Farmers Insurance Group Federal Credit Union

Sound Safe Secure

Annual Report 2008

Mission

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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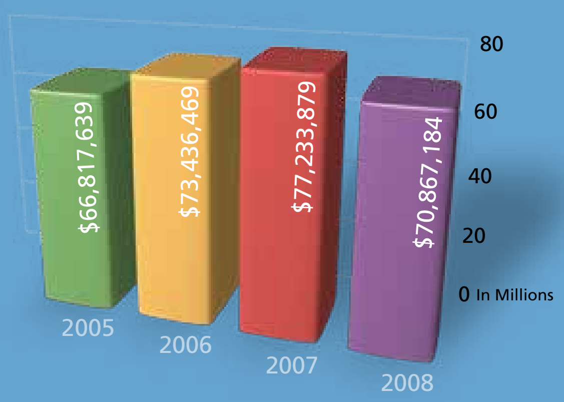
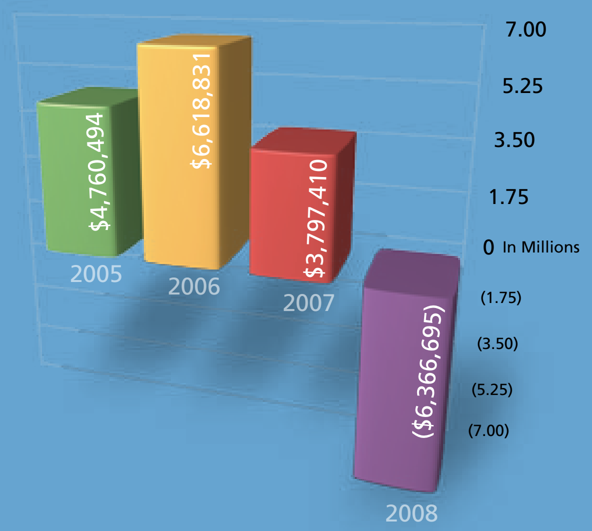
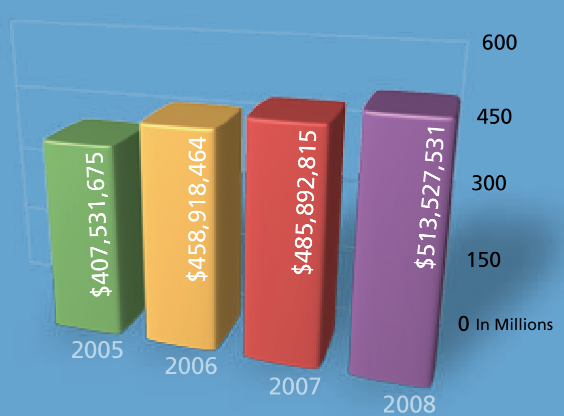
Retained Earnings



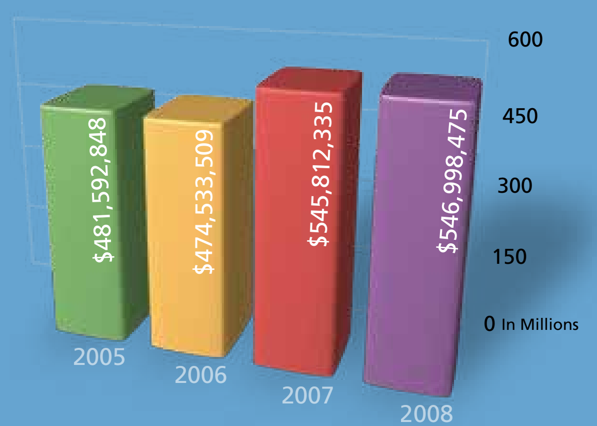
Net Income



Total Net Loans



Member Shares



Dear Fellow Farmers Insurance Group Federal Credit Union Members:

Back in the 1930s, the Great Depression was taking a devastating toll on our nation and its people. As literally thousands of banks collapsed and businesses failed across the country, a group of California Farmers Insurance Exchange employees in 1936 pulled together to establish an institution into which they could entrust their hard-earned savings, and call upon people like themselves when other members needed financial help. That institution was, as it is to this day, your Farmers Insurance Group Federal Credit Union.

