ORANGE COUNTY'S CREDIT UNION
AND SUBSIDIARY
Santa Ana, California

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

TABLE OF CONTENTS

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Independent Auditor's Report

Members of the Supervisory Committee and
Board of Directors
Orange County's Credit Union and subsidiary
Santa Ana, California

We have audited the accompanying consolidated statements of financial condition of Orange County's Credit Union and subsidiary as of December 31, 2011 and 2010, 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 Orange County's Credit Union and subsidiary as of December 31, 2011 and 2010, 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.

CliftonLarsonAllen LLP

Tucson, Arizona
March 12, 2012

ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2011 and 2010

ASSETS

	2011	2010
Cash and cash equivalents	$ 135,438,915	$ 122,055,150
Investment securities:		
Available-for-sale	304,922,423	158,130,408
Other investments	2,705,234	136,705,234
Federal Home Loan Bank stock	4,333,800	3,456,900
Loans held-for-sale	2,033,850	2,841,162
Loans to members, net of allowance for loan losses	493,050,590	483,217,823
Accrued interest receivable	2,622,657	2,375,935
Foreclosed assets	1,159,125	1,672,000
Premises and equipment, net	22,850,906	22,384,688
NCUSIF deposit	8,302,416	8,157,773
Life insurance policies	7,496,426	7,201,738
Other assets	3,504,790	2,428,955
TOTAL ASSETS	$ 988,421,132	$ 950,627,766

LIABILITIES AND MEMBERS' EQUITY

	2011	2010
LIABILITIES		
Members' share and savings accounts	$ 877,602,791	$ 851,204,111
Borrowed funds	17,250,000	14,750,000
Accrued expenses and other liabilities	3,102,488	2,367,823
Total liabilities	897,955,279	868,321,934
MEMBERS' EQUITY - substantially restricted		
Regular reserve	14,248,147	14,248,147
Undivided earnings	73,262,985	68,261,705
Accumulated other comprehensive income (loss)	2,954,721	(204,020)
Total members' equity	90,465,853	82,305,832
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 988,421,132	$ 950,627,766

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

ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2011 and 2010

	2011	2010
INTEREST INCOME		
Interest on loans to members	$ 29,607,901	$ 33,146,944
Interest on investment securities and cash equivalents	4,789,565	5,085,755
Total interest income	34,397,466	38,232,699
INTEREST EXPENSE		
Dividends on members' share and savings accounts	5,586,996	7,301,387
Interest on borrowed funds	546,158	513,091
Total interest expense	6,133,154	7,814,478
Net interest income	28,264,312	30,418,221
PROVISION FOR LOAN LOSSES	3,646,422	6,890,203
Net interest income after provision for loan losses	24,617,890	23,528,018
NON-INTEREST INCOME		
Fees and charges	5,852,915	5,642,754
Gain on sales of loans held-for-sale	287,131	1,192,935
Other non-interest income	7,533,020	5,952,410
Total non-interest income	13,673,066	12,788,099
NON-INTEREST EXPENSE		
Compensation and benefits	16,861,349	16,782,905
Occupancy	2,723,764	2,730,844
Operations	7,302,908	7,110,684
NCUSIF premium assessment	2,075,604	2,096,638
Professional and outside services	745,404	695,673
Educational and promotional	845,813	523,638
Loan servicing	1,427,386	1,029,723
Impairment loss on Members United capital account	-	446,706
Impairment loss on Southwest Corporate capital account	-	273,205
Other expense	1,307,448	724,045
Total non-interest expense	33,289,676	32,414,061
NET INCOME	$ 5,001,280	$ 3,902,056

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

ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
Years Ended December 31, 2011 and 2010

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCES, DECEMBER 31, 2009	$ 14,248,147	$ 64,359,649	$ 53,393	$ 78,661,189
COMPREHENSIVE INCOME				
Net income	-	3,902,056	-	3,902,056
Other comprehensive loss:				
Change in unrealized gain (loss) on securities available-for-sale	-	-	(257,413)	(257,413)
Total comprehensive income				3,644,643
BALANCES, DECEMBER 31, 2010	14,248,147	68,261,705	(204,020)	82,305,832
COMPREHENSIVE INCOME				
Net income	-	5,001,280	-	5,001,280
Other comprehensive income:				
Change in unrealized gain (loss) on securities available-for-sale	-	-	3,158,741	3,158,741
Total comprehensive income				8,160,021
BALANCES, DECEMBER 31, 2011	$ 14,248,147	$ 73,262,985	$ 2,954,721	$ 90,465,853

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

ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 5,001,280	$ 3,902,056
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,586,095	1,662,626
Amortization of premiums and discounts, net	2,294,236	958,054
Amortization of deferred loan origination fees and costs, net	(263,339)	(383,817)
Provision for loan losses	3,646,422	6,890,203
Impairment loss on Members United capital account	-	446,706
Impairment loss on Southwest Corporate capital account	-	273,205
(Gain) loss on sale of foreclosed assets	331,356	(176,588)
Gain on sale of premises and equipment	(20,660)	-
Capitalization of servicing assets	(254,737)	-
Decrease in fair value of servicing assets	21,365	-
Effect of changes in operating assets and liabilities:		
Loans held-for-sale	807,312	2,407,376
Accrued interest receivable	(246,722)	229,011
Other assets	(842,463)	535,817
Accrued expenses and other liabilities	439,977	(31,383)
Net cash provided by operating activities	12,500,122	16,713,266
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from repayments or maturity of available-for-sale securities	82,748,964	48,305,317
Purchases of available-for-sale securities	(228,676,474)	(160,347,940)
Decrease in deposits in corporate credit union accounts	134,000,000	48,000,000
Decrease in other investments	-	100,000
(Increase) decrease in Federal Home Loan Bank stock	(876,900)	94,000
Loans to members, net of principal collections	(15,037,375)	63,451,257
Proceeds from sale of foreclosed assets	2,003,044	902,363
Increase in NCUSIF deposit	(144,643)	(82,348)
Purchases of life insurance policies	-	(6,950,000)
Proceeds from sale of premises and equipment	507,011	-
Purchases of premises and equipment	(2,538,664)	(778,187)
Net cash used in investing activities	(28,015,037)	(7,305,538)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' share and savings accounts	26,398,680	21,274,076
Proceeds received on borrowed funds	5,000,000	3,750,000
Payments made on borrowed funds	(2,500,000)	(2,100,000)
Net cash provided by financing activities	28,898,680	22,924,076

ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended December 31, 2011 and 2010

	2011	2010
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 13,383,765	$ 32,331,804
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	122,055,150	89,723,346
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 135,438,915	$ 122,055,150
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest:		
Dividends on members' share and savings accounts	$ 5,586,996	$ 7,301,387
Interest on borrowed funds	546,158	513,091
Total	$ 6,133,154	$ 7,814,478
Non-cash transactions:		
Transfers from loans to foreclosed assets	$ 1,821,525	$ 1,672,000
Increase in life insurance policies	$ 294,688	$ 35,281

The accompanying notes are an integral part of the consolidated financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Orange County's Credit Union is a state chartered credit union organized under the provisions of the California Credit Union Act and administratively responsible to the California Department of Financial Institutions. The primary purpose is to promote thrift among, and create a source of credit for its members. Participation in the Credit Union is limited to those individuals that qualify for membership. The field of membership is defined in the Credit Union's Charter and Bylaws. The Credit Union's primary source of revenue is providing loans to its members.

