Farmers Insurance Group
Federal Credit Union

2009 | ANNUAL REPORT

Service

A unique member experience

Farmers Insurance Group Federal Credit Union's mission is to provide **value, safety,** and **service** to enhance our members' financial lives.

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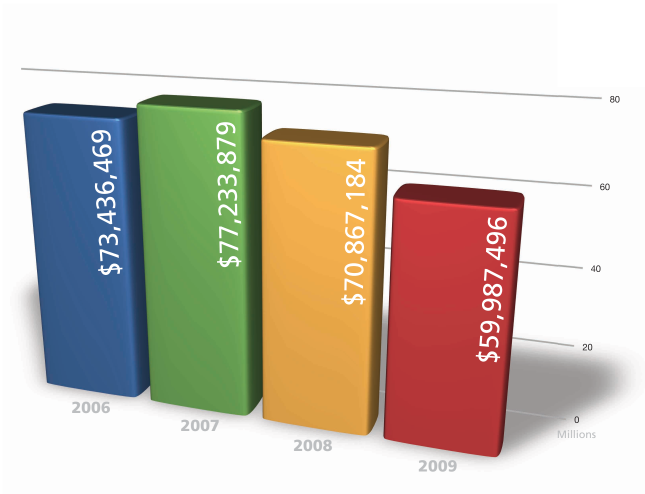
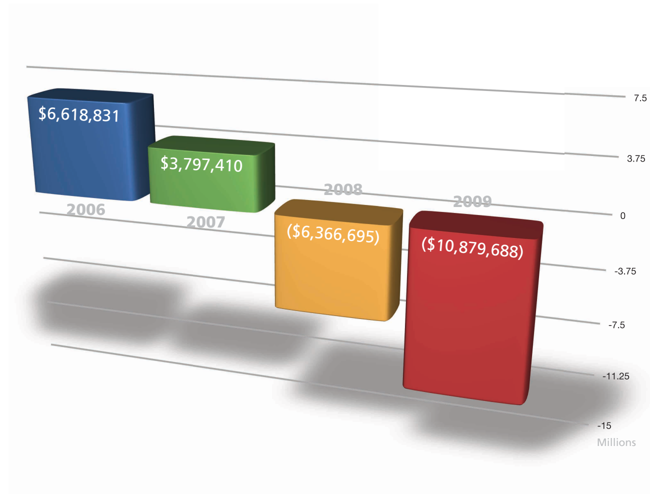
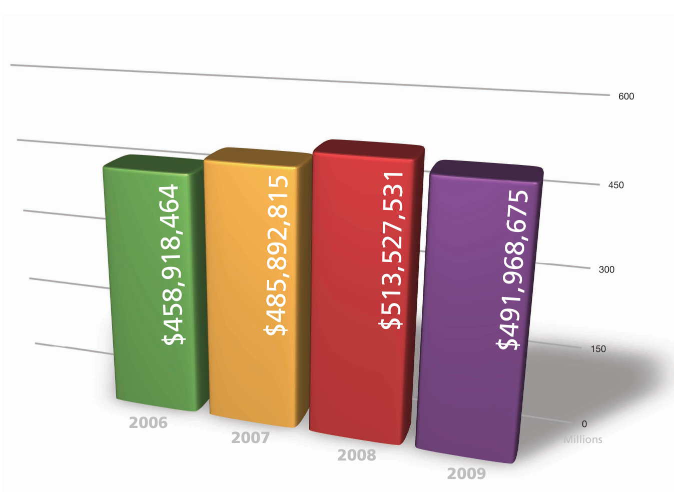


Retained Earnings

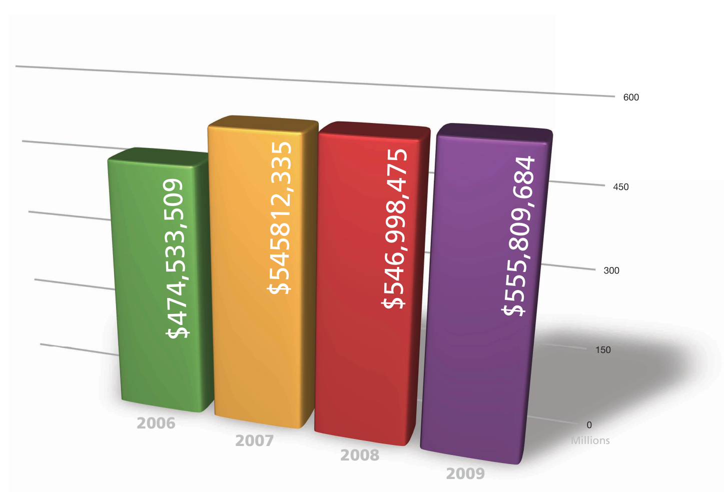


Net Income

Financial Highlights 2006 - 2009



Total Net Loans



Member Shares

Letter from the Chairman of the Board

Performance is measured in a number of ways. Professional sports teams use the number of wins and losses. Racecar drivers' performances are measured in time, and stocks by their increase in value. Meanwhile, the performances of financial institutions are most commonly calculated by capital ratios, profits and losses, revenue growth, and return on assets, just to name a few. And, your Credit Union uses one additional measurement to gauge its performance: the score we earn from the service that we provide you, our valued member owners. This measurement, the Member Service Satisfaction Rating, is a number that we hold in high regard and use, combined with all the others, to calculate our overall performance. I am happy to report that in 2009, you, our valued members gave us our highest Member Service Rating ever – 97.1%.

Why is this number so important to us? Your Credit Union understands that one of the primary reasons you choose to do business with us is the service level you receive. Banking with someone you know and trust is not something that we ever take for granted. In fact, we send out over 25,000 surveys each year to determine how well our members perceive our service level. It is only through your valued feedback that we can improve and every year, for the last five years, we have raised the bar on ourselves to serve our members like no other financial institution can – and we've been able to clear the bar!

Now of course, these high service levels can only be provided if our financial position is comparably solid and strong, and, I am happy to report that here too, we continue to shine. The Credit Union is indeed a well-capitalized financial institution worthy of your trust, serving our Farmers' family of members.

Now, understanding our financials can be a bit complicated when looking solely at the information enclosed, especially our capital ratio. In this vein, I should point out to you that our Credit Union's capital ratio (member capital divided by total assets) as of December 31, 2009, was distorted by our participation with the Credit Union System Investment Program (CU SIP), but this action did ultimately benefit our members by improving our net income.

Please let me explain. The CU SIP was a program offered by the National Credit Union Administration's (NCUA) Central Liquidity Facility and corporate credit union system. It was designed to support and stabilize the liquidity of the corporate credit union network during the depths of the financial crisis. Only very solid, well-capitalized credit unions, such as ours, were invited and entrusted to take part in this program. Our Credit Union qualified, and we were able to maximize our participation with the CU SIP by providing the maximum allotment of $228,066,000. This translated to a positive earnings benefit to our Credit Union of approximately $570,000 in income for the designated one-year period.

