EVOLVING
to meet our members' needs

2011 ANNUAL REPORT

Farmers Insurance Group
Federal Credit Union

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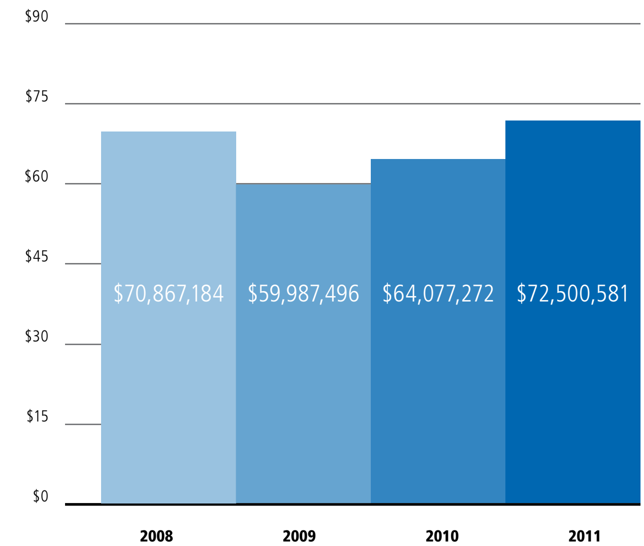
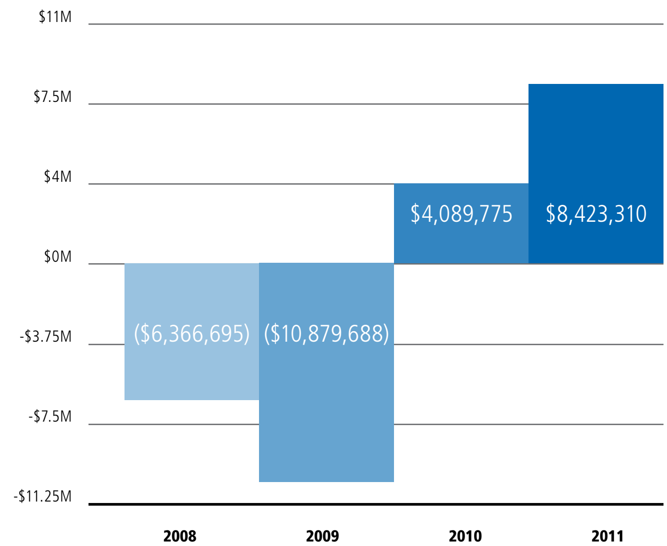


Retained Earnings



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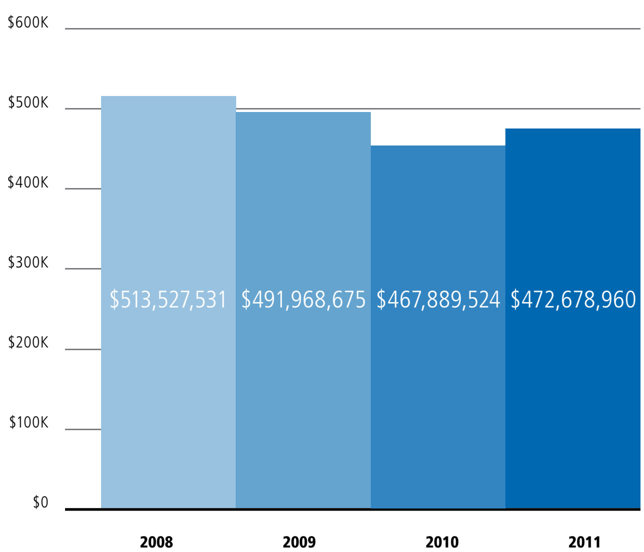
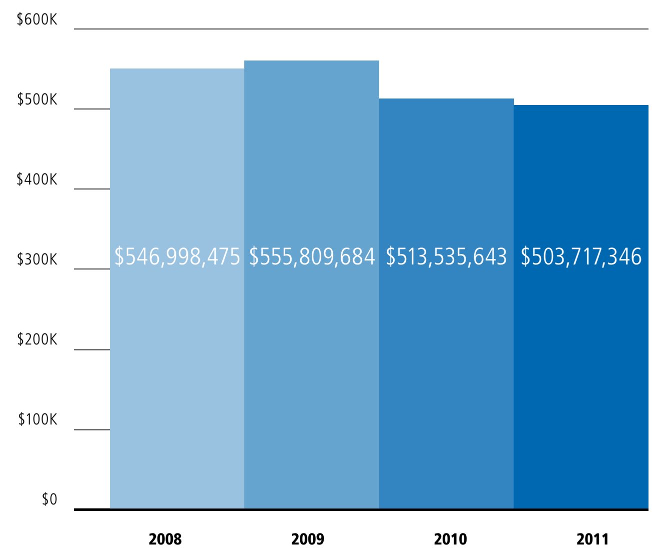


Total Net Loans



Member Shares

Laszlo Heredy
Chairman of the Board

Letter from the Chairman of the Board

Dear Esteemed Farmers Insurance Group Federal Credit Union Members,

Thanks to your loyal support, our Credit Union experienced another successful year in 2011. As a financial services cooperative, Farmers Insurance Group Federal Credit Union (FIGFCU) never loses sight of the fact that FIGFCU members are also owners, and we thank you for choosing us for all of your banking needs.

While we have grown and expanded our offerings consistently over the last 75 years, our commitment to serving our members remains at the forefront of all that we do. Even with the turbulent economic landscape facing us in 2011, FIGFCU saw a net income of $8.4 million, bringing our year-end gross capital to $85.6 million – a record high, and making us one of the best capitalized credit unions in our industry. We exceeded our strategic net worth goal of 9.4%, ending the year at a very impressive 12.4%. This strong profitability and concomitant growth in capital means we can keep our focus on offering you – our member-owners – the highest quality financial solutions, delivered with the personal service you deserve and have come to expect from us.

Our strong financial position provided us with the opportunity to expand and improve our product offerings. Mobile banking was introduced to provide you with even more user-friendly access to your funds through your smartphone. Our checking account products were simplified and improved based on feedback we received from you in our member surveys. These enhancements would not have been possible without a strong underlying financial foundation.

Today, with almost $600 million in assets and close to 43,000 members, FIGFCU is positioned to provide you and your family the highest quality financial services available in the marketplace. Yet we understand the need to continue to serve our members' individual needs, and we pledge to continue to work with each of you to help meet your transactional requirements and achieve your financial goals. FIGFCU is dedicated to being your trusted partner in making wise financial decisions and finding new opportunities for our members to prosper.

All of us at FIGFCU – your Board of Directors, the management team, and each and every employee – thank you for your membership and continued loyalty. We know you have many choices in the financial services arena, and we very much appreciate the confidence you have placed in us.

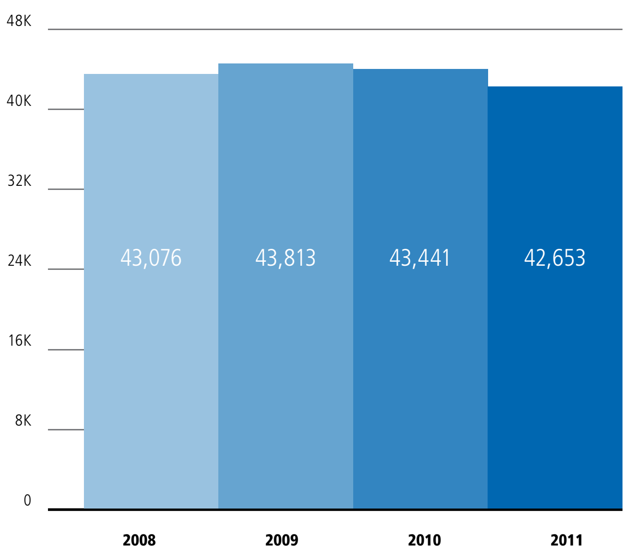
I look forward to many more successful years ahead.

