NORTHROP GRUMMAN FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

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

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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 (the credit union) and subsidiary as of December 31, 2010 and 2009, and the related consolidated statements of 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 audits 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, 2010 and 2009, and the results of their operations and their 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 9, 2011

NORTHROP GRUMMAN FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

DECEMBER 31, 2010 AND 2009

	2010	2009
ASSETS		
Cash and cash equivalents	$ 77,236,543	$ 54,257,292
Securities available for sale	334,517,976	273,489,023
Loans to members	418,550,479	423,908,899
Accrued interest receivable	2,691,296	2,583,476
Property and equipment	7,219,532	7,511,516
NCUSIF deposit	7,176,198	6,217,199
Other assets	3,357,865	3,385,996
Total assets	$ 850,749,889	$ 771,353,401
LIABILITIES AND MEMBERS' EQUITY		
Liabilities:		
Members' share accounts	$ 750,535,899	$ 672,104,509
Borrowed funds	12,000,000	16,000,000
Accrued expenses and other liabilities	5,709,595	5,021,790
Total liabilities	768,245,494	693,126,299
Members' equity:		
Regular reserve	3,559,687	3,559,687
Undivided earnings	82,188,709	76,271,376
Accumulated other comprehensive loss	(3,244,001)	(1,603,961)
Total members' equity	82,504,395	78,227,102
Total liabilities and members' equity	$ 850,749,889	$ 771,353,401

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

NORTHROP GRUMMAN FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
INTEREST INCOME		
Loans to members	$ 22,303,699	$ 22,372,142
Investments and cash and cash equivalents	10,946,976	11,226,988
Total interest income	33,250,675	33,599,130
INTEREST EXPENSE		
Members' share accounts	10,293,155	12,632,410
Borrowed funds	647,718	1,071,078
Total interest expense	10,940,873	13,703,488
NET INTEREST INCOME	22,309,802	19,895,642
PROVISION FOR LOAN LOSSES	3,644,763	3,420,270
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	18,665,039	16,475,372
NON-INTEREST INCOME		
Fees and charges	2,626,812	2,670,451
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	(1,831,998)	(2,214,732)
Less portion of other-than-temporary impairment losses recognized in other comprehensive income	1,568,229	1,814,732
Net impairment losses recognized in earnings	(263,769)	(400,000)
Net realized gain on sale of securities available for sale	1,658,397	1,670,041
Other income	2,047,619	1,800,199
Total non-interest income	6,069,059	9,542,981
NON-INTEREST EXPENSE		
Compensation and benefits	7,894,326	7,657,881
Operations	7,605,767	7,470,074
Occupancy	1,486,843	1,444,532
NCUSIF premium assessment	891,284	932,579
Temporary corporate credit union stabilization fund assessment	938,545	-
NCUSIF deposit impairment loss	-	3,802,290
Loss on impairment of investment in WesCorp capital shares	-	3,834,047
Total non-interest expense	18,816,765	25,141,403
NET INCOME	$ 5,917,333	$ 876,950

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

Northrop Grumman Federal Credit Union and Subsidiary

Consolidated Statements of Members' Equity

Years Ended December 31, 2010 and 2009

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
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
Comprehensive income:				
Net income	-	5,917,333	-	5,917,333
Other comprehensive loss:				
Unrealized losses on securities available for sale	-	-	(245,412)	(245,412)
Reclassification adjustment for gains included in net income	-	-	(1,394,628)	(1,394,628)
				(1,640,040)
Total comprehensive income				4,277,293
Balance, December 31, 2010	$ 3,559,687	$ 82,188,709	$ (3,244,001)	$ 82,504,395