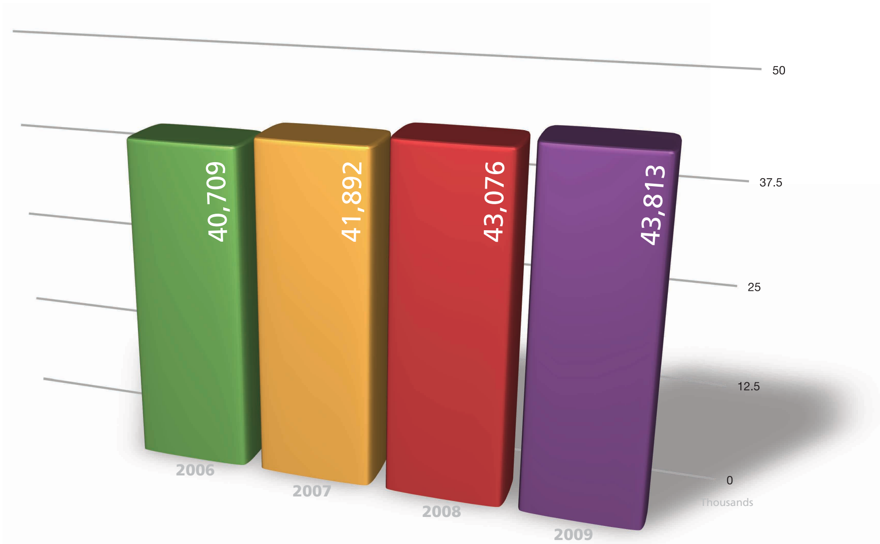
Since this CU SIP artificially and temporarily inflated our asset size to $849,364,000 as of year end, it mathematically diluted our capital ratio to 8.9%. However, stripping out the one-time dilution of this program, our gross capital ratio jumps back to 12.2%. Clearly a very acceptable level, since using either measurement, our performance defined by this important capital ratio gauge is still considered 'high' as defined by the NCUA, which considers credit unions with over a 7% capital ratio to be "well capitalized."

Ultimately, our members trust us to manage complex financial issues such as these, and I am proud to say that your Credit Union has done an excellent job, especially during these very difficult economic times. Our performance both on the financial ledgers as well as with the confidence and trust of our members, continues to outperform the industry. Our day-to-day decisions, as well as our strategic objectives, are based on what is in the best interests of our members. We place service to our members, coupled with our solid financial foundation and performance, above all other priorities. Certainly, the current economic downturn has caused us to strengthen our resolve in facing up to, and finding creative ways to not only survive, but to thrive during these challenging times.

We value and appreciate the support and participation of our members, and the dedication and hard work of our entire supporting staff. Thanks to the dedicated hard work of all of you, we have maintained a solid foundation, on which we will continue to build in the years ahead.

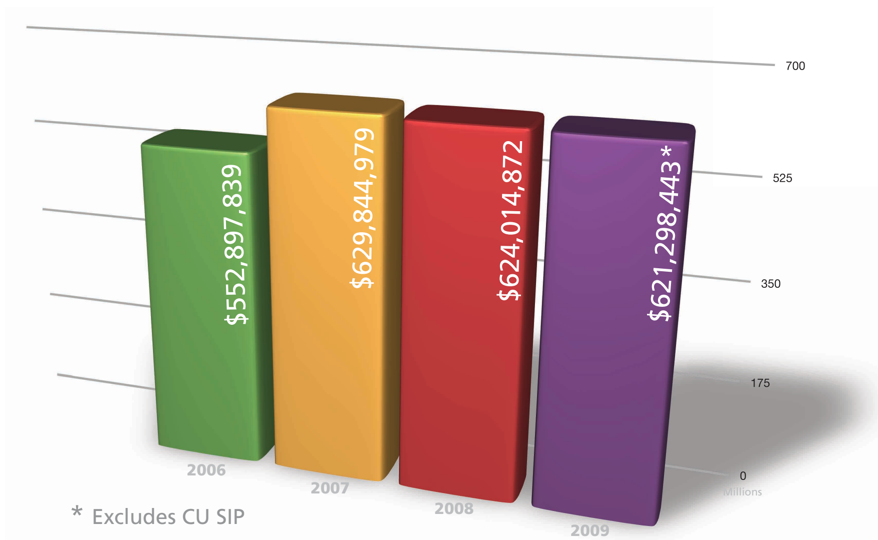
Respectfully submitted,

Laszlo G. Heredy

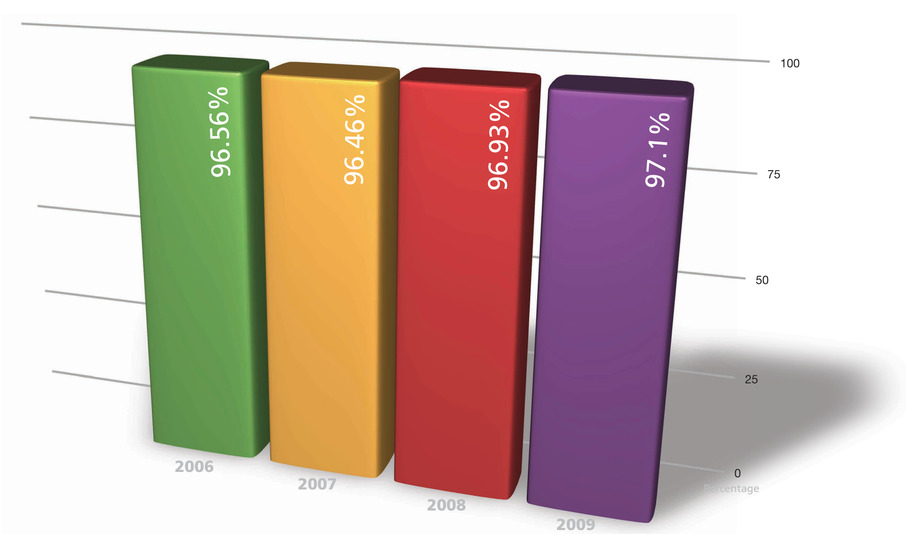


Total Members

Credit Union Highlights 2006 - 2009



Total Assets



Member Satisfaction Survey Results

Letter from the CEO

Dear FIGFCU Members and Other Stakeholders:

2009 was one of the most difficult years in our 74-year history. We came through its "fires" a little singed around the edges, but in a strong position to fully recover. And recovering is what we are now doing at the start of 2010. Our revival is not nearly as large a task as most of our competitors. Why? Because we devoted the right amount of our resources in the previous 73 years to building up our ability to withstand economic shocks. The very reason that businesses accumulate and retain prior period earnings in the form of financial reserves is to be able to absorb unforeseen, adverse economic events. If a business has enough capital, as we did and do, the firm doesn't suffer the outright disability to compete for ongoing or new business relationships.

As of December 31, 2009, we increased our allowance for loan losses account balance to 133% of all our loan delinquency over 59 days, and rest comfortably on a gross capital cushion of 12.2% of assets. Even if one were to make the worst case assumption that all such loans would have to be immediately written off, our gross capital ratio at December 31, 2009, would still have been a strong 10.3%. (Note: As Laszlo Heredy, our Board Chairman, explains in his letter in this report, the Credit Union System Investment Program (CU SIP) transaction has the short-term effect of materially increasing assets, one might say artificially, albeit temporarily. As a result, we exclude the assets from the CU SIP in our gross capital ratio calculations.)

Now, coping with red ink on our bottom line is something foreign to us over the last 25 years. 2009 was that kind of year, but cope with it we have done. We saw many members go delinquent on their home loans, car loans, credit cards, and commercial real estate loans in truly unprecedented numbers. Our membership was not immune to the Great Recession, as it has come to be referred to of late. Still, unlike some banks and credit unions who no longer compete alongside us because their losses toppled them, we were ready for this "rainy day." While we are more eager to lend than most banks, we have nonetheless tightened our underwriting standards. We make these types of decisions for the good of the Credit Union membership as a whole, and in many instances, these decisions must reflect the economic times in which we live.