Laszlo G. Heredy
Chairman of the Board

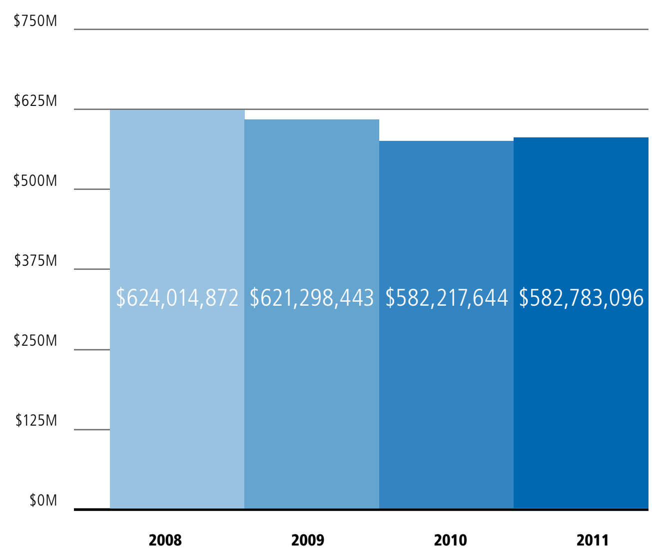
Credit Union Highlights 2008-2011

Member Satisfaction Survey

Farmers Insurance Group Federal Credit Union prides itself on providing value, safety and service to enhance our members' financial lives. Understanding what drives Member Satisfaction along with Loyalty and Advocacy, therefore, is not only essential to our continued organizational growth, but is also a core value of our corporate culture. FIGFCU partnered with Scantron Survey Services in 2011 to implement a new methodology for our Member Service evaluation which provides us with greater detail than our previous method to improve member satisfaction. The Member Satisfaction Score reflects member responses among New Accounts, Lending, Teller and Telephone transactions. **In 2011, FIGFCU surpassed its Member Satisfaction Score goal of 85.27% by earning a score of 85.31%**. We look forward to providing our members with an even higher level of service in 2012 and beyond!



Total Members



Total Assets

Mark Herter
President/CEO

Letter from the CEO

Dear Members,

As your Credit Union approaches the end of its eighth decade of serving you, we are proud to report that your very own financial cooperative has not only survived many rough times, but has flourished. To do that, we've had to change in some fairly radical ways, but then, so has every other organization that has managed to serve its members (or customers) day in and day out that long. Indeed, change is the constant.

To remain dynamic and consistently strong, we have found it most prudent to build our reserves, our capital. Our federal regulator, the National Credit Union Administration, recognizes the consistent and reasonable accumulation of reserves as the principal hallmark of a sound and well-run credit union. In fact, it takes a dim view of those that are not at least adequately capitalized. That level of generally acceptable fiscal prudence, if you will, is only about 42% of our own, now approaching 15% of assets. That quite simply makes your FIGFCU one of the best capitalized credit unions in the USA. Because our net worth position was as strong as it was at the end of 2011, we are able to carry out an extra "return of values" to our member/owners for 2012, of almost $1.5 million over and above our everyday superior values and services.

While our use of technology and financial strength have both improved vastly over the years, it's far more interesting and important to me that our members trust their Credit Union far more today than ever before. You may think, "How so?" First of all, our members know that we are an integral part of the Farmers family of entities, working hard consistently to fulfill our mission of improving our members' financial lives. To execute that, we've had to prove that we are, well, about as stable as Farmers! While everyone knows that we are not as large as many banks, we are far more loyal to our members, and to our primary sponsor, Farmers, than any bank would ever be. Trust is earned over a long period of years, and it must be reinforced often to stay strong. Our long-term members comprehend that at the deepest levels.

You will see as you continue reading this 2011 Annual Report, of which the theme is *Evolving to Meet Our Members' Needs*, that our financial condition is stronger than it's ever been, yes, in our entire 76-year history. That means we intend to have the capability of serving your grandchildren's children as adults 76 years from now. Building an enduring legacy has been one of our prime motivators these many years, and we've accomplished that.

Thank you for your active membership. Monitor your accounts closely, pay your bills on time, and save money every chance you get! Take ownership of what's going on in your financial life every day.

Mark Herter
President/CEO

Board of Directors

Laszlo Heredy
Retired

Michael Ashe
Agent. Las Vegas, NV

Kenneth Carroll
Retired

Frank Ceglar
Executive Vice President
and General Counsel

Marilyn Huntamer
Agent. San Diego, CA

Scott Lindquist
Executive Vice President
and Chief Financial Officer

Ed McMahon
District Manager. Phoenix, AZ

Roy Smith
Head of Distribution/Sales-Life

Jim Snikeris
Vice-President, Austin ServicePoint

Management Team

Mark Herter
President/CEO

Laura Campbell
Executive Vice President

Harland Bengs
Chief Financial Officer

Brian Leonard
Chief Lending Officer

Yusef Mustafa
Vice President, Information Technology

Beth Rodgers
Vice President, Marketing

Charles Tea
Vice President, Operations

SUPERVISORY COMMITTEE

(Not Pictured)

Andy Purl

Chairman, Senior Audit Consultant

Karen Jenkins

Head of Distribution Compliance

Tony Tomich

AVP Investments/ERISA Plans

Lewis Williams

ZFUS Director of IT Finance

This annual report reflects on 2011, as Farmers Insurance Group Federal Credit Union marked 76 years of service to our members. In looking back through those years, we have seen so many important changes within our country and our Credit Union.

Our roots date back to the Great Depression, a time when many credit unions were formed as a result of banks' inabilities and reluctance to extend credit to consumers. Faced with very few financing options, people joined together and formed financial cooperatives to help them make it through the tough times.

That spirit lives on today, as we continue to battle our way out of the worst financial crisis we have experienced since that Depression. At FIGFCU, we pride ourselves in that spirit of cooperation, and we are pleased we have been able to support our members through these continued challenging times.

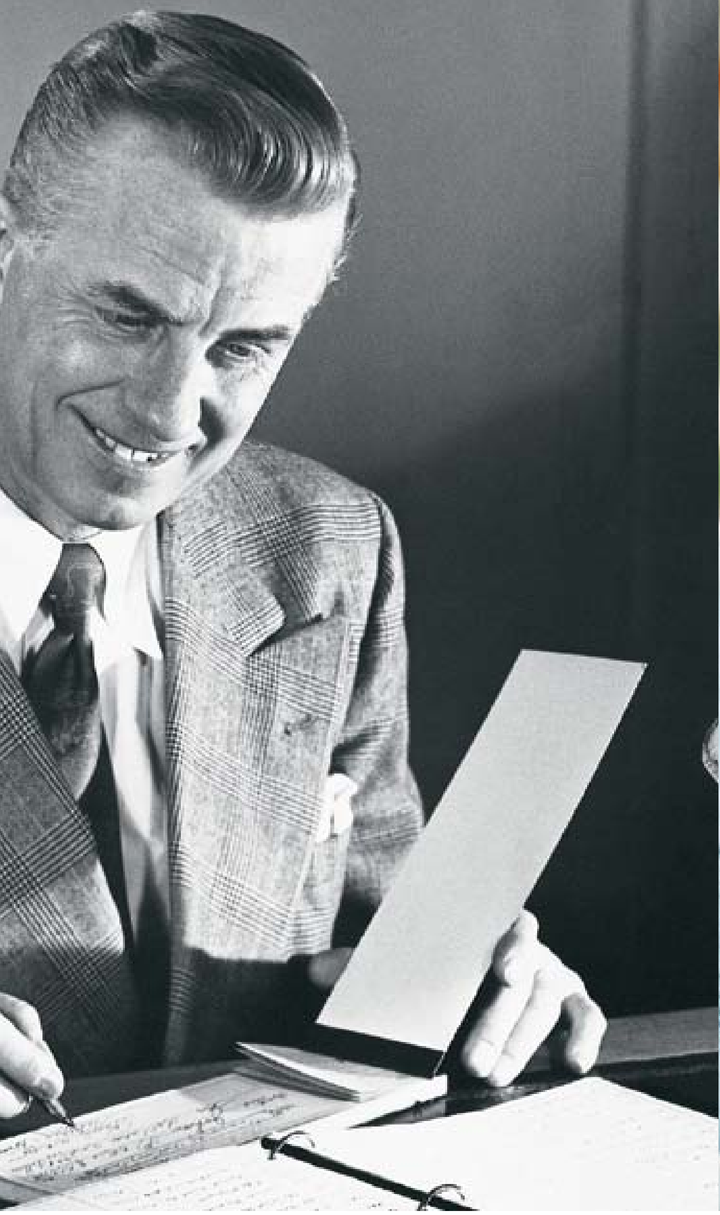

Despite many obstacles, 2011 was a very good year for FIGFCU, as your Credit Union saw a net income of $8.4 million, bringing our year-end gross capital to $85.6 million. This makes us one of the best capitalized credit unions in the industry. We exceeded our net worth goal, ending 2011 notably at 12.4%. This strong growth in profitability and capital enabled us the opportunity to expand and improve our product and service offerings.