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

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NORTHROP GRUMMAN FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 5,917,333	$ 876,950
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,077,832	1,188,688
Provision for loan losses	3,644,763	3,420,270
Net amortization (accretion) of investments	(7,599,674)	1,578,998
Amortization of deferred loan origination costs, net	210,222	203,981
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	263,769	400,000
Gain on sale of securities available for sale	(1,658,397)	(1,670,041)
Net change in:		
Accrued interest receivable	(107,820)	(328,295)
NCUSIF deposit	(958,999)	(707,499)
Other assets	28,131	(1,242,636)
Accrued expenses and other liabilities	687,805	18,429
Net cash provided by operating activities	1,504,965	7,572,892
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities available for sale	(450,589,416)	(294,733,537)
Proceeds from sales, maturities and principal payments received on securities available for sale	396,914,725	244,960,595
Net decrease in other investments	-	8,500,000
Net (increase) decrease in loans to members	1,503,435	(38,275,439)
Purchases of property and equipment	(785,848)	(3,520,045)
Net cash used in investing activities	(52,957,104)	(83,068,426)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' share accounts	78,431,390	119,457,965
Net decrease in borrowed funds	(4,000,000)	(30,200,000)
Net cash provided by financing activities	74,431,390	89,257,965
NET INCREASE IN CASH AND CASH EQUIVALENTS	22,979,251	13,762,431
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	54,257,292	40,494,861
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 77,236,543	$ 54,257,292

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Dividends paid on members' share accounts	$ 10,490,016	$ 12,888,616
Interest paid on borrowed funds	647,718	1,071,078
Transfer of loans to foreclosed assets	573,578	883,132

The accompanying notes are an integral part of these consolidated 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 revenues 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 determination of the allowance for loan losses.

Cash and Cash Equivalents: For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand and in financial institutions 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.

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 securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (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 investments in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date, and the costs of securities sold are determined using the specific identification method.

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. A substantial portion of the credit union's members' ability to honor their loan agreements is dependent upon the economic stability of the various groups comprising the credit union's field of membership.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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. Credit card loans and other personal loans are typically charged off no later than 180 days past due. 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 or cost-recovery method, 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 on 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 any 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.

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 nonperforming loans. Specific allowances for loan losses are established for large impaired loans on an individual basis. 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. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements: The credit union uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. These include:

Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market data.

The credit union applies fair value measurements to its securities available for sale as discussed in Note 15.

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 National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to 1% of its insured shares. The deposit would be refunded to the credit union if its insurance coverage is terminated, it converts insurance coverage to another source, or the operations of the fund are transferred from the NCUA Board. See Note 17 for the impairment loss recorded at March 31, 2009 and the recapitalization of deposit recorded at June 30, 2009.

NCUSIF Insurance Premium: A credit union is required to pay an annual premium equal to one-twelfth of 1% of its total insured shares unless the payments are waived or reduced by the NCUA Board. See Note 17 for the NCUA's special insurance premium assessment in 2010 and 2009.

Members' Share Accounts: Members' shares 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 the 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 securities available for sale, are reported as a separate component of the members' equity section in the accompanying consolidated statements of financial condition.

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. The operations of the subsidiary resulted in immaterial income taxes for the years ended 2010 and 2009.

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

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* (GAAP). 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 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 income 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 income with an offset for the amount of total other-than-temporary impairment that is recognized in other comprehensive income. FSP FAS 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 early adopt this FSP, it is required to adopt FSP FAS 157-4. The adoption of FSP FAS 115-2 and FAS 124-2 had no material impact on the credit union's financial position, results of operations or cash flows. Effective July 1, 2009, the provisions of FSP FAS 115-2 and 124-2 are included in ASC 320.

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 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 FAS 115-2 and FAS 124-2. The adoption of FSP FAS 157-4 had no material impact on the credit union's financial position, results of operations or cash flows. Effective July 1, 2009, the provisions of FSP FAS 157-4 are included in ASC 820.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*. SFAS No. 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 No. 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. Effective July 1, 2009, the provisions of SFAS No. 165 are included in ASC 855.