We remain ready for another bout of nasty weather somewhere down the road. However, after making some asset/liability management adjustments, and consulting many hours with our volunteer, expert, and veteran Board of Directors, we are again making money. When we make money (positive bottom line on our income statement), our reserves grow. And as reserves increase, we also become more resilient to withstand future economic shocks.

While I've always explained to our largest depositors that our own reserves position should be at least as important to them as the federal insurance we offer them, the fact of the matter is that members should know about both. Our own reserves structure is what we are the most proud of, what we work hard to preserve and protect, and indeed to build. Ask us if you have any questions about our financial performance. We've been here for 74 years, serving the Farmers family and many others in select groups as well, and I fully expect us to be doing the same for at least another 74.

Best regards for a better 2010!

Mark Herter

Mark Herter

Board of Directors

Top from left to right:

Laszlo Heredy, Chairman of the Board, Managing Director – Senior Vice President – Chief Investment Officer, Farmers Group, Inc.

Jan Larsen, Retired, Secretary/Treasurer of the Board.

Michael Ashe, Agent.

Kenneth Carroll, Retired.

Frank Ceglar, Executive Vice President and General Counsel.

Marilyn Huntamer, Agent.

Ed McMahan, District Manager.

Roy Smith, Senior Vice President, Field Operations.

Jim Snikeris, Executive Director, Austin ServicePoint.

NOT PICTURED

Supervisory Committee:

Fred Galindo, Accounting Supervisor/Payroll.
Andy Purl, Chairman, Director, Risk/Audit Services.
John Steins, Director – Commissions.
Lewis Williams, Director of IS Budgets and Administration.

Management Team

Top from left to right:

Mark Herter, President/CEO.

Laura Campbell, Excecutive Vice President.

Harland Bengs, Chief Financial Officer.

Wanda Cathran, Vice President, Operations.

Delores Knievel, Vice President, Branch Operations.

Brian Leonard, Vice President, Lending.

Yusef Mustafa, Vice President, Information Technology.

Beth Rodgers, Vice President, Marketing and Training.

Service–

At Farmers Insurance Group Federal Credit Union (FIGFCU), we believe our members deserve the highest level of service. Therefore, a personal, caring and friendly environment, with a knowledgeable team that has a deep desire to help our members, continues to be our first priority. Our team shares in this objective to the point that we earned a Member Satisfaction rating of 97.10% for 2009. Many of our services, partnerships and programs are helping us ensure that member satisfaction remains at this high level.

Our Number One Priority

In 2009, we upgraded our phone system to not only increase our efficiency, but also reduce wait times. We introduced Pay Now, which allows members to make payments on an FIGFCU loan with funds from other financial institutions. Our participation with the CO-OP Network and CU Service Centers gives members access to over 28,000 surcharge free ATMs and over 3,800 shared branches nationwide. Partnerships with industry experts like Enterprise Car Sales, Sprint, Dell and more, have provided our members with extra benefits and services, and money-saving options that you cannot get from any bank.

Service– Looking to the Future

FIGFCU is committed to not only providing our members with the unique products they need, but also finding new ways to better serve our members with added conveniences and better access to their accounts.

Our plans for 2010 include enhancements to our electronic services, with upgrades to PC-TIED and Bill Pay, and the introduction of Online Deposit, which will allow members to scan checks from home or work and have them instantly deposited into their accounts, without ever having to step into a branch. Finally, banking will be even easier, with access to accounts from anywhere with Mobile Banking.

Service–Our Commitment

For over 70 years, our philosophy of "people helping people," sound business practices and commitment to our members have remained our inspiration. These principles have helped us weather uncertain times and put us in a good position to deal with today's challenges and thrive in tomorrow's market. These values, along with our healthy capital position, provide the basis for confidence as we look to the future.

Our strong and dedicated team, tested by the events of the last two years, has met the challenge. Our commitment to help our members improve their financial lives provides a framework for decisions that will build trust and protect our members' investments. As we look ahead to 2010, we appreciate the support of our loyal members. We look forward to the further development of our relationships with the Farmers Insurance Group family.

Independent Auditor's Report

McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report

Supervisory Committee
Farmers Insurance Group Federal Credit Union
Los Angeles, California

We have audited the accompanying statements of financial condition of Farmers Insurance Group Federal Credit Union (a federally chartered credit union) as of December 31, 2009 and 2008, and the related statements of income, comprehensive income (loss), members' equity and cash flows for the years then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Los Angeles, California
April 6, 2010

McGladrey & Pullen, LLP

McGladrey & Pullen, LLP is an independent member firm of RSM International, an affiliation of separate and independent accounting and consulting firms.

Farmers Insurance Group Federal Credit Union
Statements of Financial Condition
December 31, 2009 and 2008

Assets	**2009**	**2008**
Cash and cash equivalents	$ 24,701,637	$ 4,548,890
Investments		
Available-for-sale	4,387,110	5,443,399
Other	84,136,674	86,380,696
Credit Union System Investment Program	228,066,000	-
Loans, net	491,968,675	513,527,531
Accrued interest receivable	3,665,480	3,196,753
Premises and equipment, net	3,042,335	2,556,256
Share insurance deposits	6,117,349	6,054,801
Other assets	3,279,183	2,306,546
Total assets	$ 849,364,443	$ 624,014,872

Liabilities and Members' Equity

Liabilities		
Members' shares	$ 555,809,684	$ 546,998,475
Borrowed funds	228,066,000	-
Accrued expenses and other liabilities	5,431,282	6,289,834
Total liabilities	789,306,966	553,288,309
Commitments and contingent liabilities		
Members' Equity		
Retained earnings	59,987,496	70,867,184
Accumulated other comprehensive income (loss)	69,981	(140,621)
Total members' equity	60,057,477	70,726,563
Total liabilities and members' equity	$ 849,364,443	$ 624,014,872

Farmers Insurance Group Federal Credit Union
Statements of Income
For the Years Ended December 31, 2009 and 2008

	2009	2008
Interest Income		
Loans	$ 29,330,066	$ 31,288,978
Investments	4,689,874	4,707,431
Total Interest Income	34,019,940	35,996,409
Interest Expense		
Members' shares	12,002,809	17,418,845
Borrowed funds	1,350,247	279
Total Interest Expense	13,353,056	17,419,124
Net Interest Income	20,666,884	18,577,285
Provision for Loan Losses	16,853,652	3,533,688
Net Interest Income After Provision for Loan Losses	3,813,232	15,043,597
Noninterest Income		
Overdraft and checking fees	2,567,203	2,640,463
Service charges and other fees	1,956,562	1,897,049
Interchange income	1,006,395	1,072,849
Other	304,908	329,464
Impairment loss on capital investments in a corporate credit union	-	(7,139,658)
Recapitalization gain on NCUSIF deposit	3,642,875	-
Total Noninterest Income	9,477,943	(1,199,833)
Noninterest Expense		
Compensation and benefits	9,657,959	10,346,510
Occupancy	1,182,689	949,314
Other general and administrative expenses	8,837,238	8,914,635
NCUSIF deposit impairment	3,642,875	-
NCUSIF premium assessment, net	850,102	-
Total Noninterest Expense	24,170,863	20,210,459
Net Loss	$ (10,879,688)	$ (6,366,695)

The accompanying notes are an integral part of these statements

Farmers Insurance Group Federal Credit Union
Statements of Comprehensive Income (Loss)
For the Years Ended December 31, 2009 and 2008