In the first half of 2011, we introduced Prepaid Debit Cards, a safer alternative to carrying cash or credit, and TravelMoney Cards, a more convenient option for all your travels. We also launched an Online Switch Kit which made moving your checking account over to FIGFCU simpler, with 5 easy-to-follow steps. Beginning in June, we helped make buying or selling a home less stressful, as HomeBenefits Plus provided big rebates and worked closely with our members to provide a smooth real estate transaction. To help our young adult members make smarter borrowing decisions, FIGFCU launched Student Loans, giving students and their parents options to help pay for higher education.

In October, when the "big banks" announced they were increasing their fees across the board, your Credit Union retained its Free Checking account and, in response to a survey of our members, added Debit Card Rewards. Now, every time you swipe your FIGFCU debit card for purchases, you earn points towards valuable merchandise and gifts. That survey also led to the review of all our checking accounts, resulting in the creation of Benefits Plus Checking – a checking account that pays interest on your deposits and, once you enroll, provides IdentitySecure, a comprehensive program that provides protection against identity theft and fraud.

Accessibility continued to be a top priority as all of our 24/7 services – from online banking and bill pay, to mobile banking and online deposit – remained free of charge. We continue to be part of the Shared Branch and CO-OP networks, giving members access to over 4,400 branches and 28,000 fee-free ATMs. In addition, a second Grand Rapids branch was opened to service members working in Kraft Meadows 2, and our Simi Valley branch moved to accommodate Farmers employees that were relocated to Woodland Hills.

Serving our members also meant giving back to the communities



where we live and work. Thanks to the generosity and fundraising efforts of FIGFCU staff and members, nearly $25,000 was contributed to non-profit organizations such as the March of Dimes and Children's Miracle Network Hospitals.

In 2012, we look forward to new ways to serve our members with the addition of:

- Round It Up, to help members automatically save with every debit card purchase
- Visa Blue, a share secured credit card, to help members needing to establish or rebuild credit
- An update to our mobile banking service that will allow smartphone users to take pictures of checks and make a deposit anywhere, anytime, right from the palm of their hand
- Consolidation Student Loans, to help students who have graduated lower their monthly student loan payment, by consolidating several loans into one

Continuing on the Road to Success

In 2011, we listened to our members' needs. It was truly a year of "service to the member."

Today, with $582.8 million in assets and 42,653 members, FIGFCU is positioned to provide our members the highest quality financial services available in the marketplace. You and your family can feel confident turning to FIGFCU, no matter where your life's journey leads. Despite the economic challenges of 2011, your Credit Union achieved a record high for its year-end gross capital.

We have much to celebrate for the 76 years we have been in existence. We look forward to many more years and beyond of providing you and your family with the financial solutions needed to help you succeed and prosper.

Orth, Chakler, Murnane and Company, CPAs
A Professional Association
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Web site: www.ocmcpa.com

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Hugh S. Chakler, CPA, CISA, CITP, CFE
John J. Murnane, CPA
James A. Griner, CPA
Lori J. Carmichael, CPA
Daniel C. Moulton, CPA

INDEPENDENT AUDITORS' REPORT

April 9, 2012

To the Supervisory Committee of
Farmers Insurance Group Federal Credit Union

We have audited the accompanying statements of financial condition of Farmers Insurance Group Federal Credit Union as of December 31, 2011 and 2010, and the related statements of income, comprehensive income, members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Farmers Insurance Group Federal Credit Union as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Orth, Chakler, Murnane & Co.

Orth, Chakler, Murnane & Company
Certified Public Accountants

OCM&Co
A PROFESSIONAL ASSOCIATION
CPAs

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION

ASSETS

	As of December 31, 2011	2010
Cash	$2,022,738	$1,882,463
Investments:		
Available-for-sale	30,613,127	3,557,282
Other	62,058,217	93,466,277
Loans to members, net of allowance for loan losses	472,678,960	467,889,524
Accrued interest receivable:		
Investments	31,930	114,023
Loans	2,446,012	2,360,508
Prepaid and other assets	5,989,223	5,339,585
Property and equipment, net	1,900,285	2,306,614
NCUSIF deposit	5,042,604	5,301,368
Total assets	$582,783,096	$582,217,644

LIABILITIES AND MEMBERS' EQUITY

	As of December 31, 2011	2010
LIABILITIES:		
Members' shares and deposits	$503,717,346	$513,535,643
Interest payable	333,828	396,213
Accounts payable and accrued liabilities	6,104,143	4,132,110
Total liabilities	510,155,317	518,063,966
Commitments and contingent liabilities		—
MEMBERS' EQUITY:		
Regular reserve	16,966,743	16,966,743
Undivided earnings	55,533,838	47,110,528
Accumulated other comprehensive income	127,198	76,407
Total members' equity	72,627,779	64,153,678
Total liabilities and members' equity	$582,783,096	$582,217,644

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION
STATEMENTS OF INCOME

	For the years ended December 31, 2011	2010
INTEREST INCOME:		
Loans to members	$29,054,906	$30,187,622
Investments	843,015	1,758,372
Total interest income	29,897,921	31,945,994
INTEREST EXPENSE:		
Members' shares and deposits	4,345,794	6,184,859
Interest on borrowed funds	—	114,875
Total interest expense	4,345,794	6,299,734
Net interest income	25,552,127	25,646,260
PROVISION FOR LOAN LOSSES	121,148	5,659,817
Net interest income after provision for loan losses	25,430,979	19,986,443
NON-INTEREST INCOME:		
Overdraft and checking fees	3,363,648	3,383,166
Service charges and other fees	2,351,470	2,242,468
Interchange income	1,211,432	1,073,239
Other	693,538	407,171
Total non-interest income	7,620,088	7,106,044
	33,051,067	27,092,487
NON-INTEREST EXPENSE:		
Compensation and employee benefits	12,586,200	11,054,451
Office operating costs	5,178,675	5,460,178
Loan servicing expense	1,770,015	1,530,698
Office occupancy	1,329,558	1,294,288
NCUA insurance premium assessments	1,260,651	1,403,758
Other expenses	1,115,371	1,003,033
Educational and promotional expense	746,491	542,803
Professional and outside services	640,796	713,503
Total non-interest expense	24,627,757	23,002,712
Net income	$8,423,310	$4,089,775

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION
STATEMENTS OF COMPREHENSIVE INCOME

	For the years ended December 31, 2011	2010
NET INCOME	$8,423,310	$4,089,775
OTHER ITEMS OF COMPREHENSIVE INCOME:		
Net unrealized gain on investments classified as available-for-sale	50,791	6,426
Other comprehensive income	50,791	6,426
Comprehensive income	$8,474,101	$4,096,201

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION
STATEMENTS OF MEMBERS' EQUITY

For the years ended December 31, 2011 and 2010

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2009	$16,966,743	$43,020,753	$69,981	$60,057,477
Net income	—	4,089,775	—	4,089,775
Other comprehensive income	—	—	6,426	6,426
Balance, December 31, 2010	16,966,743	47,110,528	76,407	64,153,678
Net income	—	8,423,310	—	8,423,310
Other comprehensive income	—	—	50,791	50,791
Balance, December 31, 2011	$16,966,743	$55,533,838	$127,198	$72,627,779

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION
STATEMENTS OF CASH FLOWS

	For the years ended December 31, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$8,423,310	$4,089,775
Adjustments:		
Provision for loan losses	121,148	5,659,817
Depreciation and amortization	974,625	1,098,952
Changes in operating assets and liabilities:		
Accrued interest receivable	(3,411)	1,190,949
Prepaid and other assets	(649,638)	(2,060,404)
Interest payable	(62,385)	353,879
Accounts payable and accrued liabilities	1,972,033	(1,256,838)
Net cash provided by operating activities	10,775,682	9,076,130
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities and repayments of available-for-sale investments	4,994,946	836,253
Purchase of available-for-sale investments	(32,000,000)	—
Net change in other investments	31,408,060	241,345,331
Net change in loans, net of charge-offs	(5,346,483)	17,713,852
Recoveries on loans charged off	435,899	705,482
Expenditures for property and equipment	(568,296)	(363,231)
Change in NCUSIF deposit	258,764	815,981
Net cash (used in)/provided by investing activities	(817,110)	261,053,668
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in members' shares and deposits	(9,818,297)	(42,274,041)
Repayment of borrowed funds	—	(228,066,000)
Net cash used in financing activities	(9,818,297)	(270,340,041)
Net change in cash	140,275	(210,243)
Cash at beginning of year	1,882,463	2,092,706
Cash at end of year	$2,022,738	$1,882,463
SUPPLEMENTAL CASH FLOWS DISCLOSURES:		
Interest paid	$4,408,179	$5,945,855
SCHEDULE OF NON-CASH TRANSACTIONS:		
Other comprehensive income	$50,791	$6,426

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Farmers Insurance Group Federal Credit Union (the "Credit Union"), is a cooperative association organized in accordance with the provisions of the Federal Credit Union Act for the purpose of promoting thrift among, and creating a source of credit for, its members. Participation in the Credit Union is limited to those who qualify for membership. The field of membership is defined by the Credit Union's Charter and Bylaws.