Principles of Consolidation

The consolidated financial statements include the accounts of Orange County's Credit Union (Credit Union) and its wholly owned subsidiary, Orange County Group, Inc. (CUSO). The CUSO was engaged in providing insurance products to members. No significant net income was derived from the CUSO. The CUSO was dissolved effective March 31, 2011 and the insurance products previously offered by the CUSO were transferred to the Credit Union. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates in Preparing Consolidated Financial Statements

The preparation of consolidated 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 disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant Group Concentrations of Credit Risk

The Credit Union provides a variety of financial services to its members, most of whom live, work, or worship in Orange County, California and Riverside County, California. The Credit Union may be exposed to credit risk from a regional economic standpoint because of significant concentration of its borrowers work or reside in the state of California. The financial deterioration resulting from the economic conditions in this region have resulted in significant loan losses and declines in fair value of investments for the Credit Union and those with whom it does business, including corporate credit unions. The Credit Union continually monitors the Credit Union's operations, including the loan and investment portfolios, for potential impairment.

However, the loan portfolio is well diversified and the Credit Union does not have any significant concentrations of credit risk except for real estate, automobile and member business loans. The Credit Union's policy for repossessing collateral is that when all other collection efforts have been exhausted, the Credit Union enforces its first lien holder status and repossesses the collateral. The Credit Union has full and complete access to repossessed collateral. Repossessed collateral normally consists of vehicles and residential and commercial real estate.

Cash and Cash Equivalents

For purposes of the consolidated statements of financial condition and the consolidated statements of cash flows, cash and cash equivalents includes cash on hand, amounts due from financial institutions, and highly liquid debt instruments with original maturities of three months or less. Amounts due from financial institutions may, at times, exceed federally insured limits.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Securities

Debt and equity securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost, adjusted for amortization of premiums and accretion of discounts. Securities not classified as held-to-maturity or trading, including debt and equity securities with readily determinable fair values, are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss).

The Credit Union evaluates debt and equity securities for other-than-temporary impairment (OTTI), at least quarterly. This guidance specifies that (a) if the Credit Union does not have the intent to sell a debt security prior to recovery and (b) it is more-likely-than-not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When the Credit Union does not intend to sell the security and it is more-likely-than-not the Credit Union will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an OTTI of a debt security in earnings and the remaining portion in other comprehensive income (loss). For held-to-maturity debt securities, the amount of OTTI recorded in other comprehensive income (loss) for the noncredit portion of a previous OTTI should be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

The Credit Union's consolidated statements of income reflects the full impairment (that is, the difference between the security's amortized cost basis and fair value) on debt securities that the Credit Union intends to sell or would more-likely-than-not be required to sell before the expected recovery of the amortized cost basis. The credit component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected on cash flow projections.

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. The Credit Union does not maintain a trading or held-to-maturity portfolio. Other investments are classified separately, stated at cost and subject to OTTI evaluation.

Federal Home Loan Bank Stock

The Credit Union, as a member of the Federal Home Loan Bank (FHLB) system, is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of 1% of its membership assets or 4.7% of advances from the FHLB. There is no ready market value for the FHLB stock; therefore, it has no quoted market value and is reported on the consolidated statements of financial position at cost. The Credit Union considered the long-term nature of this investment and the intent and ability to hold this investment for a period of time sufficient to recover the recorded investment and determined it was not impaired at December 31, 2011 and 2010.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Held-For-Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate, as determined by aggregate outstanding commitments from investors or current investor yield requirements. Net unrealized losses are recognized through a valuation allowance by charges to income. All sales are made without recourse.

Loans to Members

The Credit Union grants mortgage, member business and consumer loans to members and purchases loan participations. A substantial portion of the loan portfolio is represented by automobile and real estate loans to members. A substantial portion of its members' ability to honor their loan agreements is dependent upon the real estate and economic stability of the various groups comprising the Credit Union's field of membership.

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. Interest on loans is recognized over the term of the loan and is generally calculated using the simple-interest method on principal amounts outstanding.

The accrual of interest on loans is discontinued at the time a loan is 60 days delinquent. Consumer loans are typically charged-off no later than 180 days past due. Loans may be charged-off at an earlier date if collection of principal or interest is considered doubtful. Past due loan 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 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 direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method (first mortgage loans) and the effective yield method, which approximates the interest method (all other loan types) 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 uncollectability 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 collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)
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 distribution of the portfolios, the impact of current internal and external influences on credit loss and the levels of nonperforming loans. 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 in terms of loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment. Specific allowances for loan losses are established for large non-homogeneous impaired loans on an individual basis. The specific allowance established for these loans is 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. These factors include the credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging data.

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for member business and residential real estate loans by either the present value of the expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Credit Union does not separately identify individual consumer loans for impairment disclosures.

Servicing
Servicing assets are recognized separately when mortgage servicing rights are acquired through purchase or through sale of financial assets. Servicing rights resulting from the sale or securitization of loans originated by the Credit Union are initially measured at fair value at the date of transfer. The Credit Union measures servicing assets at fair value at each reporting date and report changes in fair value of servicing assets in earnings in the period of which the change occurs.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Servicing (Continued)
Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. These variables change from quarter to quarter as the market conditions and projected interest rates change, and may have an adverse impact on the value of the mortgage servicing right and may result in reduction to noninterest income.

Off-Balance Sheet Credit Related Financial Instruments
In the ordinary course of business, the Credit Union has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

Collateral in Process of Liquidation and Foreclosed Assets
Assets acquired through, or in lieu of, loan repossession or foreclosure are held for sale and are initially recorded at fair value less estimated costs to sell at the date of repossession or foreclosure, establishing a new cost basis. Subsequent to repossession or foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net 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 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 maturity.