	2009	2008
Net Loss	$ (10,879,688)	$ (6,366,695)
Other Comprehensive Income (Loss)		
Net change in unrealized holding gains (losses) on investments classified as available-for-sale	210,602	(142,335)
Comprehensive Income (Loss)	$ (10,669,086)	$ (6,509,030)

The accompanying notes are an integral part of these statements

Farmers Insurance Group Federal Credit Union
Statements of Members' Equity
For the Years Ended December 31, 2009 and 2008

	Retained Earnings			Accumulated Other Comprehensive Income (Loss)
	Regular Reserve	Unappropriated	Total	
Balance December 31, 2007	$ 16,966,743	$ 60,267,136	$ 77,233,879	$ 1,714
Net loss		(6,366,695)	(6,366,695)	
Net change in unrealized gains (losses) on available-for-sale investments				(142,335)
Balance December 31, 2008	$ 16,966,743	$ 53,900,441	$ 70,867,184	$ (140,621)
Net loss		(10,879,688)	(10,879,688)	
Net change in unrealized gains (losses) on available-for-sale investments				210,602
Balance December 31, 2009	$ 16,966,743	$ 43,020,753	$ 59,987,496	$ 69,981

The accompanying notes are an integral part of these statements

Farmers Insurance Group Federal Credit Union
Statements of Cash Flows
For the Years Ended December 31, 2009 and 2008

	2009	2008
Operating Activities		
Net loss	$ (10,879,688)	$ (6,366,695)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of premium on securities, net	-	9,281
Provision for loan losses	16,853,652	3,533,688
Depreciation and amortization	1,113,637	1,136,868
Impairment loss on capital investments in a corporate credit union	-	7,139,658
Impairment loss on NCUSIF deposit	3,642,875	-
Recapitalization gain on NCUSIF deposit	(3,642,875)	-
Proceeds from sale of loans held-for-sale	7,962,744	433,305
Originations of loans held-for-sale	(7,962,744)	(433,305)
Net change in:		
Accrued interest receivable	(468,727)	12,651
Other assets	(972,637)	(494,301)
Accrued expenses and other liabilities	(858,552)	(507,217)
Net cash provided by operating activities	4,787,685	4,463,933
Investing Activities		
Proceeds from maturities of available-for-sale investments	1,266,891	4,389,108
Purchases of Credit Union System Investment Program	(228,066,000)	-
Net change in other investments	2,244,022	(43,912,788)
Net decrease (increase) in loans	4,705,204	(31,168,403)
Increase in the share insurance deposits	(62,548)	(1,099,344)
Purchases of property and equipment	(1,599,716)	(978,463)
Net cash used in investing activities	(221,512,147)	(72,769,890)
Financing Activities		
Net increase in members' shares	8,811,209	1,186,140
Proceeds from borrowed funds	228,066,000	-
Net cash provided by financing activities	236,877,209	1,186,140
Increase (Decrease) in Cash and Cash Equivalents	20,152,747	(67,119,817)
Cash and Cash Equivalent, Beginning	4,548,890	71,668,707
Cash and Cash Equivalents, Ending	$ 24,701,637	$ 4,548,890
Supplemental Cash Flow Information		
Dividends paid on members' shares and interest paid on borrowed funds	$ 13,161,340	$ 18,126,784
Loans receivable transferred to foreclosed property	770,758	286,700

Note 1. Nature of Operations And Significant Accounting Policies

Nature of Operations: Farmers Insurance Group Federal Credit Union is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act. Participation in the Credit Union is limited to those individuals that quality for membership as defined in the credit union's charter and bylaws.

Significant Accounting Policies: The Credit Union follows the accounting standards set by the Financial Accounting Standards Board (FASB). The FASB establishes generally accepted accounting principles (GAAP) that are followed to ensure consistent reporting of the financial condition, results of operations, and cash flows of the Credit Union. References to GAAP issued by the FASB in these footnotes are to *The FASB Accounting Standards Codification*™ commonly referred to as the Codification or ASC. The FASB finalized the Codification effective for periods ended on or after September 15, 2009. As such, the Credit Union has adopted the Codification in these financial statements; the Codification does not change how the Credit Union accounts for its transactions nor does it change the nature of the associated disclosures. Prior FASB standards like FASB Statement No. 5, *Accounting for Contingencies*, are no longer being issued by the FASB. Because the FASB encourages the use of plain English to describe broad topical references, these financial statements will generally no longer include references to specific technical guidance. For example, citations of the accounting requirements for contingencies would include a reference similar to "as required by the Contingencies Topic of the Codification."

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the determination of fair value of accounts evaluated for recurring measurement, impairment and disclosure.

Subsequent Events: Management of the Credit Union has evaluated subsequent events through April 6, 2010, the date on which the financial statements were available to be issued.

Concentrations of Credit Risk: Most of the Credit Union's business activity is with its members who are employed by Farmers Insurance Group, Inc. and reside in California and other states. The loan portfolio is diversified; however, the Credit Union may be exposed to credit risk from a regional economic standpoint, since a significant concentration of its borrowers work or reside in California and other states, as more fully described in Notes 3 and 6. The Credit Union's policy for repossessing collateral is that when all other collection efforts have been exhausted, the Credit Union enforces its first lienholder status and repossesses the collateral. The Credit Union has full and complete access to repossessed collateral. Repossessed collateral normally consists of vehicles and residential real estate.

In addition, the ongoing financial deterioration resulting from the general economic conditions of the Credit Union's market area have yielded significant loan losses and investment fluctuations for financial institutions, including credit unions and corporate credit unions. Management continues to monitor the Credit Union's operations, including the loan and investment portfolios, for potential impairment and other accounting and reporting consequences.

Fair Value: The Codification defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement. Fair value is a market-based measurement, not an entity-specific measurement, and the hierarchy gives the highest priority to quoted prices in active markets. Fair value measurements are disclosed by level within the fair value hierarchy.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Valuation techniques are to be consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the fair value hierarchy establishes valuation inputs that give the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date

Level 2: Significant other observable inputs other than Level 1 prices such as 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

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would be used in pricing an asset or liability

A summary of the Credit Union's financial instruments and other accounts subject to fair value, including methodologies and resulting values, is presented in Note 13 to these financial statements.

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

Investments: Debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost. Securities not classified as held-to-maturity or trading, including 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.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of individual available-for-sale securities below their cost that are deemed to be other-than-temporary are allocated to either (1) credit losses (which are reflected in earnings as realized losses) or (2) noncredit losses (which are recorded in other comprehensive income). In determining whether other-than-temporary impairment exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) the current liquidity and volatility of the market for each of the individual security categories, (4) the projected cash flows from the specific security type, (5) the financial guarantee and financial rating of the issuer and (6) the intent and ability of the Credit Union to retain its investment in the issue for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Other investments consist primarily of Credit Union System Investment Program (CU SIP) investments and certificates of deposit in corporate credit unions and other financial institutions, are classified separately and are stated at cost.

Loans Held-for-Sale: Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by aggregate outstanding commitments from investors or current investor yield requirements. All sales are made without recourse subject to the customary representations and warranties.

Loans, Net: The Credit Union grants mortgage, commercial and consumer loans to members. The ability of the members to honor their contracts is dependent upon the real estate and general economic conditions of the area. In addition, the Credit Union purchases participation interests in commercial loans originated and serviced by other third-party companies as further described in Note 3.