In April 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-18, *Receivables (Topic 310-10)*: *Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset*. This ASU clarifies that modifications of loans that are accounted for within a pool under Topic 310-10 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. No additional disclosures are required with this ASU. The amendments in this ASU are effective for modifications of loans accounted for within pools under Topic 310-10 occurring in the first interim or annual period ending on or after July 15, 2010. The amendments are to be applied prospectively, and early application is permitted. Upon initial adoption of the guidance in this ASU, an entity may make a one-time election to terminate accounting for loans as a pool under Topic 310-10. This election may be applied on a pool-by-pool basis and does not preclude an entity from applying pool accounting to subsequent acquisitions of loans with credit deterioration. The credit union is evaluating the impact of adoption and does not expect the ASU will have a material impact on its financial statements.

In July 2010, the FASB issued ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The ASU expands existing disclosures to require entities to provide additional information in their disclosures about the credit quality of their financing receivables and the credit reserves held against them. Specifically, entities will be required to present a summary of activity in the allowance for credit losses, the nonaccrual status of financing receivables by class of financing receivables, and impaired financing receivables by class of financing receivables, all on a disaggregated basis. The ASU also requires an entity to provide additional disclosures on credit quality indicators of financing receivables at the end of the reporting period by class of financing receivables, the aging of past due financing receivables at the end of the reporting period by class of financing receivables, the nature and extent of troubled debt restructurings that occurred during the period by class of financing receivables and their effect on the allowance for credit losses, the nature and extent of financing receivables modified as troubled debt restructurings within the previous 12 months that defaulted during the reporting period by class of financing receivables and their effect on the allowance for credit losses, and significant purchases and sales of financing receivables during the reporting period disaggregated by portfolio segment. For nonpublic entities, the disclosures of period-end balances are effective for interim and annual reporting periods ending after December 15, 2011. For nonpublic entities, the disclosures of activity are effective for interim and annual reporting periods beginning on or after December 15, 2011. The credit union is currently evaluating the impact of the ASU on its financial statements.

Subsequent Events: Subsequent events have been evaluated through March 9, 2011, 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:

2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Federal agency securities	$ 62,745,538	$ 98,837	$ (222,422)	$ 62,621,953
Mortgage-backed securities	275,016,439	1,188,469	(4,308,885)	271,896,023
	$ 337,761,977	$ 1,287,306	$ (4,531,307)	$ 334,517,976

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

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, 2010 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	$ 24,118,322	$ 222,422	$ -	$ 222,422
Mortgage-backed securities	154,175,928	2,557,372	1,751,513	4,308,885
	$ 178,294,250	$ 2,779,794	$ 1,751,513	$ 4,531,307

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 46 investments that have been in a continuous unrealized loss position for less than 12 months and 4 investments that have been in a continuous unrealized loss position for 12 months or longer as of December 31, 2010. 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 $263,769 and $400,000 has been recognized in net income for the years ended December 31, 2010 and 2009, respectively, 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, 2010 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, 2010 is as follows:

Maturity	Amortized Cost	Fair Value
One to five years	$ 52,695,812	$ 52,625,637
Five to ten years	9,241,084	9,169,257
Over ten years	808,642	827,059
	62,745,538	62,621,953
Mortgage-backed securities	275,016,439	271,896,023
	$ 337,761,977	$ 334,517,976

As discussed in Note 17, WesCorp was placed under conservatorship by the NCUA Board. The credit union recorded a full impairment of $3,834,047 on 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:

	2010	2009
Mortgage loans:		
Fixed rate	$ 204,869,983	$ 191,571,166
Hybrid	14,796,949	16,256,935
Variable rate	1,118,931	1,204,865
Home equity line of credit, variable rate	61,835,893	60,331,748
Home equity line of credit, fixed rate	32,968,941	40,833,528
	315,590,697	310,198,242
Vehicle loans	72,486,399	85,437,791
Other consumer loans, primarily unsecured	34,385,717	31,159,640
	422,462,813	426,795,673
Net deferred loan origination costs	536,687	386,131
Allowance for loan losses	(4,449,021)	(3,272,905)
	$ 418,550,479	$ 423,908,899

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

	2010	2009
Balance, beginning of year	$ 3,272,905	$ 1,540,000
Provision charged to operations	3,644,763	3,420,270
Loans charged off	(2,649,122)	(1,811,844)
Recoveries	180,475	124,479
Balance, end of year	$ 4,449,021	$ 3,272,905

NOTE 3 – LOANS TO MEMBERS (CONTINUED)

The following is a summary of information pertaining to impaired loans at December 31, 2010:

Impaired real estate loans with a valuation allowance	$	4,410,069
Valuation allowance allocated to impaired loans	$	1,313,472

The credit union had nonaccrual of loans in the amount of $2,598,000 and $1,615,000 as of December 31, 2010 and 2009, respectively.