Premises and Equipment
Land is carried at cost. Buildings and improvements, furniture and equipment and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Buildings and improvements and furniture and 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 or the expected terms of the leases, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

Valuation of Long-Lived Assets
Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management reviews all material assets annually for possible impairment. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NCUSIF Deposit
The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with NCUA regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board.

NCUSIF Insurance Premiums
A credit union is required to pay an annual insurance premium based on a percent of its total insured shares as declared by the NCUA Board, unless the payment is waived by the NCUA Board.

Members' Share and Savings Accounts
Members' share and savings accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' share and savings accounts are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Interest rates on members' share and savings accounts are set by Management, based on an evaluation of current and future market conditions.

Members' Equity
The Credit Union is required, by regulation, to maintain a statutory regular reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of interest.

Income Taxes
The Credit Union is exempt, by statute, from federal and state income taxes. The CUSO, however, is subject to federal and state income taxes. Operations of the CUSO resulted in no income tax for the year ended December 31, 2011 and an income tax benefit of $2,367 for the year ended December 31, 2010.

The Credit Union is a tax-exempt entity under Internal Revenue Code 501(c)(14), but may be subject to taxation on income unrelated to the Credit Union's exempt function. State chartered credit unions should pay income tax on certain types of net taxable income from activities that taxing authorities consider unrelated to the purpose for which the Credit Union was granted non-taxable status. The Credit Union has filed UBIT returns (990-T) in the past, which has resulted in no income taxes paid for the years ended December 31, 2011 and 2010.

Pension Plan – 401(k)
The Credit Union has a qualified 401(k) plan covering substantially all of its employees.

Pension Plan – Deferred Compensation Plans
The Credit Union has a non-qualified deferred compensation plans for members of management.

Life Insurance Policies
Life insurance policies held as part of the Credit Union's deferred compensation plans are carried at their cash surrender value.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

Advertising costs are charged to operations when incurred.

Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the members' equity section of the consolidated statements of financial condition. For 2011 and 2010, other comprehensive income (loss) includes no reclassification adjustments.

Fair Value Measurements

Fair value measurement standards provide a comprehensive framework for measuring fair value and expands disclosures for assets and liabilities reported at fair value. Specifically, it sets forth a definition of fair value and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable value inputs.

Subsequent Events

Management evaluated subsequent events through March 12, 2012, the date the consolidated financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the 2010 consolidated financial statement presentation to correspond to the current year's format. Total members' equity and net income are unchanged due to these reclassifications.

NOTE 2 – INVESTMENT SECURITIES

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

December 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and federal agency securities	$142,884,577	$ 967,085	$ (12,019)	$143,839,643
Federal agency mortgage-backed securities	57,655,835	1,032,973	(374)	58,688,434
Federal agency collateralized mortgage obligations	91,426,263	1,113,870	(146,814)	92,393,319
Mutual fund	10,001,027	-	-	10,001,027
Total	$301,967,702	$ 3,113,928	$ (159,207)	$304,922,423

NOTE 2 – INVESTMENT SECURITIES (CONTINUED)

December 31, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and federal agency securities	$ 76,554,345	$ 201,675	$ (254,727)	$ 76,501,293
Federal agency mortgage-backed securities	35,753,457	217,026	(108,411)	35,862,072
Federal agency collateralized mortgage obligations	46,026,626	141,456	(401,039)	45,767,043
Total	$158,334,428	$ 560,157	$ (764,177)	$158,130,408

The mutual fund invests exclusively in U.S. government securities and related custodial receipts, repurchase agreements pertaining thereto, and short-term obligations.

At December 31, 2011 and 2010, securities carried at approximately $300,701,000 and $153,402,000, respectively, were pledged as collateral against a line of credit with the Federal Home Loan Bank. At December 31, 2011 and 2010, securities carried at approximately $4,208,000 and $4,261,000, respectively, were pledged as collateral against a line of credit with the Federal Reserve Bank.

The amortized cost and fair values of investment securities available-for-sale at December 31, 2011, by contractual maturity, 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.

	Amortized Cost	Fair Value
Due in one year or less	$ 8,510,906	$ 8,552,686
Due in one year through five years	134,373,671	135,286,957
	142,884,577	143,839,643
Federal agency mortgage-backed securities	57,655,835	58,688,434
Federal agency collateralized mortgage obligations	91,426,263	92,393,319
Mutual fund	10,001,027	10,001,027
Total	$301,967,702	$304,922,423

NOTE 2 – INVESTMENT SECURITIES (CONTINUED)

Temporarily Impaired Investment Securities

Information pertaining to available-for-sale securities with gross unrealized losses at December 31, 2011, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position, are as follows:

	Less than 12 Months		Greater than 12 Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. government and federal agency securities	$ -	$ -	$ (12,019)	$ 6,125,587
Federal agency mortgage-backed securities	-	-	(374)	2,021,360
Federal agency collateralized mortgage obligations	-	-	(146,814)	21,024,622
Total	$ -	$ -	$ (159,207)	$ 29,171,569

Information pertaining to available-for-sale securities with gross unrealized losses at December 31, 2010, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position, are as follows:

	Less than 12 Months		Greater than 12 Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. government and federal agency securities	$ (254,727)	$ 29,386,781	$ -	$ -
Federal agency mortgage-backed securities	(108,411)	15,209,592	-	-
Federal agency collateralized mortgage obligations	(401,039)	17,948,167	-	-
Total	$ (764,177)	$ 62,544,540	$ -	$ -

NOTE 2 – INVESTMENT SECURITIES (CONTINUED)

U.S. government and federal agency obligations. At December 31, 2011, the three debt securities with unrealized losses have depreciated 0.20% from the Credit Union's amortized cost basis. The unrealized losses on the Credit Union's investments in U.S. government obligations and direct obligations of the U.S. government agencies were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Credit Union does not intend to sell the investments and it is not more-likely-than-not that the Credit Union will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Credit Union does not consider those investments to be other-than-temporarily impaired at December 31, 2011.

Federal agency mortgage-backed securities and collateralized mortgage obligations. At December 31, 2011, the 14 debt securities with unrealized losses have depreciated 0.63% from the Credit Union's amortized cost basis. The unrealized losses are primarily driven by higher projected collateral losses; wider credit spreads and changes in interest rates. The Credit Union assesses for credit impairment using a cash flow model. Based on the assessment of the expected credit losses of the security given the performance of the underlying collateral compared to the credit enhancement, the Credit Union expects to recover the entire amortized cost basis of these securities.