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

The accrual of interest income on loans is discontinued at the time the loan is 90 days past due, or 60 days past due for certain commercial loans, unless the credit is well-secured and in the process of collection. Loans are typically charged off no later than 180 days past due. Past-due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if the collection of principal and interest is considered doubtful.

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

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

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

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

The Credit Union’s allowance for loan losses is that amount considered adequate to absorb probable losses in the portfolio based on management’s evaluations of the size and current risk characteristics of the loan portfolio. Such evaluations consider prior loss experience, the risk rating and the levels of nonperforming loans. 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 or interest when due according to the contractual terms of the loan agreement. Specific allowances for loan losses are established for impaired loans on an individual basis as required. The specific allowances established for these loans are based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flow, the loan's estimated market value or the estimated fair value of the underlying collateral. General allowances are established for loans that can be grouped into pools based on similar characteristics. In this process, general allowance factors are based on an analysis of historical charge-off experience and expected losses given default derived from a third-party loan level analysis. These factors are developed and applied to the portfolio by loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment. These factors include the credit quality statistics, recent economic uncertainty, losses incurred from recent events and other relevant data.

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

Premises and Equipment: Leasehold improvements and furniture and equipment are carried at cost, less accumulated depreciation and amortization. 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 lesser of the useful life of the assets or the expected terms of the related leases. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured. Management reviews premises and equipment for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Foreclosed Assets: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the carrying amount or fair value less costs to sell. Revenue and expenses associated with foreclosed assets, as well as the changes in the corresponding valuation allowance, are included in the statements of income as net expenses from foreclosed assets. Included in other assets are foreclosed assets of $907,952 and $286,700, respectively, at December 31, 2009 and 2008.

National Credit Union Share Insurance Fund (NCUSIF) Deposit and Insurance Premium: The deposit in the NCUSIF is in accordance with National Credit Union Administration (NCUA) regulations, which in prior years required the maintenance of a deposit by each federally insured Credit Union in an amount equal to 1 percent of its insured members' shares. The deposit would be refunded to the Credit Union if its insurance coverage was terminated, if it converted its insurance coverage to another source, or if management of the fund was transferred from the NCUA Board. In January 2009, the financial condition resulting from the ongoing economic decline caused the NCUA to announce the impairment of the deposits of natural person credit unions in the NCUSIF.

The Credit Union recognized the deposit impairment loss of $3,642,875 and recorded the additional assessment of $1,583,859, which resulted in an initial charge of $5,226,734 in the statement of income for the year ended December 31, 2009. In May 2009, an amendment to the Federal Credit Union Act to Congress was passed to create the Corporate Credit Union Stabilization Fund (the Fund) that enables credit unions to spread the cost over a period of years. In June 2009, the NCUA issued guidance instructing federally insured credit unions to record other noninterest income for the previously impaired amounts, as well as reducing the insurance assessment estimate to 0.15 percent of insured deposits as of June 30, 2009. As a result of this guidance, the Credit Union recorded a recapitalization gain of approximately $3,642,875 and a net premium assessment expense of $850,102 for the year ended December 31, 2009.

Other Assets: Other assets consist primarily of nonmarketable equity securities, foreclosed assets, prepaid expenses, ACH and other receivables.

Investment in Limited Liability Company: The Credit Union owns a 20 percent interest in Community Mortgage Funding, LLC (CMF), a California limited liability company (see Note 5). The Credit Union is accounting for its investment in CMF using the equity method of accounting under which the Credit Union's share of the net income is recognized as income in the Credit Union's income statement and added to the investment account, and dividends received are treated as a reduction of the investment account.

Members' Shares: Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. Irrespective of the amount of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members' shares are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates are set by the Credit Union's Board of Directors.

Advertising Costs: Advertising costs are expensed as incurred.

Income Taxes: The Credit Union is exempt, by statute, from federal and state income taxes. The FASB issued new guidance on accounting for uncertainty in income taxes, and management has concluded that the Credit Union has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

Comprehensive Income: Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the members' equity section of the statements of financial condition. For 2009 and 2008, other comprehensive income includes no reclassification adjustments.

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

Recent Accounting Pronouncements: In June 2009, the FASB issued additional guidance in the Transfers and Servicing Topic of the Codification. The Board's objective is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. This guidance must be applied to transfers occurring as of the beginning of the Credit Union's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. This statement must be applied to transfers occurring on or after the effective date. Management is evaluating the impact of this guidance on the Credit Union's financial position and results of operations.

On January 21, 2010, FASB issued Accounting Standards Update (ASU) 2010-06, *Fair Value Measurements and Disclosures (FASB Accounting Standards Codification (ASC) Topic 820): Improving Disclosures about Fair Value Measurements*. The ASU describes amendments that require new disclosures and clarify existing disclosure requirements about fair value measurement, originally issued as FASB Statement No. 157, *Fair Value Measurements.* The ASU is effective for interim and annual reporting periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Management is evaluating the impact of this guidance on the Credit Union's financial position and results of operations.

Note 2. Investments

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

December 31, 2009	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Mortgage-backed securities	$ 4,317,128	$ 70,648	$ (666)	$ 4,387,110
December 31, 2008				
Mortgage-backed securities	$ 5,584,020	$ 5,863	$ (146,484)	$ 5,443,399

The investment portfolio consists of government agencies residential mortgage-backed securities.

Investments by maturity as of December 31, 2009, are summarized as follows:

	Available-for-Sale		
	Amortized Cost	Fair Value	Other, Including CU SIP
Less than 1 year maturity	$ -	$ -	$ 267,509,000
1 – 5 years maturity	-	-	44,693,674
Mortgage-backed securities	4,317,128	4,387,110	-
	$ 4,317,128	$ 4,387,110	$ 312,202,674

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

Gross unrealized losses and fair value by length of time that individual available-for-sale securities have been in a continuous unrealized loss position at December 31, 2009 and 2008, are as follows:

December 31, 2009	Fair Value Associated With Unrealized Losses Existing for:		Continuous Unrealized Losses Existing for:		
Available-for-Sale	Less Than 12 Months	More Than 12 Months	Less Than 12 Months	More Than 12 Months	Total Unrealized Losses
Mortgage-backed securities	$ -	$ 78,174	$ -	$ (666)	$ (666)

December 31, 2008	Fair Value Associated With Unrealized Losses Existing for:		Continuous Unrealized Losses Existing for:		
Available-for-Sale	Less Than 12 Months	More Than 12 Months	Less Than 12 Months	More Than 12 Months	Total Unrealized Losses
Mortgage-backed securities	$ 3,817,217	$ 1,126,749	$ (99,915)	$ (46,569)	$ (146,484)

At December 31, 2009, the investment portfolio included 24 securities, one of which had current unrealized losses that existed for longer than one year. At December 31, 2008, the investment portfolio included 25 securities, four of which had unrealized losses that existed for longer than one year. All of these securities are considered to be acceptable credit risks. Based upon an evaluation of the available evidence, including recent changes in market rates, credit rating information and information obtained from regulatory filings, management believes the decline in fair value for these securities is temporary. The Credit Union has the intent and ability to hold these investment securities for a period of time sufficient to allow for an anticipated recovery. Furthermore, the Credit Union does not intend to sell and will not be required to sell these securities prior to recovery of the amortized cost basis.

Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period in which the other-than-temporary impairment is identified.

Other investments consist of the following:

	December 31	
	2009	**2008**
Share certificates in corporate credit unions	$ 56,584,674	$ 65,389,696
Certificates of deposit in other financial institutions	27,552,000	20,991,000
	84,136,674	86,380,696
CU SIP	228,066,000	-
	$ 312,202,674	$ 86,380,696

Certificates are generally nonnegotiable and nontransferable, and may incur substantial penalties for withdrawal prior to maturity.