Since that time, your Credit Union, through its management, employees and the Board of Directors you elect to oversee them, has consistently committed itself to helping our members. Indeed, that is the sole reason we exist. There are no Wall Street bankers to answer to, no highly compensated Board of Directors to decide how to dilute the financial benefits our members receive. There are only members – members who are owners and influencers – and, it is only through the loyalty of our valued members that we can measure our success.

In today's challenging financial environment, we face many of the same challenges that those Farmers founding fathers did back in the '30s: uncertain economic times, rising unemployment, and a declining housing market, to name just a few. But like the trying times of the Depression, your Credit Union continues to work hard to rise above these difficult days. Despite these challenges, we are still in a position to offer our member-owners lower loan rates, higher savings rates and, most importantly, the peace of mind that our founders were so committed to provide for their members. And we can do that because you have entrusted your financial lives to us. This trust is what has allowed your Credit Union to build a very solid near 12% capital-to-assets ratio on total assets of almost $625 million.

With over 43,000 members, your Credit Union continues the common-sense way of doing business that inspired our founders so many years ago. And as each new member is added to our family, we build the additional strength that enables us to deliver new services and technologies that make us an even better place for meeting your financial needs. But we don't stop there. You have rated our member service satisfaction level above 96% for the last four years. You simply can't get that kind of friendly attention from a big bank.

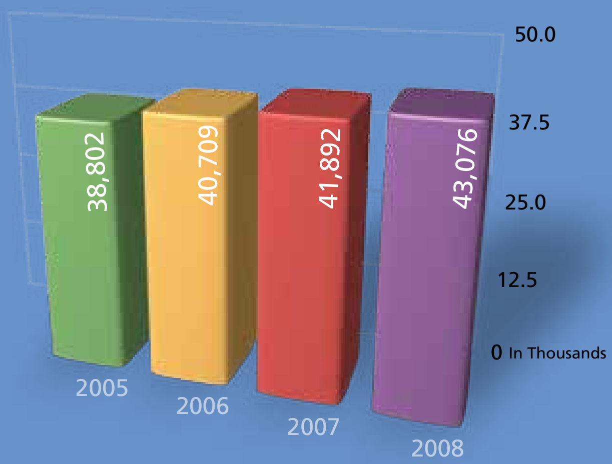
So, thank you for your continued trust in us. Sound, safe, and secure have become increasingly difficult words for most financial institutions to live up to these days, but we proudly do so because we know that is what you expect of us. You rely on us to help you build better financial lives, and that's what we will continue to do, whether in trying times like today, or in the much better times we will certainly be part of once again.