FINANCIAL STATEMENTS/USE OF ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenses for the periods then ended. Estimates that are particularly susceptible to change relate to the determination of the allowance for loan losses and the fair value of financial instruments. The significant accounting principles and policies used in the preparation of these financial statements, together with certain related information, are summarized below.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes amounts due from banks, credit unions and cash on hand. Amounts due from banks and credit unions may, at times, exceed federally insured limits.

INVESTMENTS

Investments are classified into the following categories: available-for-sale and other. Investment securities classified as available-for-sale are measured at fair value as of the statement of financial condition date. Unrealized gains and losses on available-for-sale investments are reported as a separate component of members' equity. Realized gains and losses on disposition, if any, are computed using the specific identification method. Investments are adjusted for amortization of premiums and accretion of discounts over the term of the investment by a method which approximates the interest method. Adjustments are recognized to interest income on investments. The Credit Union has elected to classify certain cash equivalents as other investments. This election is available to the Credit Union according to the terms of the Statement of Cash Flows Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

Note 1: (continued)

LOANS TO MEMBERS AND ALLOWANCE FOR LOAN LOSSES

Loans to members are stated at the amount of unpaid principal net of deferred loan origination fees and costs and an allowance for loan losses (ALL). The ALL is increased by a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). The ALL is maintained at a level considered adequate to provide for optimal loss coverage for the entire loan portfolio over the next twelve months. Individually significant, non-homogeneous loans are measured for impairment in accordance with the Subsequent Measurement of Receivables Topic of the FASB ASC. These loans are evaluated individually based on an examination of the current financial information of the borrower and an estimate of the value of the collateral, if any. If the carrying value of any of these loans is greater than the estimated net realizable value of the property or of the collateral securing these loans, a reserve is established for the difference. Management's periodic evaluation of the adequacy of the ALL also considers such factors as changes in the nature and volume of the loan portfolio, review of specific problem loans, and current economic conditions that may affect the borrower's ability to repay.

Interest on loans to members is recognized over the terms of the loans and is calculated on principal amounts outstanding. The accrual of interest is discontinued when a loan exceeds 90 days delinquent or when management believes that collection of interest is doubtful. Loan fees and direct loan origination costs are deferred and the net fee or cost is recognized as an adjustment to interest income using a method that approximates the interest method over the contractual life of the loan.

Allowance for Loan Losses

Management has an established methodology to determine the adequacy of the ALL that assesses the risks and losses inherent in the entire loan portfolio. For the purpose of determining the ALL disclosures, the Credit Union has segmented loans in the portfolio by product type. Loans are segmented into the following pools: Consumer, Residential real estate, and Commercial. The Credit Union also sub-segments these pools into classes based on the associated risks within those segments.

Consumer loans are divided into four classes: Other secured, Unsecured, New auto, and Used auto. Residential real estate loans are divided into three classes: First mortgage, Second mortgage, and Home equity line of credit (HELOC). Commercial loans are all classified as real estate. Each class of loans requires significant judgment to determine the estimation method that fits the credit risk characteristics of its portfolio segment. The Credit Union uses both internally developed and vendor supplied models in the process. The vendor model is supplied by Portfolio 360, Inc. The Portfolio 360, Inc. model provides meaningful insights into the portfolio's risk composition, as dictated by the intrinsic value and other relevant market data. The model is specifically designed to calculate the risk of the loan portfolio on an individual loan level basis to provide optimal loss coverage analysis over the next twelve months.

Note 1: (continued)

Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions used to determine the ALL are independently validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented. The following is how management determines the balance of the ALL for each segment or class of loans.

Consumer Portfolio Segment ALL Methodology

For consumer loans, the Credit Union determines the ALL on a collective basis utilizing historical and forecasted losses to represent the best estimate of inherent losses at the measurement date. Loans are pooled, generally by loan types with similar risk characteristics. The Credit Union identifies consumer loans that underwent a troubled debt restructuring and evaluates these loans on an individual basis. In addition, the ALL model incorporates numerous other historical factors based upon the borrower, collateral type, loan performance, environment, and economy. These historical factors used in the analysis date back to 2001.

As appropriate, to achieve greater accuracy, further stratification of a selected portfolio may occur such as by year of origination, geographic location and other predictive characteristics. The consumer ALL model primarily uses historical delinquency and default experience. Information on forecasted delinquency analysis, member credit score trends, unemployment trends, industry trends and other key economic variables that may influence the frequency and severity of losses for each class of loan within the consumer segment may also be considered.

The Credit Union's consumer loan portfolio also includes loans collateralized by contract value. These are considered fully secured unless notified otherwise, as these loans, when written within the guidelines established by Farmers Insurance Group Inc. (Farmers), are secured and will be paid in full by Farmers upon member termination if the Credit Union's collection efforts were to ultimately fail. Similarly, loans collateralized by a certificate or share account are also considered fully secured unless otherwise notified.

Residential Real Estate Portfolio Segment ALL Methodology

For residential real estate loans not identified as impaired, the Credit Union determines the ALL on a collective basis, utilizing various economic and financial simulations in order to determine the best estimate of inherent losses at the measurement date. Loans are pooled, generally by loan types with similar risk characteristics. In addition, the ALL model incorporates numerous other historical factors based upon the borrower, collateral type, loan performance, environment, and economy. These historical factors used in the analysis date back to 2001.

As appropriate, to achieve greater accuracy, further stratification of a selected portfolio may occur such as by year of origination, geographic location and other predictive characteristics. Information on member credit score trends, combined loan to value ratios, home price trends, unemployment trends, industry trends, and other key economic variables that may influence the frequency and severity of losses for each class of loan within the residential real estate segment may also be considered. The residential real estate ALL also includes an amount for the estimated losses on individually evaluated impaired loans.

Note 1: (continued)

Additionally, a mortgage sample analysis is performed periodically to assess the potential loss exposure within the residential real estate loan portfolio. The Credit Union obtains updated property values on all existing real estate loans in its portfolio. Using a sample of loans, the Credit Union performs individual reviews to assess the potential loss exposure based on various risk factors including combined loan to value, member credit score, delinquency, loan vintage, and type of collateral. Results of the sample analysis are extrapolated to the total population to assess the adequacy of the ALL.

Commercial Portfolio Segment ALL Methodology

For commercial loans not identified as impaired, the Credit Union determines the ALL on a collective basis utilizing historical and forecasted losses to represent the best estimate of inherent losses at the measurement date. In addition, the ALL model incorporates numerous other historical factors based upon the borrower, collateral type, loan performance, environment, and economy. These historical factors used in the analysis date back to 2001.

Loss estimates for the commercial loan portfolio segment may be adjusted as appropriate based on credit risk assessment and management's analysis of leading predictors of losses, as well as additional analysis of long-term average loss experience compared to previously forecasted losses, external loss data, or other risks identified from current economic conditions and credit quality trends. The commercial ALL may also include an additional ALL for individually evaluated high risk loans and an amount for the estimated losses on individually evaluated impaired loans.

Loan Charge-Off Policies

The Credit Union's quality control process includes preparing lists to monitor and track delinquent and special mention loans. Tracking loans on these lists enables management to assess the performance of the loan portfolio and act to mitigate risk therein through necessary changes in policy and procedures. The quality control process also serves as a tool to assist the Credit Union in identifying loans for charge-off on a timely basis. The following is a description of the Credit Union's loan charge-off policies:

Consumer, residential real estate, and commercial loans are generally charged-off when the loan is deemed to be uncollectible. A loan is deemed uncollectible when:

- the member has gained relief through bankruptcy;
- the loan is a deficiency balance from the sale of collateral and the borrower has indicated an unwillingness to make further payments;
- the borrower is determined to be a "skip";
- the member is deceased, collateral has been liquidated and there is no co-maker or estate to pursue for payment;
- the loan is 180 days or more delinquent, unless one of the following conditions exists:

Note 1: (continued)

- the borrower is making monthly payments but cannot qualify for refinancing or re-aging;
- the Credit Union or the member is waiting for settlement of a documented insurance/bond claim;
- the borrower is deceased, and the Credit Union has substantial reason to expect settlement from the estate, co-makers, or relatives;
- the Credit Union is waiting for the proceeds from the sale of repossessed collateral.