NOTE 4 – LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balance of loans serviced for Fannie Mae was $8,780,000 and $10,776,000 at December 31, 2010 and 2009, respectively.

NOTE 5 – PROPERTY AND EQUIPMENT

The composition of property and equipment is summarized as follows:

	2010	2009
Land	$ 1,110,140	$ 1,110,140
Building and improvements	3,958,345	3,938,288
Data processing equipment	6,880,868	6,764,219
Leasehold improvements	2,959,873	2,841,725
Furniture and equipment	3,639,314	3,693,894
	18,548,540	18,348,266
Accumulated depreciation and amortization	(11,329,008)	(10,836,750)
	$ 7,219,532	$ 7,511,516

NOTE 6 – MEMBERS' SHARE ACCOUNTS

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

	2010	2009
Regular shares	$ 140,356,048	$ 127,835,267
Share drafts	75,117,056	72,876,276
Money market	218,644,184	173,823,762
Individual retirement accounts	8,983,981	7,102,199
Certificates of deposit	307,434,630	290,467,005
	$ 750,535,899	$ 672,104,509

Dividend rates are set by the board of directors, and dividends are charged to operations. The aggregate amount of certificates in denominations of $100,000 or more was $133,428,000 and $119,345,000 at December 31, 2010 and 2009, respectively.

NOTE 6 – MEMBERS' SHARE ACCOUNTS (CONTINUED)

A summary of members' share accounts by maturity at December 31, 2010 is as follows:

Within one year	$	224,530,242
One to three years		52,068,282
Three to five years		30,836,106
	$	307,434,630

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 4.32% 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, 2010 and 2009, fixed rate loans under the agreement total $12,000,000 and $16,000,000, 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, 2010 and 2009, there were no borrowings under these agreements. The agreements are annually reviewed for continuation by the lenders and the credit union.

NOTE 8 – LEASE COMMITMENTS

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, 2010 are as follows:

Years Ending December 31,		
2011	$	1,113,944
2012		1,146,249
2013		1,180,249
2014		1,214,214
2015		1,245,191
Thereafter		4,065,859
	$	9,965,706

Rent expense was $1,184,000 and $1,128,000 for the years ended December 31, 2010 and 2009, 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 amounts recognized in the financial statements.

NOTE 9 – OFF-BALANCE-SHEET ACTIVITIES (CONTINUED)

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.

The credit union had $4,285,000 and $534,000 in outstanding loan commitments at December 31, 2010 and 2009, respectively. The following financial instruments were outstanding whose contract amounts represent credit risk as of December 31:

	2010	2009
Home equity lines of credit	$ 86,842,032	$ 91,575,492
Lines of credit	64,048,390	67,400,885
Credit card	21,746,309	13,677,768
Courtesy pay program	10,568,421	10,380,079
	$ 183,205,152	$ 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 creditworthiness 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, 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, 2010, the credit union had no cash at various financial institutions that exceeded federally insured limits.

The NCUA approved the Temporary Corporate Credit Union Share Guarantee Program (TCCUSGP) on January 28, 2009, effective March 1, 2009 and revised on August 31, 2010. The program provides a temporary guarantee by the NCUSIF of all shares (excluding paid-in capital and membership capital accounts) at participating corporate credit unions through December 31, 2012 with the option for quarterly extensions of the expiration date and a maximum maturity of two years. At December 31, 2010, the credit union did not have term certificates with a maturity date 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. Loans to officials totaled $1,606,000 and $1,547,000 at December 31, 2010 and 2009, respectively.