Respectfully submitted,

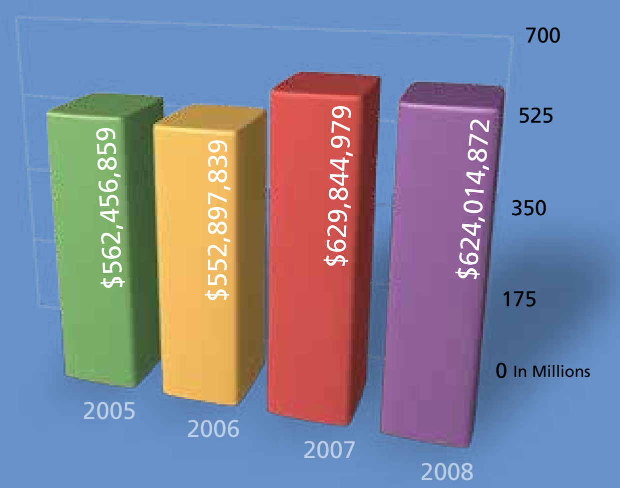
Laszlo G. Heredy

CREDIT UNION HIGHLIGHTS 2005 - 2008

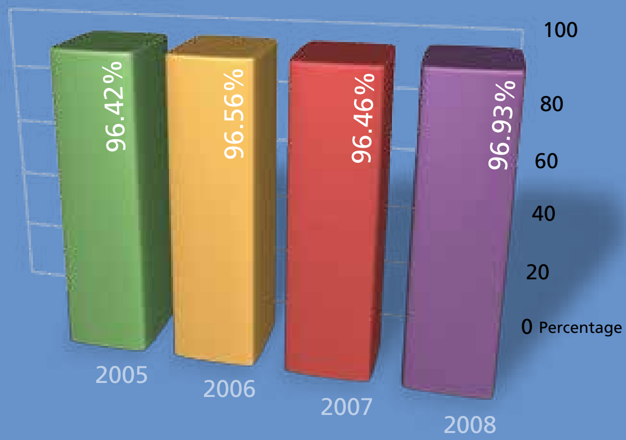
Total Members



Total Assets



Member Satisfaction Survey Results



Given a very turbulent 2008, prudent consumers now more than ever want safety, soundness, and security most from their financial institutions. People are focused on more than just getting a great rate. Our economy has not been so stressed since the 1930s, when the economic depression became so severe that the media put the word "Great" in front of it. Times were much tougher then, but today's challenges are still quite daunting. So how does your Credit Union, the financial cooperative you OWN, cope with these difficult conditions?

Your Credit Union has spent the last 25 years working hard to build up its capital, its reserves. Over those many years, we operated with the foresight that we had to be in a position to serve our members at the highest level, even during trying economic times. Today, as loan losses have risen, our extremely strong capital position serves us, and our membership, well. In terms of drawing on savings, the proverbial "rainy day" has arrived. These are times to think and reflect; times to plan and execute for a better tomorrow. We are seeing our members putting themselves on more disciplined budgets, working hard to curb impulse spending, and save more. People are thinking once again about building up their savings nest eggs. Your Credit Union is the place to do that. Here, with our federally-backed National Credit Union Share Insurance Fund guaranteeing the safety of both your non-IRA and your IRA funds to $250,000 per person, along with our strong capital position, you can sleep well at night knowing that you have made a strong, safe, secure investment decision. We cope best by staying the course, by being a key source of stability in our members' lives.

The accompanying financials reflect the principal problem that virtually all credit unions and banks have been working so diligently to manage effectively: higher loan losses. However, without the capital charge we recorded due to the takeover of a large corporate credit union, we would have been able to absorb all of our members' loan charge-offs and other 2008 expenses from current revenue streams, while continuing to return significant values to our member/owners. The new year will be highly challenging financially, but as we continue to deliver on our core value strengths such as superior member service, I expect our Credit Union to not only endure, but continue to thrive.

We are confident that our reserves, combined with ever-prudent ongoing financial decision-making, will see us through the current challenge. We will continue to operate in ways that create the best values for our members, because this is the one financial institution that works for you. Our commitment to providing a sound, safe, and secure place for you to invest your money and borrow prudently when you want or need to will always be our primary goal. We remain committed, as we always have for almost 75 years, to continue enhancing our members' financial well-being regardless of the transitory issues we face.

Mark Herter

Mark Herter

BOARD OF DIRECTORS

1.


2.


3.


Top from left to right:

1. Laszlo Heredy, Chairman of the Board, Managing Director - Senior Vice President - Chief Investment Officer, Farmers Group, Inc.; Jan Larsen, Retired, Secretary/Treasurer; Michael Ashe, Agent.
2. Frank Ceglar, Executive Vice President and General Counsel; Ed McMahan, District Manager; Marilyn Huntamer, Agent.
3. Roy Smith, Senior Vice President, Field Operations; Jim Snikeris, Vice President; Kenneth Carroll, Retired.

MANAGEMENT TEAM

1.   

2.   

3.  