Uncollectible loans to be charged off to the ALL are approved by the Board of Directors each month. For repossessed collateral, including foreclosed property, the loan is charged off to the ALL and the net realizable value moved to other assets.

PROPERTY AND EQUIPMENT

Property and equipment are carried at cost less accumulated depreciation. 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 term of the lease, or the estimated life of the asset, whichever is less. The Credit Union reviews property and equipment (long-lived assets) for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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 federally insured credit union in an amount equal to 1% of its insured members' shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board.

NCUA INSURANCE PREMIUM ASSESSMENTS

During 2010, the NCUA Board assessed a 13.4 basis point insurance premium on insured deposits as of March 31, 2010 and a 12.42 basis point insurance premium on insured deposits as of June 30, 2010. During 2011, the NCUA Board assessed a 25 basis point insurance premium on insured deposits as of June 30, 2011. **(See Note 11)**

MEMBERS' SHARES AND DEPOSITS

Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' shares and deposits is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on members' share accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Note 1: (continued)

REGULAR RESERVE

The Credit Union is required to maintain a statutory reserve (regular reserve) in accordance with the Federal Credit Union Act. This statutory reserve represents a regulatory restriction and is not available for the payment of interest.

FEDERAL AND STATE TAX EXEMPTION

The Credit Union is exempt from most federal, state, and local taxes under the provisions of the Internal Revenue Code and state tax laws. The FASB ASC 740-10-25 clarifies accounting for uncertainty in income taxes reported in the financial statements. The interpretation provides criteria for assessment of individual tax positions and a process for recognition and measurement of uncertain tax positions. Tax positions are evaluated on whether they meet the "more likely than not" standard for sustainability on examination by tax authorities. Federal credit unions are tax-exempt under Internal Revenue Code sections 501(c)(1)(a)(I) and 501(c)(14)(a). As such, the Credit Union has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Additionally, no interest or penalties have been recorded in the accompanying financial statements related to uncertain tax positions.

RECLASSIFICATIONS

Certain 2010 financial statement amounts have been reclassified to conform with classifications adopted in 2011.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 9, 2012, the date the financial statements were available to be issued. Management has not identified any items requiring recognition or disclosure.

NOTE 2: INVESTMENTS

The amortized cost and estimated fair value of investments are as follows:

	As of December 31, 2011			
Available-for-sale:	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Mortgage-backed securities	$3,032,660	$100,765	$—	$3,133,425
NCUA guaranteed notes	27,397,329	26,477	—	27,423,806
Collateralized-mortgage obligations	55,940	—	(44)	55,896
	$30,485,929	$127,242	($44)	$30,613,127

Note 2: (continued)

Available-for-sale:	As of December 31, 2010 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities	$3,415,285	$76,279	$—	$3,491,564
Collateralized-mortgage obligations	65,590	128	—	65,718
	$3,480,875	$76,407	$—	$3,557,282

All available-for-sale investments receive principal and interest payments based on the payments received on the loans underlying the investments. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay certain obligations without call or prepayment penalties.

Other investments:	As of December 31, 2011	2010
Corporate credit union deposits	$50,366,217	$22,811,603
Other certificates of deposit	11,692,000	22,470,000
Corporate credit union certificates of deposit	—	48,184,674
	$62,058,217	$93,466,277

The Credit Union maintains deposits at corporate credit unions which normally exceed federally insured limits; however, NCUA is providing a temporary guarantee on deposits in excess of insurance limits maintained at corporate credit unions through December 31, 2012, other than perpetual contributed capital, membership capital shares and paid-in capital. These uninsured deposits are subject to certain withdrawal restrictions and approximated $4,101,000 and $2,402,000 as of December 31, 2011 and 2010, respectively. **(See Note 11)**

The following table shows the gross unrealized losses and fair value of investments, aggregated by length of time that individual securities have been in a continuous unrealized loss position.

As of December 31, 2011
Available-for-sale

	Less than 12 Months		***12 Months or Longer***		***Total***	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Collateralized-mortgage obligations	$55,896	$44	$—	$—	$55,896	$44

Unrealized losses on securities issued by the U.S. Government and its Agencies have not been recognized into income because the principal balances of these securities are guaranteed by the U.S. Government. Additionally, management has the ability and intent to hold these securities through to recovery of fair value, which may be maturity.

NOTE 3: LOANS TO MEMBERS

The composition of loans to members is as follows:

	As of December 31, 2011	2010
Consumer:		
Other secured	$175,433,506	$177,889,064
Unsecured	60,552,682	51,883,594
New auto	17,206,939	20,863,790
Used auto	35,976,764	35,151,051
Total consumer	289,169,891	285,787,499
Residential real estate:		
First mortgage	87,307,850	87,295,007
Second mortgage	15,060,166	19,802,930
HELOC	12,016,990	14,690,046
Total residential real estate	114,385,006	121,787,983
Commercial:		
Real estate	81,899,429	76,801,625
Total loans	485,454,326	484,377,107
Deferred loan origination costs/fees, net	203,565	330,350
	485,657,891	484,707,457
Less allowance for loan losses	(12,978,931)	(16,817,933)
	$472,678,960	$467,889,524

A summary of the activity in the ALL, by portfolio segment, is as follows:

	For the year ended December 31, 2011			
	Consumer	Residential Real Estate	Commercial	Total
Balance, beginning of year	$3,214,824	$5,883,304	$7,719,805	$16,817,933
Provision for loan losses	1,730,980	(557,831)	(1,052,001)	121,148
Recoveries	215,036	153,246	67,617	435,899
Loans charged off	(2,205,962)	(909,934)	(1,280,153)	(4,396,049)
Balance, end of year	$2,954,878	$4,568,785	$5,455,268	$12,978,931
Ending balance:				
Individually evaluated for impairment	$118,294	$2,014,701	$4,763,814	$6,896,809
Collectively evaluated for impairment	$2,836,584	$2,554,084	$691,454	$6,082,122

Note 3: (continued)

A summary of the activity in the ALL is as follows:

	For the year ended December 31, 2010
Balance, beginning of year	$15,452,317
Provision for loan losses	5,659,817
Recoveries	705,482
Loans charged off	(4,999,683)
Balance, end of year	$16,817,933

A summary of the recorded investment in loans, by portfolio segment, is as follows:

	As of December 31, 2011			
	Consumer	Residential Real Estate	Commercial	Total
Ending balance	$289,169,891	$114,575,258	$81,912,742	$485,657,891
Individually evaluated for impairment	$776,698	$9,964,704	$22,171,910	$32,913,312
Collectively evaluated for impairment	$288,393,193	$104,610,554	$59,740,832	$452,744,579

Impaired Loans

A loan is impaired when it is probable, based on current information and events, that the Credit Union will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. When management identifies a loan as impaired, the impairment is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases management uses the current fair value of the collateral, less selling costs when foreclosure is probable, instead of discounted cash flows. If management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an ALL estimate or a charge-off to the ALL.

The following table includes the recorded investment and unpaid principal balances for impaired loans with the associated ALL amount, if applicable. Also presented are the average recorded investments in the loans and the related amount of interest recognized during the time within the period that the loans were individually evaluated for impairment. Interest is credited to interest income when received, under the cash basis method. The average balances are calculated based on the year-end balances of the loans of the period reported.

Payments received on impaired loans are recorded as a reduction of principal or as interest income depending on management's assessment of the ultimate collectability of the loan principal. Generally, interest income on an impaired loan is recorded on a cash basis when the outstanding principal is brought current. Interest income recorded on impaired loans for all periods presented was recorded on a cash basis.