In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

Other-Than-Temporary Impairment

The Credit Union routinely conducts periodic reviews to identify and evaluate each investment security to determine whether an OTTI has occurred. Economic models are used to determine whether an OTTI has occurred on these securities. For each security in the investment portfolio (including but not limited to those whose fair value is less than their amortized cost basis), an extensive, regular review is conducted to determine if an OTTI has occurred. Various inputs to the economic model are used to determine if an unrealized loss is other-than-temporary. Based on the assessment of the expected credit losses of the security given the performance of the underlying collateral compared to the credit enhancement, the Credit Union expects to recover the entire amortized cost basis of these securities; therefore no OTTI is deemed necessary or reported for the years ended December 31, 2011 and 2010.

Investment Risk

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in the values of investment securities could occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial condition.

NOTE 2 – INVESTMENT SECURITIES (CONTINUED)

Other Investments
Other investment securities at December 31 are summarized as follows:

	2011	2010
Funds in corporate credit unions	$ -	$ 136,000,000
Certificates of deposit with other financial institutions	2,200,000	200,000
Investment in other credit union service organizations	505,234	505,234
Total	$ 2,705,234	$ 136,705,234

At December 31, 2011, the Credit Union has approximately $3,026,000 held in accounts at Western Bridge Corporate Federal Credit Union (WesCorp). Effective January 28, 2009, all shares, except capital and community reinvestment fund shares, are fully guaranteed by NCUA through a Share Guarantee Program that renews quarterly for a two-year period with a current expiration date of December 31, 2012. The Credit Union concluded that the capital shares held in Members United Bridge Corporate Federal Credit Union and Southwest Bridge Corporate Federal Credit Union were considered impaired and recorded impairment losses totaling $446,706 and $273,205, respectively, for the year ended December 31, 2010.

NOTE 3 – LOANS TO MEMBERS

The composition of loans to members at December 31 is as follows:

	2011	2010
Member Business:		
Real estate	$ 124,331,650	$ 107,893,329
Residential Real Estate:		
1st mortgage	190,283,651	181,767,792
2nd mortgage	54,871,935	65,537,515
Consumer:		
Auto	104,025,332	109,925,765
Unsecured	28,402,030	27,498,206
Other secured	2,852,890	3,281,951
	504,767,488	495,904,558
Net deferred loan origination fees and costs	(231,592)	(212,872)
Allowance for loan losses	(11,485,306)	(12,473,863)
Total	$ 493,050,590	$ 483,217,823

NOTE 3 – LOANS TO MEMBERS (CONTINUED)

The Credit Union has purchased participations originated by various entities which are secured by commercial property and other real estate to members of other credit unions. All of the loan participations were purchased without recourse and the originating entities perform all of the related loan servicing functions on these loans.

The composition of loan participations at December 31 is as follows:

	2011	2010
Member business – real estate	$ 22,203,719	$ 28,151,489
Residential real estate – 1st mortgage	419,954	511,836
Total	$ 22,623,673	$ 28,663,325

The Credit Union offers non-traditional mortgage loans to its members. These loans include hybrid and variable interest only mortgages. Hybrid loans consist of loans that are fixed for an initial period of three, five or seven years. After this period, the mortgages are converted to variable rates using an indexed rate, which can result in significant payment shock to the borrower. The interest only loans allow the borrower to pay only interest for a specified number of years. These types of loans may result in a lack of principal amortization or even negative amortization, if the minimum payment is less than the interest accruing on the loan.

Non-traditional mortgage loans may have significantly different credit risk characteristics than traditional fixed and variable rate mortgages. However, the Credit Union believes it has established prudent underwriting standards as well as adequate risk management functions to monitor the additional risk. Non-traditional mortgage loans, which are included in the member business – real estate and residential real estate – 1st mortgage captions above, totaled approximately $62,373,000 and $54,175,000 at December 31, 2011 and 2010, respectively.

Specific changes in the allowance for loan losses and recorded investment in loans by segment for the year ended December 31, 2011 are as follows:

Allowance for loan losses:	**Member Business**	**Residential Real Estate**	**Consumer**	**Total**
Beginning balance	$ 1,903,728	$ 6,439,202	$ 4,130,933	$ 12,473,863
Provision (credit) for loan losses	718,497	2,486,846	441,079	3,646,422
Charge-offs	(305,361)	(2,571,989)	(2,331,441)	(5,208,791)
Recoveries	-	286,312	287,500	573,812
Ending balance	$ 2,316,864	$ 6,640,371	$ 2,528,071	$ 11,485,306

NOTE 3 – LOANS TO MEMBERS (CONTINUED)

Allowance for loan losses:	**Member Business**	**Residential Real Estate**	**Consumer**	**Total**
Ending balance: Individually evaluated for impairment	$ 1,966,288	$ 3,258,226	$ -	$ 5,224,514
Ending balance: Collectively evaluated for impairment	350,576	3,382,145	2,528,071	6,260,792
Ending balance	$ 2,316,864	$ 6,640,371	$ 2,528,071	$ 11,485,306
Loans to members:				
Ending balance: Individually evaluated for impairment	$ 17,089,451	$ 26,045,785	$ -	$ 43,135,236
Ending balance: Collectively evaluated for impairment	107,242,199	219,109,801	135,280,252	461,632,252
Ending balance	$ 124,331,650	$ 245,155,586	$ 135,280,252	$ 504,767,488

A summary of the changes in the allowance for loan losses for the year ended December 31, 2010 is as follows:

Beginning balance	$ 14,036,728
Provision for loan losses	6,890,203
Charge-offs	(8,960,009)
Recoveries	506,941
Ending Balance	$ 12,473,863

Member Business Loan Credit Quality Indicators: As part of the on-going monitoring of the credit quality of the Credit Union's member business loan portfolio, management tracks certain credit quality indicators including trends related to (i) the risk ratings of member business loans, (ii) the level of classified loans, (iii) net charge-offs, (iv) non-performing loans, and (v) the general economic conditions in the market area.