Top from left to right:

1. Mark Herter, President/CEO; Laura Campbell, Excecutive Vice President; Harland Bengs, Chief Financial Officer.
2. Beth Rodgers, Vice President, Marketing and Training; Delores Knievel, Vice President, Branch Operations; Wanda Cathran, Vice President, Operations.
3. Leonard Lee, Vice President, Lending; Yusef Mustafa, Vice President, Information Technology.

SOUND

Your Credit Union has been around for over 70 years. During that time, our experienced employees and our commitment to sound financial practices have made us one of the strongest credit unions in the nation.

Throughout the years, we've provided the best service to our members by employing the most qualified and experienced team members. Our senior management staff alone has over 150 years of combined financial services experience. And our commitment to ongoing training programs for our staff only adds more value to their career development.

Experience has taught us the importance of making sound financial decisions in everything we do. While banks were making sub-prime loans in recent years, we were making sure that our members were only taking out loans they could afford—not just for our financial well-being, but for theirs as well. That's why your Credit Union is still in a healthy, strong position and will remain that way in the future.

The SOUND of Our Members

"I have checked out rates at other banks and yours are the best."

"I am always treated with respect and kindness—never like a number!"

"The employees at FIGFCU are wonderful and personable. They always talk to me and not down to me."

"I've always received courteous and professional service at any location."

"You guys are great! I've already recommended FIGFCU to several of my co-workers."

"I wish all banks would treat customers the way I'm always treated at my FIGFCU branch."

"You have the best employees. They are your greatest asset!"

From anonymous surveys conducted during 2008

OFFICE LOCATIONS

1. HOME OFFICE
2. AGOURA HILLS, CA
3. AURORA, IL
4. AUSTIN, TX
5. CARLSBAD, CA
6. COLORADO SPRINGS, CO
7. COLUMBUS, OH
8. GRAND RAPIDS, MI
9. MERCED, CA
10. MERCER ISLAND, WA
11. OKLAHOMA CITY, OK
12. OLATHE, KS (HelpPoint)
13. OLATHE, KS (ServicePoint)
14. PHOENIX, AZ
15. PLEASANTON, CA
16. POCATELLO, ID
17. PORTLAND, OR
18. SIMI VALLEY, CA

SAFE

The recent economic environment has left many people wondering about the safety of their money. If your deposits are at FIGFCU, the answer is simple. Your money couldn't be safer.

In 2008, the National Credit Union Administration (NCUA) followed the FDIC in raising the minimum deposit insurance to $250,000 on all account types. While this amount of insurance is sufficient for many people, we understand that some of our members may need more coverage. So we offer additional deposit insurance of $100,000 on certificates and $250,000 on IRA certificates at no charge to our members. You won't find that at a bank.

We can even help you maximize your insurance coverage by maintaining your savings in different legal ownership capacities. For example, a family of four could be covered up to $3 million. Your Credit Union is here to help you ensure the safety of your money.

SECURE

As a Credit Union member, you're part of one of the most secure financial institutions in the country. FIGFCU has not received any bail out money from the government and quite simply, we don't need it.

Our prudent investment practices and the care with which we handle all of our financial decisions ensure that your money is safe. Just take a look at our financial highlights from 2008 and you'll see why saving at your Credit Union is the right choice.

The National Credit Union Administration (NCUA) has also recognized our stability by labeling us "well capitalized" (compared to our peers) at almost 12%. We are especially proud of our strong capital position because it's a reflection of our unwavering commitment to you. We exist to serve our members' financial needs. So we do everything, from practicing sound lending to developing new services, with your security and best interest in mind.

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, 2008 and 2007 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 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 report dated March 27, 2008, our opinion on the 2007 financial statements was qualified because of a departure from accounting principles generally accepted in the United States of America since the Credit Union reported shares as members' equity rather than liabilities in the statement of financial condition. As described in Note 1 to the financial statements, the Credit Union has restated its 2007 financial statements to conform to accounting principles generally accepted in the United States of America. Accordingly, our present opinion on the 2007 financial statements, as presented herein, is different from that expressed in our previous report.