Note 3: (continued)

The table below summarizes key information for impaired loans:

	As of December 31, 2011			For the year ended December 31, 2011	
	Recorded Investment	Unpaid Principal Balance	Specific Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Consumer:					
Other secured	$46,075	$46,075	$—	$23,038	$2,598
With an allowance recorded:					
Consumer:					
Other secured	$184,806	$184,806	$46,144	$152,031	$10,422
Unsecured	$248,120	$248,119	$46,968	$156,924	$27,243
New auto	$32,861	$32,861	$2,781	$29,462	$1,510
Used auto	$264,836	$264,836	$22,401	$247,249	$14,278
Residential real estate					
First mortgage	$9,782,497	$9,766,281	$1,964,235	$9,371,570	$508,863
Second mortgage	$182,207	$181,905	$50,466	$217,479	$12,615
Commercial:					
Real estate	$22,171,910	$22,168,307	$4,763,814	$20,987,292	$1,325,576
Totals:					
Consumer	$776,698	$776,697	$118,294	$608,704	$56,051
Residential real estate	$9,964,704	$9,948,186	$2,014,701	$9,589,049	$521,478
Commercial	$22,171,910	$22,168,307	$4,763,814	$20,987,292	$1,325,576

Note 3: (continued)

The table below provides an age analysis of past due loans by class:

	As of December 31, 2011					
	Days Delinquent			Total Delinquent Loans	Total Current Loans	Total Loans
	30 - 59	60 - 89	90 or more			
Consumer:						
Other secured	$794	$—	$574	$1,368	$175,432,138	$175,433,506
Unsecured	742,638	257,533	265,965	1,266,136	59,286,546	60,552,682
New auto	118,481	35,754	37,854	192,089	17,014,850	17,206,939
Used auto	221,876	182,705	126,915	531,496	35,445,268	35,976,764
Residential real estate:						
First mortgage	425,624	2,095	3,112,626	3,540,345	83,628,502	87,168,847
Second mortgage	26,915	102,383	7,779	137,077	14,923,089	15,060,166
HELOC	165,099	—	—	165,099	12,181,146	12,346,245
Commercial:						
Real estate	221,241	—	8,529,377	8,750,618	73,162,124	81,912,742
Total	$1,922,668	$580,470	$12,081,090	$14,584,228	$471,073,663	$485,657,891

The Credit Union places loans on non-accrual status when the loan reaches 90 days past due or when the collection of interest or principal becomes uncertain. Loans on which the accrual of interest has been discontinued or reduced approximated $12,081,000 and $9,001,000 as of December 31, 2011 and 2010, respectively. There were no loans 90 days or more past due and still accruing interest as of December 31, 2011 or 2010.

TROUBLED DEBT RESTRUCTURING/MODIFICATIONS

The Credit Union's loan portfolio also includes certain loans that have been modified in a Troubled Debt Restructuring (TDR), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Credit Union's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. TDRs are classified as non-accrual at the time of restructure and are returned to accrual status after receiving on time payments for six consecutive months.

When the Credit Union modifies a loan, management evaluates impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement. Or in certain cases, management uses the current fair value of the collateral, less selling costs. The loan is further analyzed for consideration of the risk of re-default. If management determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized by segment or class of loan, as applicable, through the ALL estimate. Segment and class status is determined by the loan's classification at origination.

Note 3: (continued)

The following table includes the recorded financial impact of TDRs performed during the previous 12 months. There were no TDRs performed within the last year, that then defaulted in the current reporting period. Management defines a TDR as subsequently defaulted when the TDR is 30 days past due.

The following table presents the TDRs performed by class of loans during the year ended December 31, 2011:

	Number	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential real estate:			
First mortgage	1	$329,177	$326,678
Commercial:			
Real estate	5	4,298,798	4,291,904
		$4,627,975	$4,618,582

Credit Quality Indicators

The Credit Union uses the Portfolio 360, Inc. model to monitor credit quality for the consumer, residential real estate, and commercial loan portfolios. The Portfolio 360, Inc. model analyzes each loan's risk. When analyzing each loan, the model identifies a set of numbers, or vectors, which represent the borrower's probability of default and the loss severity of the loan over a set of different economic scenarios. These vectors are used to calculate the loan risk grade and run risk adjusted cash flows which result in the value-at-risk, pricing, and loan valuation.

The model incorporates over 150 data points covering more than just credit score and collateral value. These loan level factors include institution and borrower specific data points as well as economic measures that feed into the risk analysis. They provide value reconciliation when refreshing property values and add updated values for the new and used auto portfolios. They continue to enhance the risk model by incorporating new technologies and applying all loan data available.

In addition to credit score, the model incorporates numerous other factors based upon the borrower, collateral, loan performance, environment, institution, and economy as follows:

Macro-economic - This segment's data points are used to depict the overall health of the national economy such as: national unemployment, GDP growth, Treasury rate curves and forecasts, industry delinquencies and charge-offs, national credit scores, borrower bankruptcy rates, etc.

Institution - This segment focuses on the Credit Union and is used to model the borrower's profile, stability, and fine tune the risk adjustments to the specific institution. Examples of data points include delinquency rates and trends, charge-offs, and bankruptcies per 1,000 members.

Note 3: (continued)

Regional geography - This segment focuses on local economic factors such as unemployment, growth, and real estate values.

Loan - Additional data points added to this analysis are payment trend, auto pay, updated senior balances, last payment amounts, and use of proceeds.

Borrower - Examples of data points in this segment are disposable income, updated cash reserves, employment status, and direct deposit.

Asset - In addition to using different automated valuation model products for the residential portfolio, the model includes new data to improve vehicle valuations for the new and used auto portfolios.

The following tables represent the unpaid principal balances of consumer, residential real estate, and commercial loan credit exposures by Penrith risk grade as of December 31, 2011. The use of the Penrith risk grades permits management to estimate a portion of credit risk. Category ratings are reviewed quarterly, at which time management analyzes the resulting grades, as well as other external statistics and factors, to track loan performance. Loans that trend upward toward higher levels generally have a higher risk factor associated. Whereas, loans that migrate toward lower ratings generally will result in a lower risk factor being applied to those related loan balances. The risk ratings from Business Partners are taken into consideration when the Penrith risk grades are applied to the individual commercial real estate loan particpaitons.

The Penrith risk grades are as follows:

V1 - Minimal risk - These loans generally show the ability to cover expenses with a minimal chance of default. The typical characteristics for these loans are long-term Credit Union members with excellent credit history, strong cash flow, quality money management, excellent access to alternative sources of financing, and well collateralized. These loans typically have very low potential loss, no greater than one percent of the loan balance in most cases when factoring the default probability and loss severity.

V2 - Low risk - These loans generally reflect good payment history, a healthy loan to value ratio and are adequately collateralized. The borrowing entity has very good to excellent credit, steady cash flow, quality money management, and good access to alternative sources of financing. As a result, the risk category is highly unlikely to experience a loss. If a loss does occur, it is likely to be minimal.

V3 - Acceptable risk - These loans are better than average loans with a low chance of a loss. The potential loss should be no greater than five percent of the loan balance when factoring default probability and loss severity. Most of the risk attributes for these loans are in line with a low risk profile but are on the fringe of adding risk. Borrower has some access to alternative sources of financing, good money management, and shows control of expenses.

Note 3: (continued)

V4 - Moderate risk - These loans have potential weaknesses or may show a propensity to deteriorate further. These loans are the start of the tipping point of the mid-range risk grades (V4 - V6) that tend to move either to a worsening position or a healthier position and is measured by a ten percent value at risk. This risk grade may include borrowers with only medium to fair credit ratings and a few recent problems. Cash flow is steady and generally adequate to service debt but my be subject to cyclical conditions. The borrower may have limited access to alternative financing.

V5 - Special mention - These loans can prove to be in the most critical stage. Most loans tend to either move up or down from the mid-range risk grades (V4 - V6). Both credit and collateral are substandard, with external economic factors bearing down. The outstanding loan balance may not be entirely protected by equity in the underlying asset with up to a fifteen percent potential loss produced by probability and severity. There may be one or more specific weaknesses jeopardizing the loan, and the Credit Union will most likely sustain a loss if the deficiencies are not corrected.

V6 - Increased risk - These loans generally have multiple vulnerable and weak risk factors that could be attributed to local economic factors. On the basis of currently known facts, the combination of weak attributes make collection or liquidation in full highly questionable and improbable. The risk grade is defined by potential losses of up to twenty percent of the loan balance.

V7 - Elevated risk - There is a strong probability that the Credit Union may not be able to recover on these loans. The Credit Union and the member must look at all options, including modification. Liquidation needs to be considered because most of the underlying assets for this risk grade have passed the tipping point. A loss is nearly impossible to avoid on repayment, refinancing, or liquidation for these loans. The value at risk could be upwards of thirty percent of the current loan balance.

V8 - Doubtful - These borrowers are most likely in a loss situation and can be measured by potential value at risk between thirty and forty percent of the outstanding loan balance. In most cases, assets in this region do not recover and the members and properties are being worked with directly. The most current information on the member and asset has been acquired and the Credit Union has a firm estimate of the loss when the time arrives.

V9 - Inherent loss - These loans are considered uncollectible and will be charged off immediately. Assets in this risk area have an inherent value at risk, north of forty percent. Modification is impossible without major concessions or write down. Residential and commercial properties have a high probability of becoming other real estate owned. In some cases, the Credit Union may find a glimmer of success in short sale opportunities. Other real estate owned, having extended liquidation times and expenses are most likely in less than optimal locations. Conditions prove challenging to draw respectable tenants and rent.

