares (excluding paid-in-capital and membership capital accounts) at participating corporate credit unions through March 31, 2012 with the option for quarterly extensions of the expiration date and a maximum maturity of two years. At December 31, 2009, the credit union had no term certificates with maturity dates after the guarantee expiration date.

NOTE 12 – RELATED PARTY TRANSACTIONS

Loans to credit union officials and deposits held by credit union officials were treated the same with regard to rates, terms and requirements as loans and deposits of other members with similar circumstances.

NOTE 13 – EMPLOYEE BENEFIT PLANS

The credit union employees are participants in the pension plan of Northrop Grumman Corporation through December 31, 2008. The credit union funds the plan through Northrop Grumman Corporation. The total pension plan expense for the year ended December 31, 2008 was $205,017.

During 2009, the credit union participated in a multiemployer retirement plan. The eligibility of the plan was for employees who are age 21 or older and have been employed by the credit union for three consecutive months.

The profit sharing portion of the plan is discretionary and non-contributory. The credit union makes a 3% profit sharing contribution to all eligible employees for each payroll period. All amounts contributed to the plan are deposited into a trust fund administered by independent trustees.

The 401(k) portion allows eligible employees to defer a portion of their salary into the plan. The employer match for the 401(k) plan is $1 for every $1 deferred up to 5% of the eligible employee's compensation. All matching contributions to the 401(k) plan are 100% vested.

Total contribution in the profit sharing and 401(k) plan for the year ended December 31, 2009 amounted to $408,415.

NOTE 14 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial condition. 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. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Statement No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the credit union.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate fair value.

Cash and Cash Equivalents: The carrying amount is a reasonable estimate of fair value.

Investments: Fair values of securities are usually based on quoted market prices. If quoted market prices were not available, fair value was estimated using quoted market prices of similar securities.

Loans to Members: Fair value is estimated by discounting the future cash flows using the current average rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

NOTE 14 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Borrowed Funds: The fair value of short term borrowed funds is the carrying amount. The fair value of long-term borrowed funds is estimated by discounting the future cash flows using the rates offered for borrowings of similar remaining maturities.

Members' Share Accounts: The fair value of regular shares and share draft accounts is the carrying amount. The fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.

Off-Balance-Sheet Financial Instruments: The fair value of off-balance-sheet commitments is estimated based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the members. The estimated value of these commitments is not significant.

The estimated fair values of the credit union's financial instruments are as follows:

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 54,257,000	$ 54,257,000	$ 40,495,000	$ 40,495,000
Loans to members	423,909,000	425,594,000	389,258,000	395,335,000
Investments	273,489,000	273,489,000	239,090,000	239,201,000
Financial liabilities:				
Members' share accounts	672,104,000	674,631,000	552,647,000	553,995,000
Borrowed funds	16,000,000	16,327,000	46,200,000	46,352,000

NOTE 15 – FAIR VALUE MEASUREMENTS

Fair values of assets and liabilities measured on a recurring basis at December 31, 2009 are as follows:

		Fair value measurements at reporting date using		
Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale	$ 273,489,023	$ 7,442,863	$ 266,046,160	$ -

NOTE 16 – REGULATORY CAPITAL

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 regulations and the regulatory framework for prompt corrective action, the credit union must meet specific capital regulations that involve quantitative measures of the credit union's assets, liabilities, and certain off-balance sheet items as calculated under generally accepted accounting principles. The credit union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

NOTE 16 – REGULATORY CAPITAL (CONTINUED)

Quantitative measures established by regulation to ensure capital adequacy require the credit union to maintain minimum amounts and ratios (set forth in the table below) of net worth (as defined) to assets (as defined). Credit unions are also required to calculate a risk-based net worth (RBNW) requirement that establishes whether the credit union will be considered "complex" under the regulatory framework. The credit union's RBNW ratio as of December 31, 2009 and 2008 was 8.51% and 8.54%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes, as of December 31, 2009, that the credit union meets all capital adequacy requirements to which it is subject.