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, 2008 and 2007 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.

McGladrey & Pullen, LLP

Los Angeles, California
April 13, 2009

McGladrey & Pullen, LLP is a member firm of RSM International –
an affiliation of separate and independent legal entities.

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2008 AND 2007

ASSETS

	2008	2007
Cash and cash equivalents	$ 4,548,890	$ 71,668,707
Investments		
Available-for-sale	5,443,399	9,984,123
Other	86,380,696	49,607,566
Loans receivable, net	513,527,531	485,892,815
Accrued interest receivable	3,196,753	3,209,405
Property and equipment, net	2,556,256	2,714,661
Share insurance deposits	6,054,801	4,955,457
Other assets	2,306,546	1,812,245
	$ 624,014,872	$ 629,844,979

LIABILITIES AND MEMBERS' EQUITY

	2008	2007
Liabilities		
Members' shares	$ 546,998,475	$ 545,812,335
Accrued expenses and other liabilities	6,289,834	6,797,051
Total liabilities	553,288,309	552,609,386
Commitments and contingent liabilities		
Members' equity		
Retained earnings	70,867,184	77,233,879
Accumulated other comprehensive income (loss)	(140,621)	1,714
Total members' equity	70,726,563	77,235,593
	$ 624,014,872	$ 629,844,979

The accompanying notes are an integral part of these statements.

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
INTEREST INCOME		
Interest on loans receivable	$ 31,288,978	$ 32,339,616
Interest on investments and cash equivalents	4,707,431	7,263,732
	35,996,409	39,603,348
INTEREST EXPENSE		
Dividends on members' shares	17,418,845	21,950,287
Interest on borrowed funds	279	-
	17,419,124	21,950,287
NET INTEREST INCOME	18,577,285	17,653,061
PROVISION FOR LOAN LOSSES	3,533,688	808,381
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	15,043,597	16,844,680
NON-INTEREST INCOME		
Overdraft and checking fees	2,640,463	2,514,269
Service charges and other fees	1,897,049	1,814,296
Interchange income	1,072,849	1,088,713
Other	329,464	234,726
Impairment losses realized on capital accounts in a corporate credit union	(7,139,658)	-
	(1,199,833)	5,652,004
NON-INTEREST EXPENSE		
Salaries and benefits	10,346,510	9,606,999
Operations and occupancy	9,863,949	9,092,275
	20,210,459	18,699,274
NET (LOSS) INCOME	$ (6,366,695)	$ 3,797,410

The accompanying notes are an integral part of these statements.

FARMERS INSURANCE GROUP FEDERAL CREDIT UNION
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
NET (LOSS) INCOME	$ (6,366,695)	$ 3,797,410
OTHER COMPREHENSIVE INCOME		
Unrealized holding gains on investments classified as available-for-sale	(142,335)	132,515
COMPREHENSIVE INCOME	$ (6,509,030)	$ 3,929,925

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, 2008 AND 2007

	Retained Earnings			Accumulated Other Comprehensive Income
	Regular Reserve	**Unappropriated**	**Total**	
Balance, December 31, 2006	$ 16,966,743	$ 56,469,726	$ 73,436,469	$ (130,801)
Net income		3,797,410	3,797,410	
Net change in unrealized gains (losses) on available-for-sale investments				132,515
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)