In 2009, the NCUA Board announced the Temporary Corporate Credit Union Share Guarantee Program, which provides guarantees through June 30, 2012, of share amounts above $250,000, and the NCUSIF insurance coverage applies to all share amounts below $250,000. The net effect is that during the period of the guarantee the entire share account will be treated by the NCUSIF as if it was insured. At December 31, 2009, the Credit Union does not have any share certificates in a corporate credit union that matures after the guarantee expires.

In January 2009, the Credit Union applied to participate in the National Credit Union Central Liquidity Facility's (CLF's) CU SIP, a voluntary program designed to increase liquidity in the corporate credit union system. Under CU SIP, the CLF advances funds to natural person credit unions for a period of one year. The proceeds of the advanced funds must be invested in a senior one-year term note at a participating corporate credit union. The investment is guaranteed by the National Credit Union Share Insurance Fund under the Temporary Corporate Credit Union Liquidity Guarantee Program. To secure the advance, collateral must be provided by the natural person credit union at twice the amount of the advance amount. Collateral includes the CU SIP investment along with all other assets of the Credit Union. Approval to participate in the CU SIP is under the sole discretion of the CLF and participation is required by the Credit Union if and when approved. On January 9, 2009, the Credit Union received approved advances totaling $100,000,000 from the CLF at an interest rate of 0.565 percent and a maturity date of January 8, 2010. The Credit Union invested the proceeds of the advanced funds in a senior one-year note yielding 0.815 percent with a maturity date of January 8, 2010. On February 13, 2009, the Credit Union received approved advances totaling $128,066,000 from the CLF at an interest rate of 0.706 percent and a maturity date of February 12, 2010. The Credit Union invested the proceeds of the advanced funds in a senior one-year note yielding 0.956 percent with a maturity date of February 12, 2010. The CU SIP investments and advances matured on January 8, 2010, and February 12, 2010, respectively, and the Credit Union did not subsequently renew participation in the CLF.

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The Credit Union wrote off all of its $7,139,658 member and permanent capital in Western Corporate Federal Credit Union (WesCorp) in 2008 based on the March 20, 2009, announcement that the losses at this institution exceed the capital in the organization.

Note 3. Loans, Net

Loans, net consist of the following:

	December 31	
	2009	2008
Mortgage loans:		
Fixed rate	$ 104,741,722	$ 113,185,333
Variable rate	5,958,792	6,218,202
Home equity line of credit, variable rate	16,094,981	18,896,161
Participation loans purchased, secured by residential property	980,745	1,497,900
Total mortgage loans	127,776,240	139,797,596
Business loans:		
Agency loans—variable rate	91,637,958	101,336,628
Agency loans—fixed rate	90,920,867	67,632,196
Commercial property loans	51,940,613	56,127,226
Participation loans purchased, secured by commercial property	30,174,148	30,820,656
Total business loans	264,673,586	255,916,706
Vehicle loans:		
Fixed rate	53,684,253	56,737,599
Variable rate	12,763,006	18,896,086
Total vehicle loans	66,447,259	75,633,685
Other consumer loans, primarily unsecured:		
Credit card loans	37,689,372	33,900,821
Other loans	10,416,361	11,194,169
Total other consumer loans	48,105,733	45,094,990
Total loans receivable	507,002,818	516,442,977
Deferred net loan origination costs	418,174	452,086
Allowance for loan losses	(15,452,317)	(3,367,532)
Net loans	$ 491,968,675	$ 513,527,531

Participations purchased in residential real estate consist of participation interests in three pools of residential property loans purchased from a corporate credit union. These loans are subserviced by the originating credit unions. Of the amounts purchased and outstanding as of December 31, 2009, $432,056 is with recourse and $548,689 is without recourse.

Agency-secured loans are commercial loans to insurance agents based on the value of the agent's book of business. These loans are collateralized by the borrowing agent's/member's Farmers Insurance Group, Inc. agency contract. Farmers Insurance Exchange, Fire Insurance Exchange and Truck Insurance Exchange have agreed by contract dated July 10, 2003, to guarantee the balances of all future loans, as defined in the contract. This contract guarantees all new agency-secured loans without limit given they meet certain criteria outlined within the contract. This contract can be revoked with 60 days advanced notice by either party. The Credit Union currently has agency-secured loans totaling approximately $4.4 million that are not guaranteed per the contract.

Business participation loans purchased consist of participation interests in commercial loans originated and serviced by other third-party companies. These loans are purchased without recourse, and consist of loans secured by office, industrial, retail and multifamily business property. Commercial property loans are loans in which the Credit Union has participated as lead lender and are serviced by other third-party companies. The Credit Union has sold participating interests in the loans in which it is lead lender without recourse to other credit unions.

Included in fixed- and variable-rate mortgages as of December 31, 2009 and 2008, is approximately $85,287,000 and $87,051,000, respectively, in loans serviced by CMF (also see Note 5).

The Credit Union has a number of branch locations in various states to provide services to its membership. Loans by state are summarized as follows:

	December 31	
	2009	2008
California	$ 290,128,471	$ 299,247,306
Texas	62,000,051	58,135,124
Arizona	36,487,850	38,906,621
Illinois	25,343,096	25,203,933
Kansas	20,302,715	20,569,321
Colorado	5,283,512	5,632,174
Oklahoma	19,078,914	19,607,337
Ohio	9,409,581	9,675,206
Idaho	14,135,459	14,412,342
Oregon	14,068,084	13,505,912
Washington	5,344,306	6,000,997
Michigan	5,420,779	5,546,704
	$ 507,002,818	$ 516,442,977

General economic conditions in the communities in which the Credit Union provides services to members have continued to decline. This resulted in a negative impact in the Credit Union's portfolio that gave rise to higher impaired loans and charge offs.

A summary of impaired loans is as follows:

	December 31	
	2009	**2008**
Impaired loans with an allowance	$ 16,492,210	$ 6,627,799
Impaired loans without an allowance	4,565,958	4,443,329
Total impaired loans	$ 21,058,168	$ 11,071,128
Allowance for impaired loans	$ 3,712,553	$ 1,921,959

Loans on which accrual of interest has been discontinued or reduced amounted to $11,893,855 and $1,833,360 at December 31, 2009 and 2008, respectively. For the years ended December 31, 2009 and 2008, interest collected on impaired loans for the period of impairment was not significant as interest is not accrued on nonaccrual loans past due 90 days or more, except for certain commercial loans where interest is not accrued on nonaccrual loans past due 60 days or more. There were no loans past due more than 90 days for which interest accrual continued.

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

	Years Ended December 31	
	2009	**2008**
Balance, beginning of year	$ 3,367,532	$ 1,116,687
Provision for loan losses	16,853,652	3,533,688
Recoveries	187,249	87,263
Loans charged off	(4,956,116)	(1,370,106)
Balance, end of year	$ 15,452,317	$ 3,367,532

Note 4. Premises and Equipment, Including Leases

Premises and equipment are summarized as follows:

	December 31	
	2009	**2008**
Leasehold improvements	$ 2,214,464	$ 1,719,856
Furniture and equipment	12,205,369	11,173,403
	14,419,833	12,893,259
Accumulated depreciation and amortization	(11,377,498)	(10,337,003)
	$ 3,042,335	$ 2,556,256

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The Credit Union leases 21 offices. The operating leases contain renewal options and provisions requiring the Credit Union to pay property taxes and operating expenses over base period amounts. All rental payments are dependent only upon the lapse of time. Minimum rental payments under operating leases with initial or remaining terms of one year or more at December 31, 2009, are as follows:

Years Ending December 31	
2010	$ 995,519
2011	899,544
2012	855,194
2013	745,476
2014	616,733
Subsequent years	90,343
	$ 4,202,809

Rental expense for the years ended December 31, 2009 and 2008, for all facilities leased under operating leases totaled approximately $1,038,000 and $806,000, respectively.