The Credit Union utilizes a risk rating matrix to assign risk ratings to each of its member business loans. Loans are rated on a scale of 1 to 8. A description of the 8 risk ratings is presented in the matrix as follows:

NOTE 3 – LOANS TO MEMBERS (CONTINUED)

Rating	Financial Condition	Combined Earnings	Collateral	Management	Industry Outlook
1 Excellent - Pass (minimal risk)	Strong equity and liquidity with low leverage. Exceeds RMA or peer group standards	Strong earnings and cash flow trend. Substantial additional debt service capacity.	Significantly better than policy limits. Government guarantees of 75% or more.	Proven track record with adequate depth. Succession plan in place.	Outstanding performance ratios compared to peers. Industry may have modest cyclical qualities, but is generally stable.
2 Good - Pass (modest risk)	Good equity and liquidity. Consistent with RMA and peer group standards.	Satisfactory earnings and adequate cash flow. DSCR exceeds 1.5X	Better than policy limits with minimal reliance on receivables and inventory.	Satisfactory depth and experience. History of proper decision making.	Outlook is acceptable. May be somewhat vulnerable to sudden economic or technological change.
3 Acceptable - Pass (average risk)	Moderate leverage and adequate liquidity with stable trend.	Acceptable earnings and/or cash flow. Minimum DSCR of 1.25X	At policy limits with acceptable coverage ratios.	Acceptable experience and controls. Previous business decisions not always appropriate.	May be susceptible to unfavorable changes in the economy. Serious financial deterioration is the industry is unlikely.
4 Acceptable with Caution/Watch - Pass (Developing risk)	Moderate leverage (debt/worth 3:1 or more) with declining trends. Falling liquidity.	Marginal profitability. Break-even or slightly negative cash flow. Minimum DSCR of 1.1X. Start-up operations.	Coverage below policy limits. Notable reliance on inventory.	Recent management or key person changes. Lack of succession plan.	Intensely competitive industry. Outlook is uncertain. Barriers to entry are declining. Market niche is increasingly competitive.
5 Special Mention (currently protected, but potentially weak, considerable risk)	Marginal liquidity and/or equity. Declining trends. Ratios below RMA and peer group standards. Borrower unwilling to provide info for current evaluation and existing info is outdated by two or more years.	Unstable performance and negative cash flow. Recent loss with modest impact on balance sheet.	Marginal collateral coverage with stale valuation or other uncertainties. Moderate reliance on inventory.	Inexperienced management. Lack of succession plan and potential ownership issues.	Outlook is questionable. Competition is fierce. Industry may be in start-up or long-term decline phase.
6 Substandard (high and well-defined risk of default)	Negative trends. Highly leveraged. Poor liquidity and equity. Significant intangibles and/or poor quality assets.	Material losses. Negative cash flow.	Insufficient coverage. Heavy reliance on inventory.	Management weaknesses. Pattern of poor business decisions.	Industry has problems which may adversely affect majority of participants. Borrower ranks in bottom of industry.
7 Doubtful (extremely high risk of loss)	Negative net worth.	Significant negative cash flow.	Collection in full is highly improbable.	Significant weaknesses. Adversarial bank/borrower relationship.	Severe permanent industry problems exist.
8 Loss	Principal uncollectible.	Principal uncollectible.	Principal uncollectible.	Principal uncollectible.	Principal uncollectible.

NOTE 3 – LOANS TO MEMBERS (CONTINUED)

Member Business Credit Exposure:
The member business loan credit risk profile by internally assigned risk ratings by class at December 31, 2011 is as follows:

	Real Estate
Pass	$108,034,457
Special mention	6,036,682
Substandard	10,260,511
Doubtful	-
Loss	-
Total	$124,331,650

Residential Real Estate and Consumer Loan Credit Quality Indicators: As part of the on-going monitoring of the credit quality of the Credit Union's residential real estate and consumer loan portfolios, management tracks certain credit quality indicators based on if these loans are performing or non-performing. To differentiate these categories, management tracks the loans performance and when the loan becomes 60 days past due these are classified as non-performing loans.

Residential Real Estate Credit Exposure:
The residential real estate credit risk profile based on payment activity by class at December 31, 2011 is as follows:

	1st Mortgage	**2nd Mortgage**	**Total**
Performing	$183,470,446	$ 54,218,565	$237,689,011
Non-performing	6,813,205	653,370	7,466,575
Total	$190,283,651	$ 54,871,935	$245,155,586

Consumer Credit Exposure:
The consumer loan credit risk profile based on payment activity by class at December 31, 2011 is as follows:

	Auto	**Unsecured**	**Other Secured**	**Total**
Performing	$103,871,780	$ 27,467,501	$ 2,852,890	$134,192,171
Non-performing	153,552	934,529	-	1,088,081
Total	$104,025,332	$ 28,402,030	$ 2,852,890	$135,280,252

NOTE 3 – LOANS TO MEMBERS (CONTINUED)

Information concerning impaired loans by loan class as of December 31, 2011 is as follows:

	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no specific reserve recorded:				
Member Business:				
Real estate	$ 9,196,802	$ -	$ 7,279,199	$ 495,985
Residential Real Estate:				
1st mortgage	2,119,806	-	1,958,428	132,740
2nd mortgage	628,615	-	587,030	26,961
Total	$ 11,945,223	$ -	$ 9,824,657	$ 655,686
With specific reserve recorded:				
Member Business:				
Real estate	$ 7,892,649	$ 1,966,288	$ 7,660,250	$ 349,121
Residential Real Estate:				
1st mortgage	21,850,009	2,929,777	20,700,309	781,190
2nd mortgage	1,447,355	328,449	2,005,759	30,410
Total	$ 31,190,013	$ 5,224,514	$ 30,366,318	$ 1,160,721
Member business	$ 17,089,451	$ 1,966,288	$ 14,939,449	$ 845,106
Residential real estate	26,045,785	3,258,226	25,251,526	971,301
Total	$ 43,135,236	$ 5,224,514	$ 40,190,975	$ 1,816,407

The recorded investment in impaired loans approximates the amount reported as unpaid impaired loan balances as of December 31, 2011.

A summary of impaired loans as of and for the year ended December 31, 2010 is as follows:

Impaired loans with no specific reserve recorded	$ 7,704,090
Impaired loans with specific reserve recorded	29,542,622
Total impaired loans	$ 37,246,712
Allowance for impaired loans	$ 4,597,783
Average investment in impaired loans	$ 31,892,856
Interest income recognized on a cash basis on impaired loans	$ 1,255,212

The interest income recognized on impaired loans approximates the interest income recognized on a cash basis on impaired loans for the year ended December 31, 2010.