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, 2008 AND 2007

	2008	2007
OPERATING ACTIVITIES		
Net (loss) income	$ (6,366,695)	$ 3,797,410
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Amortization of premium on securities, net	9,281	21,287
Provision for loan losses	3,533,688	808,381
Depreciation and amortization	1,136,868	1,243,431
Impairment losses realized on capital accounts in a corporate credit union	7,139,658	-
Net change in:		
Accrued interest receivable	12,651	(153,999)
Other assets	(494,301)	798,423
Accrued expenses and other liabilities	(507,217)	(153,388)
Net cash provided by operating activities	4,463,933	6,361,545
INVESTING ACTIVITIES		
Proceeds from maturities of available-for-sale investments	4,389,108	6,596,208
Net change in other investments	(43,912,788)	2,463,478
Net increase in loans receivable	(31,168,403)	(27,782,732)
Decrease (increase) in the share insurance deposits	(1,099,344)	(423,153)
Purchases of property and equipment	(978,463)	(1,367,423)
Net cash used in investing activities	(72,769,890)	(20,513,622)
FINANCING ACTIVITIES		
Net increase in members' shares	1,186,140	73,170,603
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(67,119,817)	59,018,526
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	71,668,707	12,650,181
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 4,548,890	$ 71,668,707
SUPPLEMENTAL CASH FLOW INFORMATION		
Dividends paid on members' shares and interest paid on borrowed funds	$ 18,126,784	$ 21,472,787

The accompanying notes are an integral part of these statements.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Farmers Insurance Group Federal Credit Union (the 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.

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. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses and the fair value of financial instruments.

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 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.

In addition, during the year ended December 31, 2008 and continuing into 2009, the financial deterioration resulting from the general economic conditions of the Credit Union's market area have yielded significant loan losses and investment fluctuations for the Credit Union and those with whom it does business, including other financial institutions 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 consequences.

Cash, Cash Equivalents and Cash Flows: 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 which 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 reflected in earnings as realized losses. 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, and (3) 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 certificates in corporate credit unions and other financial institutions, are classified separately and are stated at cost.

Loans Receivable: Loans that the Credit Union has the intent and ability to hold for the foreseeable future or until maturity or pay-off 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, 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 though 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 non-performing 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 per SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*. The specific allowances established for these loans are based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flow, the loan's estimated market value, or the estimated fair value of the underlying collateral. General allowances are established for loans that can be grouped into pools based on similar characteristics as described in SFAS No. 5, *Accounting for Contingencies*. In this process, general allowance factors are based on an analysis of historical charge-off experience and expected losses given default derived from the Credit Union's internal risk rating process. These factors are developed and applied to the portfolio by loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment. These factors include the credit quality statistics, recent economic uncertainty, losses incurred from recent events, and similar data.

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

National Credit Union Share Insurance Fund 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, if it converts its insurance coverage to another source, or if management of the fund is transferred from the NCUA Board. See Note 14.

NCUSIF Insurance Premium: The Credit Union is required to pay an annual insurance premium equal to one-twelfth of one percent of total insured shares, unless the payment is waived or reduced by the NCUA Board. The NCUA Board waived the 2008 and 2007 insurance premiums. See Note 14.

Other Assets: Other assets consist primarily of non-marketable equity securities, prepaid expenses, ACH and other receivables.

Investment in Limited Liability Company: The Credit Union owns a 20% 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.

In prior years, the Credit Union reported members' shares as members' equity in the accompanying Statement of Financial Condition. This method of accounting was not in accordance with GAAP, which requires members' shares to be reported as liabilities. A qualified opinion was rendered in previously issued financial statements due to this classification.

Advertising Costs: Advertising costs are expensed as incurred.

Income Taxes: The Credit Union is exempt, by statute, from federal and state income taxes.

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 2008 and 2007, other comprehensive income includes no reclassification adjustments.

Reclassifications: Certain account reclassifications have been made to the 2007 financial statements in order to conform to classifications used in the current year.

Recent Accounting Pronouncements: In September 2006 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS No. 157, fair value measurements are disclosed by level within that hierarchy. In February 2008, the FASB issued FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157*, which permits a one-year deferral for the implementation of SFAS No. 157 with regard to nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The Credit Union adopted SFAS No. 157 for the fiscal year beginning January 1, 2008, except for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis for which delayed application is permitted until our fiscal year beginning January 1, 2009. The adoption did not have a material impact on the financial statement or results of operations of the Credit Union but did require the Credit Union to include additional disclosures in the footnotes to the financial statements.