NOTE 13 – EMPLOYEE BENEFIT PLANS

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.

The contribution to the profit sharing and 401(k) plan for the years ended December 31, 2010 and 2009 amounted to $416,000 and 408,000, respectively.

NOTE 14 – FAIR VALUE OF FINANCIAL INSTRUMENTS

GAAP requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial condition. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based on 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. 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. GAAP 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 based on the current availability of funds.

Securities Available for Sale: Fair values of marketable 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)

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.

Borrowed Funds: The carrying amounts of borrowed funds maturing within 90 days approximate their fair value. The fair value of other borrowed funds is estimated using discounted cash flow analyses based on the credit union's current incremental borrowing rates for similar types of borrowing arrangements.

Off-Balance-Sheet 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:

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 77,237,000	$ 77,237,000	$ 54,257,000	$ 54,257,000
Securities available for sale	334,518,000	334,518,000	273,489,000	273,489,000
Loans to members	418,550,000	421,302,000	423,909,000	425,594,000
Financial liabilities:				
Members' share accounts	750,536,000	754,053,000	672,104,000	674,631,000
Borrowed funds	12,000,000	12,016,000	16,000,000	16,327,000

NOTE 15 – FAIR VALUE MEASUREMENTS

The fair value of assets and liabilities measured on a recurring basis at December 31, 2010 is 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				
Federal agency securities	$ 62,621,953	$ -	$ 62,621,953	$ -
Mortgage-backed securities:				-
NCUA guaranteed notes	1,911,597	-	1,911,597	-
U.S. agency	266,763,799	5,042,183	261,721,616	-
Non U.S. agency	3,220,627	-	3,220,627	-
Total mortgage-backed securities	271,896,023	5,042,183	266,853,840	-
	$ 334,517,976	$ 5,042,183	$ 329,475,793	$ -

NOTE 15 – FAIR VALUE MEASUREMENTS (CONTINUED)

The fair value of assets measured on a nonrecurring basis at December 31, 2010 is 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)
Impaired loans	$ 3,096,597	$ -	$ -	$ 3,096,597

The fair values of impaired loans are measured based on the present value of future cash flows expected to be received or, for loans that are dependent on collateral for repayment, the estimated fair value of the collateral.

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.

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, 2010 and 2009 was 6.89% and 8.51%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes, as of December 31, 2010, that the credit union meets all capital adequacy requirements to which it is subject.

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NOTE 16 – REGULATORY CAPITAL (CONTINUED)

As of December 31, 2010, the most recent call reporting period, 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% of assets and meet any applicable RBNW requirement. There are no conditions or events since that notification which 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	
2010	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net worth	$ 85,748,396	10.08%	$ 51,044,993	6%	$ 59,552,492	7%
RBNW requirement	58,616,667	6.89%	N/A	N/A	N/A	N/A
2009						
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

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 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 has 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 Corporate 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 was 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.

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 seven years; extend replenishing the NCUSIF through premiums to eight years; increase NCUA borrowing authority to $6 billion; and establish $30 billion NCUA emergency borrowing authority.

NOTE 17 – CORPORATE STABILIZATION PROGRAM (CONTINUED)

On June 18, 2009, the NCUA Board approved the following actions to legally obligate the Stabilization Fund to 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 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 .15% of insured shares ($250,000 per account) as of September 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 reducing its earlier accrued premium assessment by $720,590.

On June 17, 2010, the NCUA Board approved an assessment of 0.134% of the credit union's insured shares as of March 31, 2010 and established September 30, 2010 as the deadline for the NCUA to repay $1.5 billion borrowed from the U.S. Department of Treasury. The credit union paid $938,545 in August 2010.

On September 16, 2010, the NCUA approved an assessment of 0.1242% of the credit union's insured shares as of June 30, 2010 to restore the NCUSIF equity ratio to 1.30%. The credit union paid $891,284 in November 2010 for this assessment.

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