NOTE 3 – LOANS TO MEMBERS (CONTINUED)

A summary of non-accrual loans by class at December 31, 2011 is as follows:

Member Business:	
Real estate	$ 1,232,625
Residential Real Estate:	
1st mortgage	6,813,205
2nd mortgage	653,370
Consumer:	
Auto	153,552
Unsecured	934,529
Total	$ 9,787,281
Foregone interest on non-accrual loans	$ 313,122

A summary of non-accrual loans at December 31, 2010 is as follows:

Non-accrual loans	$ 9,813,359
Foregone interest on non-accrual loans	$ 295,832

A summary of past due loans by class as of December 31, 2011 are as follows:

	30-59 Days	60-90 Days	Greater than 90 Days	Total Past Due	Current	Total Loans to Members
Member Business:						
Real estate	$ -	$ -	$ 1,232,625	$ 1,232,625	$ 123,099,025	$ 124,331,650
Residential Real Estate:						
1st mortgage	749,382	2,960,429	3,852,776	7,562,587	182,721,064	190,283,651
2nd mortgage	299,574	119,726	533,644	952,944	53,918,991	54,871,935
Consumer:						
Auto	1,043,840	153,552	-	1,197,392	102,827,940	104,025,332
Unsecured	554,887	934,529	-	1,489,416	26,912,614	28,402,030
Other secured	-	-	-	-	2,852,890	2,852,890
Total	$ 2,647,683	$ 4,168,236	$ 5,619,045	$12,434,964	$ 492,332,524	$ 504,767,488

The Credit Union had no loans that were greater than 60 days past-due for which the loans were accruing interest at December 31, 2011 and 2010.

NOTE 3 – LOANS TO MEMBERS (CONTINUED)

A summary of loan troubled debt restructurings by class that were granted during the year ended December 31, 2011 are as follows:

	Number of Contracts	Pre-Modification Outstanding Balance	Post-Modification Outstanding Balance
Troubled Debt Restructurings:			
Member Business:			
Real estate	3	$ 4,818,247	$ 4,818,247
Residential Real Estate:			
1st mortgage	9	3,364,491	3,364,491
2nd mortgage	9	579,003	579,003
Consumer:			
Auto	58	570,739	570,739
Unsecured	18	104,923	104,923
Total	97	$ 9,437,403	$ 9,437,403

Management has defined that a troubled debt restructured loan is considered in default when it becomes 60 days past due. A summary of loan troubled debt restructurings by class that were granted and subsequently defaulted during the year ended December 31, 2011 are as follows:

	Number of Contracts	Recorded Investment
Troubled Debt Restructurings that Subsequently Defaulted:		
Residential Real Estate:		
1st mortgage	1	$ 404,145
2nd mortgage	3	216,476
Total	4	$ 620,621

NOTE 4 – LOAN SERVICING

In 2011, the Credit Union began selling 1st mortgage residential real estate loans on the secondary market while retaining the servicing. Loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of 1st mortgage residential real estate loans serviced for others were $31,232,682 at December 31, 2011. Custodial escrow balances maintained in connection with the foregoing loan servicing were $434,308 at December 31, 2011.

Servicing assets are included in other assets on the consolidated statements of financial condition and totaled $233,372 at December 31, 2011. The fair value of servicing rights was determined using a discount rate of 7.50%, annual inflation rate of 2.50%, and projected prepayment speeds (PSAs) ranging from 361 to 530, depending upon the stratification of the specific right.

NOTE 4 – LOAN SERVICING (CONTINUED)

Following is an analysis of the changes in servicing assets subsequently measured using the fair value measurement method by class:

Consolidated Statement of Financial Condition Disclosures	15-year Servicing Assets	20-year Servicing Assets	30-year Servicing Assets	Total
Fair value as of the beginning of the period	$ -	$ -	$ -	$ -
Additions:				
Servicing obligations that result from transfers of financial assets	84,028	3,240	167,469	254,737
Change in fair value:				
Due to change in valuation inputs or assumptions used in valuation model	(2,229)	(405)	(18,731)	(21,365)
Fair value as of the end of the period	$ 81,799	$ 2,835	$ 148,738	$ 233,372

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment at December 31 is summarized as follows:

	2011	2010
Land	$ 4,853,742	$ 5,058,842
Buildings and improvements	17,938,834	18,169,643
Furniture and equipment	4,439,831	5,226,937
Computer equipment	4,185,044	4,043,084
Leasehold improvements	3,772,005	3,992,118
Projects-in-process	1,170,401	-
	36,359,857	36,490,624
Accumulated depreciation and amortization	(13,508,951)	(14,105,936)
Total	$ 22,850,906	$ 22,384,688

Depreciation and amortization expense amounted to $1,586,095 and $1,662,626 for the years ended December 31, 2011 and 2010, respectively.

NOTE 6 – LEASE COMMITMENTS

The Credit Union leases certain office facilities under noncancelable operating leases expiring in various years through August 2018. Some of the leases contain renewal options for periods from three to five years at their fair rental value at the time of renewal. Future minimum lease payments under these leases are as follows:

Years Ending December 31,	
2012	$ 645,560
2013	577,608
2014	500,273
2015	449,042
2016	181,990
Thereafter	186,060
Future minimum lease payments	$ 2,540,533

Minimum lease payments exclude rentals under renewal options, which, as of December 31, 2011, are not reasonably assured of being exercised.

Rent expense was approximately $825,000 and $811,000 for the years ended December 31, 2011 and 2010, respectively.

NOTE 7 – MEMBERS' SHARE AND SAVINGS ACCOUNTS

Members' share and savings accounts at December 31 are summarized as follows:

	2011	2010
Regular share accounts	$ 197,605,505	$ 174,157,353
Share draft accounts	133,586,202	118,700,985
Money market accounts	274,535,278	244,386,337
IRA share accounts	6,529,243	5,991,544
Total share accounts	612,256,228	543,236,219
Share and IRA certificates		
0.00% to 1.99%	211,626,732	251,558,845
2.00% to 2.99%	28,010,702	23,000,030
3.00% to 3.99%	13,464,511	16,181,513
4.00% to 4.99%	3,329,550	5,475,467
5.00% to 5.99%	8,915,068	11,652,037
6.00% to 6.99%	-	100,000
Total certificate accounts	265,346,563	307,967,892
Total members' share and savings accounts	$ 877,602,791	$ 851,204,111

NOTE 7 – MEMBERS' SHARE AND SAVINGS ACCOUNTS (CONTINUED)

Scheduled maturities of share and IRA certificates at December 31, 2011 are as follows:

Years Ending December 31,	
2012	$ 192,278,624
2013	37,478,261
2014	13,159,041
2015	14,268,631
2016	8,162,006
Total certificate accounts	$ 265,346,563

The aggregate amounts of members' share and savings accounts in denominations of $100,000 or more were approximately $391,567,000 and $381,122,000 at December 31, 2011 and 2010, respectively.

Overdrawn share accounts reclassified to other assets totaled $484,664 and $336,197 at December 31, 2011 and 2010, respectively.