Note 3: (continued)

The table below summarizes key information for consumer credit quality:

Consumer Credit Quality Indicators
As of December 31, 2011
Consumer Credit Exposure
Credit Risk Profile by Creditworthiness Category by Class of Loan

Risk grade	Other Secured	Unsecured	New auto	Used auto	Total
V1	$—	$57,602	$15,119,237	$24,323,434	$39,500,273
V2	—	16,095,261	1,325,565	6,047,219	23,468,045
V3	—	30,055,108	593,705	3,897,842	34,546,655
V4	—	9,168,514	122,161	1,269,824	10,560,499
V5	—	1,501,885	—	180,892	1,682,777
V6	—	2,450,519	—	19,123	2,469,642
V7	—	291,275	—	34,363	325,638
V8	—	147,172	—	—	147,172
V9	—	404,402	—	—	404,402
No risk grade	175,433,506	380,944	46,271	204,067	176,064,788
	$175,433,506	$60,552,682	$17,206,939	$35,976,764	$289,169,891

The table below summarizes key information for residential real estate credit quality:

Residential Real Estate Credit Quality Indicators
As of December 31, 2011
Residential Real Estate Credit Exposure
Credit Risk Profile by Creditworthiness Category by Class of Loan

Risk grade	First mortgage	Second mortgage	HELOC	Total
V1	$51,923,620	$5,635,606	$6,790,242	$64,349,468
V2	6,569,168	1,073,529	1,138,712	8,781,409
V3	6,843,653	1,504,737	571,019	8,919,409
V4	4,552,706	1,305,514	793,441	6,651,661
V5	7,113,387	3,205,027	2,189,948	12,508,362
V6	4,744,639	1,412,877	523,596	6,681,112
V7	1,298,908	587,735	47,848	1,934,491
V8	2,057,414	177,472	—	2,234,886
V9	287,718	157,669	291,439	736,826
No risk grade	1,777,634	—	—	1,777,634
	$87,168,847	$15,060,166	$12,346,245	$114,575,258

Note 3: (continued)

The table below summarizes key information for commercial credit quality:

Commercial Credit Quality Indicators
As of December 31, 2011
Commercial Credit Exposure

Risk grade	Real estate
V1	$41,862,362
V2	12,185,219
V3	5,332,022
V4	1,754,160
V5	10,380,175
V6	649,888
V7	—
V8	1,069,076
V9	5,965,198
No risk grade	2,714,642
Total	$81,912,742

NOTE 4: PROPERTY AND EQUIPMENT

A summary of the Credit Union's property and equipment is as follows:

	As of December 31, 2011	2010
Furniture and equipment	$9,102,435	$8,972,258
Leasehold improvements	1,965,064	2,016,926
	11,067,499	10,989,184
Less accumulated depreciation and amortization	(9,167,214)	(8,682,570)
	$1,900,285	$2,306,614

NOTE 5: MEMBERS' SHARES AND DEPOSITS

Members' shares and deposits are summarized as follows:

	As of December 31, 2011	2010
Share drafts	$67,061,182	$59,764,646
Regular shares	69,724,304	63,951,234
Money market accounts	185,594,889	188,297,485
IRA shares	32,945,916	35,674,161
Share and IRA certificates	148,391,055	165,848,117
	$503,717,346	$513,535,643

Note 5: (continued)

The aggregate amount of members' time deposit accounts in denominations of $100,000 or more was approximately $75,105,000 and $84,940,000 as of December 31, 2011 and 2010, respectively. Negative share and share draft accounts reclassified to loans to members was approximately $288,000 as of December 31, 2011. The Credit Union did not reclassify negative share and share draft accounts to loans to members as of December 31, 2010.

Scheduled maturities of share and IRA certificates are as follows:

	As of December 31, 2011
Within 1 year	$102,966,717
1 to 2 years	21,215,007
2 to 3 years	11,003,382
3 to 4 years	9,023,154
4 to 5 years	4,182,795
	$148,391,055

SHARE INSURANCE

As of December 31, 2011, members' shares were insured by the NCUSIF to a maximum of $250,000 for each member. Individual Retirement Accounts are insured by the NCUSIF for an additional $250,000 coverage. Additionally, non-interest bearing share accounts are fully insured by the NCUSIF until December 31, 2012.

NOTE 6: EMPLOYEE BENEFITS

CASH BALANCE PROGRAM AND 401(K) PENSION PLAN

On January 1, 2009, the Credit Union's defined benefit pension plan was modified and only vested employees who were age 40 and over, or who had 10 years of service as of December 31, 2008, were grandfathered into the existing pension plan. All remaining and new employees became participants of the Cash Balance Program. Farmers Insurance Group, Inc. (Farmers) makes annual contributions to the employees' cash balance account, which is based on a percentage of the employees' salaries. Also, the noncontributory deferred profit sharing plan was terminated and replaced with a 401(k) plan through Farmers, which allows employees to defer a portion of their salary into the 401(k) plan up to certain limits established by the Internal Revenue Service. The Credit Union makes discretionary matching contributions each year. Participants are always 100% vested in all their voluntary contributions. The Credit Union's matching contributions become fully vested at the completion of three years of service.

Retirement plan costs are accrued and funded on a current basis. Total retirement plan costs paid by the Credit Union to Farmers for the years ended December 31, 2011 and 2010 amounted to approximately $952,000 and $518,000, respectively.

NOTE 7: COMMITMENTS AND CONTINGENT LIABILITIES

LEASE COMMITMENTS

The Credit Union leases several branch locations. The minimum remaining noncancellable lease obligations approximate the following as of December 31, 2011:

Year ending December 31,	Amount
2012	$963,000
2013	895,000
2014	761,000
2015	147,000
2016	78,000
Thereafter	107,000
	$2,951,000

Rental expense under operating leases was approximately $1,242,000 and $1,176,000 for the years ended December 31, 2011 and 2010, respectively.

LINES OF CREDIT

As of December 31, 2011, the Credit Union maintained two unused lines of credit with Western Bridge Corporate Federal Credit Union, and one unused line of credit with Corporate America Credit Union. The terms of these agreements require the pledging of all presently owned and later acquired unencumbered assets as security for obligations under these line-of-credit agreements. As of December 31, 2011, the aggregate unused line of credit under the Western Bridge Corporate Federal Credit Union agreement approximated $20,000,000, and the unused line of credit under the Corporate America Credit Union agreement approximated $30,000,000. As of December 31, 2011, the Credit Union also maintained a $1,000,000 unused line of credit with Corporate One Federal Credit Union.

MISCELLANEOUS LITIGATION

The Credit Union is a party to various miscellaneous legal actions normally associated with financial institutions, the aggregate effect of which, in management's opinion, would not be material to the Credit Union's financial statements.

NOTE 8: OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

OFF-BALANCE-SHEET RISK: The Credit Union is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the statements of financial condition.

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. Since many of the commitments may expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. As of December 31, 2011, the members' unfunded lines of credit approximated $123,723,000. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the member.

CONCENTRATIONS OF CREDIT RISK: A significant amount of the Credit Union's business activity is with members who are employees or former employees of Farmers Insurance Group, Inc. The Credit Union also may be exposed to credit risk from a regional economic standpoint, since a significant concentration of its borrowers work or reside in the state of California. However, the loan portfolio is well diversified and the Credit Union does not have any significant concentration of credit risk, except unsecured loans, which by their nature, increase the risk of loss compared to those loans that are collateralized.

NOTE 9: 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 practices. 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 in NCUA's Regulations) to total assets (as defined in NCUA's Regulations). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR as of December 31, 2011 and 2010 was 5.09% and 5.86%, respectively. The minimum requirement to be considered complex under the regulatory framework is 6.00%. Management believes, as of December 31, 2011, that the Credit Union meets all capital adequacy requirements to which it is subject.

Note 9: (continued)

As of December 31, 2011, 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 7.00% of assets. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

The Credit Union's actual and required net worth amounts and ratios are as follows:

	As of December 31, 2011		As of December 31, 2010	
	Amount	**Ratio/ Requirement**	**Amount**	**Ratio/ Requirement**
Actual net worth	$72,500,581	12.44%	$64,077,271	11.01%
Amount needed to be classified as "adequately capitalized"	$34,966,986	6.00%	$34,933,059	6.00%
Amount needed to be classified as "well capitalized"	$40,794,817	7.00%	$40,755,235	7.00%

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

NOTE 10: FAIR VALUES OF FINANCIAL INSTRUMENTS

The Fair Value Measurements and Disclosures Topic of the FASB ASC provides a framework for measuring fair value and requires an entity to derive fair value from 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 within its principal market for the asset or liability, or in the absence of a principal market, the most advantageous market for the asset or liability. To increase consistency and comparability in fair value measurements and related disclosures, a three-level hierarchy prioritizes the inputs to valuation techniques used to measure fair value with the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3) as further described below:

Level 1

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Note 10: (continued)

Level 2

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are inactive; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3

Level 3 inputs are unobservable inputs for the asset or liability which reflect the Credit Union's own assumptions about the assumptions that market participants would use in pricing the asset or liability. Assumptions about risk include risk inherent in a particular valuation technique used to measure fair value, typically pricing models and/or discounted cash flow methodologies.