As of December 31, 2009, the most recent call reporting period, NCUA categorized the credit union as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized" the credit union must maintain a minimum net worth ratio of 7% of assets and meet any applicable RBNW requirement. There are no conditions or events since that notification that management believes have changed the credit union's category.

	Actual		To Be Adequately Capitalized Under Prompt Corrective Action Provisions		To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2009	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net worth	$ 79,831,063	10.35%	$ 46,281,204	6%	$ 53,994,738	7%
RBNW requirement	65,642,175	8.51%	N/A	N/A	N/A	N/A
December 31, 2008						
Net worth	$ 78,954,113	11.54%	$ 41,035,853	6%	$ 47,857,162	7%
RBNW requirement	58,407,697	8.54%	N/A	N/A	N/A	N/A

Because the RBNW requirement is less than the net worth ratio, the credit union retains its original category.

NOTE 17 – CORPORATE STABILIZATION PROGRAM

From late January 2009 to March 20, 2009, the NCUA Board has approved a series of actions under its Corporate Stabilization Program designed to enhance and support a corporate credit union system facing unprecedented strains on liquidity and capital due to extraordinary market disruptions and the current economic climate.

The NCUA Board later approved the following: guarantee of uninsured shares at all corporate credit unions through February 2009; establishment of a voluntary guarantee program for uninsured shares of all corporate credit unions through December 31, 2010; issuance of a $1 billion capital note to U.S. Central Federal Credit Union (U.S. Central); at March 20, 2009, the placing into conservatorship of two corporate credit unions (U.S. Central and WesCorp); issuance of an Advance Notice of Public Rulemaking (ANPR) on restructuring the corporate credit union system; and declaration of a premium assessment to restore the NCUSIF equity ratio to 1.30%, which will be collected in 2009.

In accordance with the NCUA's stabilization program, the credit union recognized an impairment loss of 69% of its NCUSIF deposit amounting to $3,802,290 and recorded an NCUSIF premium assessment of $1,653,169 on March 31, 2009.

NOTE 17 – CORPORATE STABILIZATION PROGRAM (CONTINUED)

On March 27, 2009, the NCUA introduced an amendment to the Federal Credit Union Act to Congress that became law on May 20, 2009. The legislation amends the Federal Credit Union Act to direct the NCUA Board to establish a National Credit Union Share Insurance Fund Restoration Plan whenever the Board projects that the equity ratio of the NCUSIF falls below a minimum designated equity ratio. The legislation includes provisions to extend $250,000 deposit insurance protection to 2013; enable credit unions to spread the cost of corporate stabilization over 7 years; extend replenishing the NCUSIF through premiums to 8 years; increase NCUA borrowing authority to $6 billion; and establish a $30 billion NCUA emergency borrowing authority.

On June 18, 2009, the NCUA Board approved the following actions to legally obligate the Stabilization Fund for the costs of stabilizing the corporate system. In the process, the NCUSIF will be legally released from its present obligations related to corporate stabilization actions.

- The Stabilization Fund will pay the NCUSIF $1 billion for assignment of the full right, title and interest in the outstanding capital note extended to U.S. Central Federal Credit Union executed on January 28, 2009.

- Appropriate steps will be taken to legally obligate the Stabilization Fund for any liability arising from the TCCUSGP and the Temporary Corporate Credit Union Liquidity Guarantee Program (TCCULGP). To the extent that any liability from the TCCUSGP or TCCULGP exceeds funds available from the Stabilization Fund, funds shall be made available from the NCUSIF.

The Board took additional actions that resulted in a fully restored and fully refundable NCUSIF capitalization deposit and revised the premium assessment estimate for 2009 to 0.15% of insured shares ($250,000 per account) as of June 30, 2009. The credit union has recognized the favorable impact of this change at June 30, 2009 by restoring the above NCUSIF impairment loss on its deposit by $3,802,290 and by reducing the premium assessment by $720,590.