The National Credit Union Insurance Fund (NCUSIF) insures members' shares and certain individual retirement accounts up to $250,000 as a result of an amendment approved by the House-Senate conference committee on regulatory overhaul in June 2010. The new law also requires NCUA to use the higher $250,000 standard maximum share insurance amount when making decisions about premiums and administering insurance deposit adjustments. The increase in share insurance coverage includes all account types, such as share drafts, money markets, shares, and certificates of deposit.

NOTE 8 – LINES OF CREDIT

The Credit Union maintains lines of credit with WesCorp, the Federal Home Loan Bank of San Francisco (FHLB) and the Federal Reserve Bank of San Francisco (FRB) as described below:

December 31, 2011	WesCorp Settlement	FHLB	FRB	Total Lines
Total available	$ 20,000,000	$455,121,298	$ 4,117,891	$479,239,189
Borrowed	-	(17,250,000)	-	(17,250,000)
Remaining available	$ 20,000,000	$437,871,298	$ 4,117,891	$461,989,189
Term	LOC	LOC	LOC	
Weighted average rate	N/A	3.30%	N/A	

NOTE 8 – LINES OF CREDIT (CONTINUED)

December 31, 2010	WesCorp Variable/Fixed	WesCorp Settlement	FHLB	FRB	Total Lines
Total available	$ 60,000,000	$ 95,000,000	$308,376,013	$ 4,179,837	$467,555,850
Borrowed	-	-	(14,750,000)	-	(14,750,000)
Remaining available	$ 60,000,000	$ 95,000,000	$293,626,013	$ 4,179,837	$452,805,850
Term	LOC	LOC	LOC	LOC	
Weighted average rate	N/A	N/A	3.50%	N/A	

The WesCorp settlement line is collateralized by substantially all of the Credit Union's assets, excluding assets pledged to secure other lines of credit as described below. The WesCorp variable/fixed line was collateralized by WesCorp certificate of deposit balances totaling approximately $134,000,000 at December 31, 2010. This line was discontinued in 2011. The FHLB line is collateralized by available-for-sale securities held in safekeeping by the FHLB and certain member business real estate and residential real estate 1st and 2nd mortgage loans. The outstanding principle balance of real estate loans pledged as collateral to the FHLB totaled approximately $353,511,000 and $344,545,000 at December 31, 2011 and 2010, respectively. The FRB line of credit is collateralized by federal agency securities held in safekeeping by the FRB.

NOTE 9 – BORROWED FUNDS

Borrowed funds at December 31 are as follows:

	2011	2010
FHLB, fixed rate (3.30% and 3.50% weighted average rates at December 31, 2011 and 2010, respectively), secured, with various maturity dates	$ 17,250,000	$ 14,750,000

Scheduled maturities of borrowed funds at December 31, 2011, are as follows:

Years Ending December 31,	
2012	$ 1,500,000
2013	4,000,000
2014	-
2015	3,750,000
2016	2,250,000
Thereafter	5,750,000
Total	$ 17,250,000

NOTE 10 – ADVERTISING

Advertising expense totaled approximately $829,000 and $510,000 for the years ended December 31, 2011 and 2010, respectively.

NOTE 11 – 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 lines of credit, credit cards, home equity lines, and overdraft protection commitments that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the consolidated financial statements.

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

At December 31, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2011	2010
Commitments to extend credit:		
Home-equity lines of credit	$ 37,979,821	$ 40,772,298
Credit cards	26,685,213	10,065,146
Line-of-credit loans	29,145,231	29,871,244
Overdraft protection program commitments	6,764,255	7,024,516
Member business loan commitments	176,730	-
Total	$ 100,751,250	$ 87,733,204

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's 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 counterparty. Collateral held varies but may include consumer assets, residential real estate and member share balances.

Unfunded commitments under revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines-of-credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Credit Union is committed.

NOTE 12 – CONTINGENCIES AND COMMITMENTS

Legal:
The Credit Union is periodically 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 Credit Union's financial condition.

Loans sold with recourse:
The Credit Union has implemented a mortgage program whereby some of its mortgage loans are sold on the secondary market. The Credit Union is subject to recourse on the loans sold under certain conditions as disclosed in the loan purchase agreements with the funding corporations.

Premises and equipment commitments:
The Credit Union has the following outstanding purchase commitments, which are not reflected in the consolidated financial statements as of December 31, 2011:

Core processing system conversion	$ 373,000

NOTE 13 – CAPITAL REQUIREMENTS

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's consolidated financial statements. Under capital adequacy 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 following table) of net worth (as defined in the regulations) to assets and RBNW ratios (as defined). As of December 31, 2011 and 2010, the Credit Union's RBNW requirement was 5.06% and 4.51%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6 percent. Management believes that, as of December 31, 2011, the Credit Union meets all capital adequacy requirements to which it is subject. No conditions or events have occurred since the calculation date that management believes has changed the Credit Union's category.

As of December 31, 2011, the most recent call reporting period, the NCUA has 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%. The Credit Union's actual capital amounts and ratios as of December 31, 2011 and 2010 are also presented in the table.

NOTE 13 – CAPITAL REQUIREMENTS (CONTINUED)

The Credit Union's actual capital amounts and ratios as of December 31, 2011 are as follows:

	Actual		To Be Adequately Capitalized Under Prompt Corrective Action Provisions		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Net worth	$ 87,511,132	8.90%	$ 58,996,553	6.0%	$ 68,829,311	7.0%
Risk-based net worth requirement	$ 49,753,759	5.06%	N/A	N/A	N/A	N/A

Because the RBNW ratio of 5.06% is less than the net worth ratio of 8.90%, the Credit Union retains its original category. Further, in performing its calculation of total assets, the Credit Union used the average of daily assets over the calendar quarter option, as permitted by regulation.

The Credit Union's actual capital amounts and ratios as of December 31, 2010 are as follows:

	Actual		To Be Adequately Capitalized Under Prompt Corrective Action Provisions		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Net worth	$ 82,509,852	8.68%	$ 57,037,666	6.0%	$ 66,543,944	7.0%
Risk-based net worth requirement	$ 42,873,312	4.51%	N/A	N/A	N/A	N/A

NOTE 14 – RELATED PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends credits to members of the Board of Directors, Supervisory Committee members and executive officers. The aggregate loans to related parties at December 31, 2011 and 2010 were approximately $3,605,000 and $3,557,000, respectively. Deposits from related parties at December 31, 2011 and 2010 amounted to approximately $1,368,000 and $1,500,000, respectively.