The methodologies and associated inputs used may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Credit Union believes its valuation methods and associated inputs are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the Credit Union's financial instruments at fair value:

	Assets at Fair Value as of December 31, 2011			
	Quoted Prices in Active Markets Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
	Level 1	Level 2	Level 3	Total
Assets:				
Mortgage-backed securities	$—	$3,133,425	$—	$3,133,425
NCUA guaranteed notes	—	27,423,806	—	27,423,806
Collateralized-mortgage obligations	—	55,896	—	55,896
	$—	$30,613,127	$—	$30,613,127

Note 10: (continued)

	Assets at Fair Value as of December 31, 2010			
	Quoted Prices in Active Markets Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Assets:				
Mortgage-backed securities	$—	$3,491,564	$—	$3,491,564
Collateralized-mortgage obligations	—	65,718	—	65,718
	$—	$3,557,282	$—	$3,557,282

The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of amounts that could be realized in a market exchange. The use of different assumptions and estimation methodologies may have a material effect on the estimated fair value amounts. The following methods and assumptions were used to estimate fair value of each of the financial instruments for which it is practicable to estimate.

CASH
The carrying amount is a reasonable estimation of fair value.

INVESTMENTS
Estimated fair values for investments are obtained from quoted market prices where available.

LOANS TO MEMBERS
The fair value of loans was estimated by discounting the estimated cash flows using market-based assumptions for expected prepayment rates, default rates, loss severity, and required rates of return.

ACCRUED INTEREST RECEIVABLE
The carrying amount is a reasonable estimation of fair value.

MEMBERS' SHARES AND DEPOSITS
The estimated fair value of demand deposit accounts is the carrying amount. The fair value of fixed-rate certificates was estimated by discounting the estimated cash flows using the current rate at which similar certificates would be issued.

INTEREST PAYABLE
The carrying amounts of interest payable approximates fair value.

COMMITMENTS TO EXTEND CREDIT
The fair value of commitments to extend credit is equivalent to the amount of credit extended since the Credit Union does not charge fees to enter into these commitments and the commitments are not stated at fixed rates.

Note 10: (continued)

The carrying value and estimated fair value of the Credit Union's financial instruments are as follows:

	As of December 31, 2011		As of December 31, 2010	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets:				
Cash	$2,022,738	$2,022,738	$1,882,463	$1,882,463
Investments:				
Available-for-sale	$30,613,127	$30,613,127	$3,557,282	$3,557,282
Other	$62,058,217	$62,058,217	$93,466,277	$93,466,277
Loans to members, net	$472,678,960	$459,466,093	$467,889,524	$452,790,805
Accrued interest receivable:				
Investments	$31,930	$31,930	$114,023	$114,023
Loans	$2,446,012	$2,446,012	$2,360,508	$2,360,508
Financial liabilities:				
Members' shares and deposits	$503,717,346	$505,436,537	$513,535,643	$516,443,942
Interest payable	$333,828	$333,828	$396,213	$396,213
Unrecognized financial instruments:				
Commitments to extend credit	$—	$123,723,000	$—	$123,875,000

NOTE 11: INDUSTRY EVENTS

In January 2009, the NCUA informed federally-insured credit unions that it was taking actions to enhance and support the corporate credit union system as well as the NCUSIF. In addition to placing U.S. Central Federal Credit Union into conservatorship, the NCUA established the Temporary Corporate Credit Union Share Guarantee Program, whereby all deposits in excess of insurable limits maintained at corporate credit unions, other than membership capital shares and paid-in capital, will be guaranteed through December 31, 2012.

During June 2009, legislation was created to establish a Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) to absorb the corporate stabilization costs by borrowing money from the U.S. Treasury. During September 2010, the NCUA received approval from the U.S. Treasury to extend the life of the Stabilization Fund to June 2021. The funds borrowed from the U.S. Treasury will be repaid from assessments authorized by the NCUA Board. The NCUA Board has levied assessments during 2010 and 2011 to repay borrowed funds to the U.S. Treasury. It is anticipated that the NCUA Board will be making annual assessments over at least the next several years to cover costs associated with the corporate credit union system.

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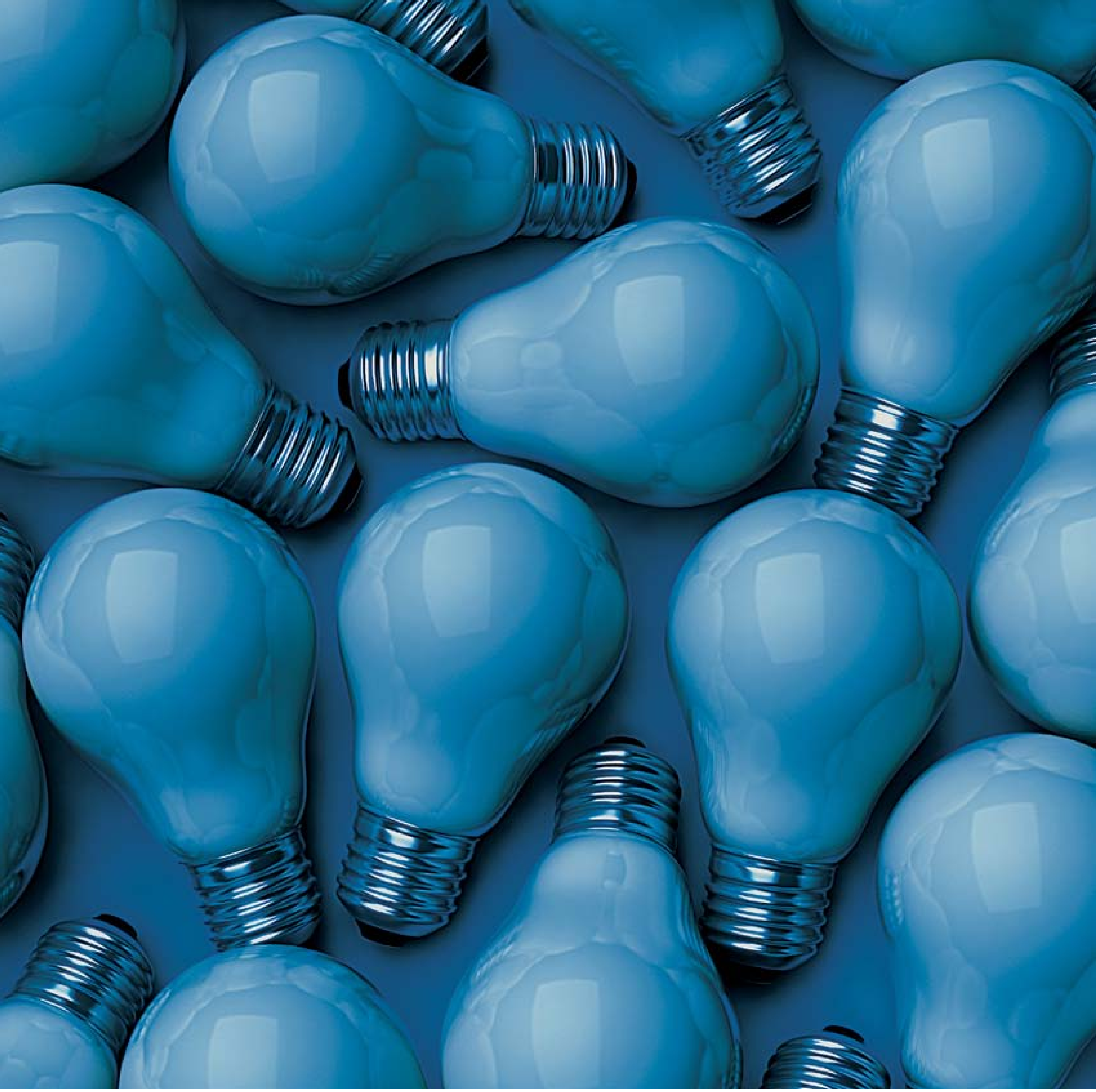

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