Note 5. Investment in Limited Liability Company

The Credit Union has a 20 percent investment in CMF. CMF originates and services real estate mortgage loans for other financial institutions, including the Credit Union. The Credit Union's net investment in CMF is approximately $583,000 and $422,000, respectively, as of December 31, 2009 and 2008, and is included in Other Assets. Summarized financial data for CMF is as follows:

	December 31	
	2009 (Unaudited)	2008 (Unaudited)
Total assets	$ 5,455,663	$ 3,599,060
Total liabilities	2,407,617	1,481,822
Members' equity	3,048,046	2,117,238
Net income for year ended	930,808	144,518

Total mortgage loans serviced by CMF are approximately $505,928,000 and $420,435,000, respectively, as of December 31, 2009 and 2008. Total loans serviced by CMF on behalf of the Credit Union are approximately $85,287,000 and $87,051,000, respectively, as of December 31, 2009 and 2008.

The Credit Union is a guarantor for CMF's $250,000 line of credit with WesCorp. The Credit Union's guarantee is limited to 20 percent of the line up to $50,000. CMF has also obtained a warehouse line of credit for $10 million with WesCorp. The Credit Union was required to pledge certain investments totaling $400,000 as collateral to secure this line of credit.

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Note 6. Members' Shares

Members' shares are summarized as follows:

	December 31	
	2009	**2008**
Regular shares	$ 61,350,275	$ 53,483,700
Share draft accounts	61,273,743	57,450,793
Money market accounts	189,245,002	167,767,188
Individual retirement accounts	35,400,953	33,641,777
Certificates	208,539,711	234,655,017
	$ 555,809,684	$ 546,998,475

Shares by maturity as of December 31, 2009, are summarized as follows:

No contractual maturity	$ 347,269,973
0 – 1 year maturity	160,898,024
1 – 2 years maturity	19,760,198
2 – 3 years maturity	13,318,014
3 – 4 years maturity	8,049,582
4 – 5 years maturity	6,513,893
	$ 555,809,684

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

The Credit Union has a number of branch locations in various states to provide services to its membership. Shares by state are summarized as follows:

	December 31	
	2009	**2008**
California	$ 308,760,716	$ 302,203,625
Texas	56,284,882	54,557,825
Arizona	37,736,219	37,545,881
Illinois	28,003,643	28,287,449
Kansas	31,296,480	32,222,081
Washington	23,423,698	23,627,984
Colorado	23,453,430	22,579,060
Idaho	11,576,385	11,646,358
Ohio	11,423,592	10,869,033
Oklahoma	11,768,368	11,719,844
Oregon	7,140,975	6,745,033
Michigan	4,941,296	4,994,302
	$ 555,809,684	$ 546,998,475

The NCUSIF insures members' shares and certain individual retirement and Keogh accounts. Effective October 3, 2008, and continuing through December 31, 2009, legislation provides for an increase in the minimum NCUSIF coverage from $100,000 to $250,000 on member share accounts. In May 2009, new legislation was enacted to extend this coverage through December 31, 2013. This includes all account types, such as regular share, share draft, money market and certificates of deposit. Individual Retirement Account and Keogh account coverage remains at up to $250,000 separate from other types of accounts owned.

An additional $100,000 of coverage on share certificates and $250,000 on Individual Retirement Account certificates is provided through American Share Insurance (ASI), a private corporation.

The aggregate amount of certificates in denominations of $100,000 or more at December 31, 2009 and 2008, is approximately $105,439,000 and $118,479,000, respectively.

Note 7. Borrowed Funds

The Credit Union utilizes two demand loan agreements with WesCorp. The terms of these agreements call for the pledging of all assets as security for any and all obligations taken by the Credit Union under these agreements. The agreements provide for a combined credit limit of $20 million with interest charged at a rate determined by the lender on a periodic basis. At December 31, 2009 and 2008, there were no borrowings under these agreements. The agreements are reviewed for continuation by the lender and the Credit Union annually.

The Credit Union also has a demand loan agreement with Corporate One Federal Credit Union. The terms of this agreement call for the pledging of share certificate accounts held at Corporate One Federal Credit Union. The current agreement provides for a credit limit of $1 million with interest charged at a rate determined by the lender on a periodic basis. At December 31, 2009 and 2008, there were no borrowings under this agreement. The agreement is reviewed for continuation by the lender and the Credit Union annually.

See Note 2 for information regarding the $228,066,000 in borrowed funds associated with the CU SIP as of December 31, 2009.

Note 8. Off-Balance Sheet Activities

The Credit Union is party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit, which include lines of credit, credit cards and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the financial statements.

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

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 to secure borrowing on the lines of credit is based on management's credit evaluation of the member.

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

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Outstanding mortgage loan commitments at December 31, 2009 and 2008, total approximately $1,915,000 and $2,465,000, respectively.

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

	December 31	
	2009	2008
Credit card	$ 59,169,000	$ 60,474,000
Home equity	18,697,000	21,344,000
Business	21,385,000	18,321,000
Overdraft protection	7,268,000	7,501,000
Agency secured	5,431,000	6,346,000
Other consumer	3,336,000	3,548,000
	$ 115,286,000	$ 117,534,000

Note 9. Commitments and Contingent Liabilities

The Credit Union is a party to various legal actions normally associated with collections of loans and other business activities of financial institutions, the aggregate effect of which, in management's opinion, would not have a material adverse effect on the financial condition or results of operations of the Credit Union.

Note 10. Employee Benefits

In 2008, the Credit Union participated in two retirement plans through Farmers Insurance Group, Inc. (Farmers). Farmers bills the Credit Union on a regular basis for its salaries and benefits costs.

The first retirement plan was a defined benefit pension plan. The plan called for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Credit Union and compensation levels at retirement. Contributions to the plan reflected benefits attributed to employees' services to date, as well as services expected to be earned in the future. Since the Credit Union's staff is only a fractional participant in Farmer's plan, it is not practicable to disclose actuarial benefit data.

The second retirement plan was a noncontributory deferred profit sharing plan. Participation was limited to all regular employees who met specific length of service and age limitations. Contributions were made by Farmers at the end of each plan year. The contribution was equal to 10 percent of Farmer's net income subject to a maximum of 15 percent of total participant compensation.

On January 1, 2009, the 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 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 $16,500 annually. The Credit Union matches up to 6 percent of the employees' wage reductions. 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, 2009 and 2008, amounted to approximately $457,000 and $1,120,000, respectively.

Note 11. Members' Equity

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance sheet items as calculated under GAAP. The Credit Union's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth to total assets. Further, credit unions over $10,000,000 in assets are also required to calculate a Risk-Based Net Worth (RBNW) requirement that establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNW requirements as of December 31, 2009 and 2008, were 4.6 percent and 6.2 percent, respectively. The minimum requirement to be considered "complex" under the regulatory framework is 6 percent. Management believes, as of December 31, 2009 and 2008, that the Credit Union meets all capital adequacy requirements to which it is subject.