NOTE 15 – 401(k) RETIREMENT PLAN

The Credit Union provides a 401(k) employee benefit plan covering substantially all employees who have completed at least one year of service and met minimum age requirements. The Credit Union matches a portion of employees' wage reductions. Total pension expense under this plan was $885,914 and $920,988 for the years ended December 31, 2011 and 2010, respectively.

NOTE 16 – DEFERRED COMPENSATION PLANS

The Credit Union has a 457(b) non-qualified deferred compensation plan for members of management. The Credit Union makes discretionary contributions to the plan and employees are allowed to contribute to the plan. The deferred compensation accounts are shown as both assets and liabilities on the Credit Union's consolidated financial statements and are available to creditors in the event of the Credit Union's liquidation.

The Credit Union has a 457(f) non-qualified deferred compensation plan for members of management. The Credit Union contributes 100% of the funds to this plan. Under the terms of the plan, the participants are entitled to a specified amount if they remain employed by the Credit Union until a predetermined time. If these employees become fully disabled as defined in the agreement, accrued benefits are immediately payable. The benefits are subject to forfeiture if employment is terminated for cause as defined in the agreements. The deferred compensation accounts are shown as both assets and liabilities on the Credit Union's consolidated financial statements and are available to creditors in the event of the Credit Union's liquidation.

Life insurance policies pertaining to these plans were $7,496,426 and $7,201,738 as of December 31, 2011 and 2010, respectively. The deferred compensation payable, included in accrued expenses and other liabilities on the consolidated statements of financial condition was $522,824 and $251,738 as of December 31, 2011 and 2010, respectively. Deferred compensation expense was $119,389 and $18,631 for the years ended December 31, 2011 and 2010, respectively.

NOTE 17 – FAIR VALUES OF FINANCIAL INSTRUMENTS

Determination of Fair Value

The Credit Union uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. 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 upon quoted market prices. However, in many instances, there are no quoted market prices for the Credit Union's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair value measurements are to focus on an exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

NOTE 17 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair Value Hierarchy
The Credit Union groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 Valuation is based on quoted prices in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgments or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value estimation.

The following methods and assumptions were used by the Credit Union in estimating fair value disclosures for financial instruments:

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

Available-For-Sale Securities: Market value technique is marked to market on a monthly basis, of which information is performed and provided on a monthly basis by Morgan Keegan. Month end market prices are obtained through the Morgan Keegan report folio investment accounting service. Morgan Keegan obtains their market values from Reuters. Reuters methodology for the valuation of U.S. government and federal agency securities is based on an OAS model, which includes the LIBOR/Swap forward curve, credit spreads and interest rate volatilities. The valuation of seasoned federal agency mortgage-backed securities and collateralized mortgage obligations pools is based on market makers and live trading systems. The valuation of federal agency mortgage-backed securities and collateralized mortgage obligations adjustable rate mortgages are based on the bond equivalent effective margin. These figures are validated by comparing Morgan Keegan results to the primary safekeeper, Federal Home Loan Bank.

Other Investment Securities: The carrying amounts of other investment securities approximate their fair value.

NOTE 17 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Federal Home Loan Bank Stock: The carrying amount of the FHLB stock approximates the fair value.

Loans Held-for-Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate.

Loans to Members: For variable-rate loans that reprice frequently and have no significant change in the credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (for example, one-to-four family residential), credit-card loans, and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics; or are based on estimated cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for business real estate and business loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral value, where appropriate.

Accrued Interest Receivable: Accrued interest receivable represents interest on loans and investments. The carrying amounts of accrued interest receivable approximate their fair value.

Foreclosed Assets: The fair value of foreclosed assets is generally based on recent real estate appraisals, less estimated costs to sell. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available.

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

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

Commitments to Extend Credit: The estimated fair value of the commitments to extend credit represents the potential unfunded commitments under such lines-of-credit.

NOTE 17 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis at December 31, 2011 and 2010 are summarized as follows:

		Fair Value Measurements at Reporting Date Using		
December 31, 2011	**Total Carrying Value**	**Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
U.S. government and federal agency securities	$ 143,840,000	$ -	$ 143,840,000	$ -
Federal agency mortgage-backed securities	58,688,000	-	58,688,000	-
Federal agency collateralized mortgage obligations	92,393,000	-	92,393,000	-
Mutual funds	10,001,000	10,001,000		-
December 31, 2010				
U.S. government and federal agency securities	$ 76,501,000	$ -	$ 76,501,000	$ -
Federal agency mortgage-backed securities	35,862,000	-	35,862,000	-
Federal agency collateralized mortgage obligations	45,767,000	-	45,767,000	-

NOTE 17 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Under certain circumstances the Credit Union makes adjustments to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. The following table presents the financial instruments carried on the consolidated statements of financial condition by caption and by level in the fair value hierarchy at December 31, 2011 and 2010 for which a nonrecurring change in fair value has been recorded:

		Fair Value Measurements at Reporting Date Using		
	Carrying Value	**Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
December 31, 2011				
Impaired loans with an allowance, net	$ 25,965,000	$ -	$ -	$ 25,965,000
Foreclosed assets	1,159,000	-	-	1,159,000
December 31, 2010				
Impaired loans with an allowance, net	$ 24,945,000	$ -	$ -	$ 24,945,000
Foreclosed assets	1,672,000	-	-	1,672,000

The carrying values and estimated fair values of the Credit Union's financial instruments at December 31 are as follows:

	2011		2010	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
FINANCIAL ASSETS				
Cash and cash equivalents	$ 135,438,915	$ 135,439,000	$ 122,055,150	$ 122,055,000
Investment securities:				
Available-for-sale	304,922,423	304,922,000	158,130,408	158,130,000
Other investments	2,705,234	2,705,000	136,705,234	136,705,000
FHLB stock	4,333,800	4,334,000	3,456,900	3,457,000
Loans held-for-sale	2,033,850	2,034,000	2,841,162	2,841,000
Loans to members, net of allowance for loan losses	493,050,590	516,223,000	483,217,823	491,500,000
Accrued interest receivable	2,622,657	2,623,000	2,375,935	2,376,000

NOTE 17 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FINANCIAL LIABILITIES				
Members' share and savings accounts:				
Share, drafts, and money market accounts	$ 612,256,228	$ 612,256,000	$ 543,236,219	$ 543,236,000
Certificate accounts	265,346,563	268,198,000	307,967,892	310,708,000
Borrowed funds	17,250,000	18,342,000	14,750,000	15,248,000
UNRECOGNIZED FINANCIAL INSTRUMENTS				
Commitments to extend credit	$ -	$ 100,751,000	$ -	$ 87,733,000