Key aspects of the Credit Union's minimum capital amounts and ratios are summarized as follows:

	December 31, 2009			December 31, 2008		
General Capital Requirements		Amount	Ratio		Amount	Ratio
Amount needed to be classified as "adequately capitalized"	$	50,961,867	6.0%	$	38,688,922	6.2%
Amount needed to be classified as "well-capitalized"		59,455,511	7.0%		43,681,041	7.0%
Actual net worth		59,987,496	7.1%		70,867,184	11.4%

As of December 31, 2009 and 2008, 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 percent of assets. There are no conditions or events since that notification that management believes have changed the institution's category.

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

Note 12. Related-Party Transactions

In the normal course of business, the Credit Union extends credit to directors, Supervisory Committee members and executive officers. The aggregate loans to related parties at December 31, 2009 and 2008, are $2,006,239 and $2,110,155, respectively. Deposits from related parties at December 31, 2009 and 2008, amounted to $1,407,165 and $2,062,549, respectively.

The Credit Union has certain operational arrangements with its affiliated sponsor organization. In particular, the Credit Union leases its employees through a service arrangement with the affiliated organization.

Note 13. Fair Value

Financial Instruments

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

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

Available-for-Sale Investments: Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments or on discounted cash flow models based on the expected payment characteristics of the underlying mortgage instruments.

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset-backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

Other Investments and CU SIP: Fair values for certificates of deposit in corporate credit unions and other financial institutions are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on the Credit Union’s current certificates of deposit.

Loans, Net: The fair value of loans receivable, other than commercial loans, is estimated using a discounted cash flow calculation that considers collateral attributes and market-based assumptions for expected prepayment rates, default rates, loss severity and required rates of return. The fair value of commercial loans is estimated using a discounted cash flow calculation that applies interest rates currently being offered on similar loans to a schedule of aggregated expected monthly maturities of these loans. The inputs for the determination of the fair value of loans are generally classified within Level 2 or Level 3 of the valuation hierarchy.

Impaired loans are classified within Level 3 due to the lack of observable pricing data. The fair value of these Level 3 loans is based upon the value of the underlying collateral or calculated with a discounted cash flows model using market-based credit spreads of comparable debt instruments or credit derivatives of the specific borrower or comparable borrowers. Results of discounted cash flow calculations may be adjusted, as appropriate, to reflect other market conditions or the perceived credit risk of the borrower.

Accrued Interest Receivable: Accrued interest receivable represents interest on loans and investments. The carrying amount of accrued interest receivable approximates fair value.

Members’ Shares: The fair values disclosed for regular share, share draft and money market accounts are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of regular share, share draft and money market accounts approximate their fair values at the reporting date. Fair values for 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 the Credit Union’s current share certificates. The inputs for the determination of the fair value of share certificates are generally classified within Level 2 of the valuation hierarchy.

Borrowed Funds: The fair value of borrowed funds is estimated by discounting the estimated cash flows using the appropriate market rates for the associated maturities. Where the inputs into the valuation are primarily based upon readily observable pricing information, borrowed funds are classified within Level 2 of the valuation hierarchy. Where significant inputs are unobservable, borrowed funds are classified within Level 3 of the valuation hierarchy.

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

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

	December 31, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	$ 24,702,000	$ 24,702,000	$ 4,549,000	$ 4,549,000
Investments available-for-sale	4,387,000	4,387,000	5,443,000	5,443,000
Other investments	84,137,000	85,104,000	86,381,000	87,539,000
CU SIP	228,066,000	228,066,000	-	-
Loans, net	491,969,000	469,874,000	513,528,000	492,279,000
Accrued interest receivable	3,665,000	3,665,000	3,197,000	3,197,000
Financial Liabilities:				
Borrowed funds	228,066,000	228,066,000	-	-
Members' shares	555,810,000	559,131,000	546,998,000	543,698,000

Nonfinancial Assets: The Credit Union's primary nonfinancial assets subject to fair value include foreclosed assets. Beginning in 2009, fair value information about such nonfinancial assets is required to be included in the financial statements. These disclosures, including discussion of the methodologies and significant assumptions and inputs are included in the nonrecurring fair value disclosures below.

Fair Value on a Recurring Basis

The table below presents the balances of assets measured at fair value on a recurring basis.

	December 31, 2009			
	Total	Level 1	Level 2	Level 3
Available-for-sale securities	$ 4,387,000	$ -	$ 4,387,000	$ -

	December 31, 2008			
	Total	Level 1	Level 2	Level 3
Available-for sale-securities	$ 5,443,000	$ -	$ 5,443,000	$ -

Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets carried on the statements of financial condition by caption and by level within the valuation hierarchy (as described above) for which a nonrecurring change in fair value has been recorded.

	Carrying Value at December 31, 2009				Year Ended December 31, 2009
	Total	Level 1	Level 2	Level 3	Total Losses
Impaired loans	$ 17,346,000	$ -	$ -	$ 17,346,000	$ 2,875,000
Other real estate owned	908,000	-	-	908,000	-

	Carrying Value at December 31, 2008				Year Ended December 31, 2008
	Total	Level 1	Level 2	Level 3	Total Losses
Impaired loans	$ 9,149,000	$ -	$ -	$ 9,149,000	$ 1,922,000
Other real estate owned	287,000	-	-	287,000	-

Loans include certain impaired loans where an allowance for loan losses has been calculated based upon the fair value of the loans. The losses on the impaired loans are generally based on the value of the collateral securing such loans and are classified at Level 3 in the fair value hierarchy. See Note 1 for fair value measurement of foreclosed assets.

Office Locations

1 HOME OFFICE
4680 Wilshire Blvd • Los Angeles, CA 90010-3898

2 AGOURA HILLS, CA
30801 Agoura Rd • Agoura Hills, CA 91301-2054

3 AURORA, IL
2245 Sequoia Dr • Aurora, IL 60506-6210

4 AUSTIN, TX (ServicePoint)
15700 Long Vista Dr • Austin, TX 78728-1236

5 CARLSBAD, CA
5760 Fleet St, Ste 120 • Carlsbad, CA 92008-4713

6 COLORADO SPRINGS, CO
1125 Kelly Johnson Blvd, Ste 10 • Colorado Springs, CO 80920-3944

7 COLUMBUS, OH
2500 Farmers Dr • Columbus, OH 43235-5706

8 GRAND RAPIDS, MI
5600 Beech Tree Ln • Caledonia, MI 49316-1894

9 MERCED, CA
17 W Alexander Ave • Merced, CA 95348-3404

10 MERCER ISLAND, WA
3003 77th Ave SE • Mercer Island, WA 98040-2837

11 OKLAHOMA CITY, OK
2401 NW 23rd St, Ste 49 • Oklahoma City, OK 73107-2431

12 OLATHE, KS (HelpPoint)
17150 W 118th Ter • Olathe, KS 66061-6599

13 OLATHE, KS (ServicePoint)
17000 West 119th St • Olathe, KS 66061-7064

14 PHOENIX, AZ
18444 N 25th Ave • Phoenix, AZ 85023-1213

15 PLEASANTON, CA
4460 Rosewood Dr, Ste 6220 • Pleasanton, CA 94588-3007

16 POCATELLO, ID
2500 S Fifth Ave • Pocatello, ID 83204-1923

17 PORTLAND, OR (ServicePoint)
23175 NW Bennett St • Hillsboro, OR 97124-5602

18 SIMI VALLEY, CA
3041 Cochran St • Simi Valley, CA 93065-2771