In February 2007, the FASB issued SFAS No. 159 ("SFAS No. 159"), *The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of SFAS No. 115*. SFAS No. 159 permits an entity to choose to measure financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 are elective; however, the amendment to SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities with available for sale or trading securities. For financial instruments elected to be accounted for at fair value, an entity will report the unrealized gains and losses in earnings. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The adoption of SFAS No. 159 had no impact on the Credit Union's financial statements as management did not elect the fair value option for any financial assets or liabilities.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R), among other things, establishes principles and requirements for how the acquirer in a business combination *(a)* recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquired business, *(b)* recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and *(c)* determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This new standard significantly changes the accounting for business combination transactions as the pooling-of-interests accounting method will no longer be an acceptable accounting method. This change is effective for annual reporting period beginning on or after December 15, 2008, with early adoption prohibited. The adoption of SFAS No. 141R is not expected to have a material impact on the Credit Union's financial position, results of operations or cash flows.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. The new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with GAAP for nongovernmental entities. The statement is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles.* SFAS No. 162 is not expected to have a material impact on the Credit Union's financial position, results of operations or cash flows.

2. INVESTMENTS

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

December 31, 2008	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Mortgage-backed securities	$ 5,584,020	$ 5,863	$ (146,484)	$ 5,443,399
December 31, 2007				
Mortgage-backed securities	$ 9,982,409	$ 30,406	$ (28,692)	$ 9,984,123

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, 2008 and 2007 are as follows:

		Continuous Unrealized Losses Existing For:		
December 31, 2008	**Fair Value**	**Less Than 12 Months**	**More Than 12 Months**	**Total Unrealized Losses**
Mortgage-backed securities	$ 1,481,063	$ (143,986)	$ (2,498)	$ (146,484)
December 31, 2007				
Mortgage-backed securities	$ 4,350,673	$ (8,543)	$ (20,149)	$ (28,692)

At December 31, 2008, the investment portfolio included 25 securities, 4 of which have current unrealized losses which have existed for longer than one year. At December 31, 2007, the investment portfolio included 28 securities, 6 of which have current unrealized losses which have 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. In addition, 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.

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	
	2008	**2007**
Share certificates in corporate credit unions	$ 65,389,696	$ 39,206,480
Certificates of deposit in other financial institutions	20,991,000	2,863,000
Member capital account in a corporate credit union	-	5,478,586
Permanent capital account in a corporate credit union	-	2,059,500
	$ 86,380,696	$ 49,607,566

As noted in Note 14, 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. On January 28, 2009, the NCUA Board announced the Temporary Corporate Credit Union Share Guarantee Program through December 31, 2010. The NCUSIF guarantee applies to all 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, 2008, $9,137,984 of the $65,389,696 in share certificates at WesCorp and Corporate One Federal Credit Union, shown in the schedule above, mature after the guarantee expires.

Certificates are generally non-negotiable and non-transferable, and may incur substantial penalties for withdrawal prior to maturity.

Investments by maturity as of December 31, 2008 are summarized as follows:

	Available-for-sale		
	Amortized Cost	Fair Value	Other
No contractual maturity	$ -	$ -	$ -
Less than 1 year maturity	-	-	58,276,712
1 – 5 years maturity	-	-	27,466,000
5 – 10 years maturity	-	-	637,984
Mortgage-backed securities	5,584,020	5,443,399	-
	$ 5,584,020	$ 5,443,399	$ 86,380,696

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. Member and permanent capital accounts have been classified with no contractual maturity.

Permanent capital accounts are uninsured equity capital accounts and are redeemable only if called by the corporate credit union. Member capital accounts are uninsured equity capital accounts that may be redeemed with a three-year notice. See Note 14.

3. LOANS RECEIVABLE

Loans receivable consist of the following:

	December 31	
	2008	2007
Residential real estate loans:		
Fixed rate	$ 113,185,333	$ 105,064,873
Variable rate	6,218,202	7,578,315
Home equity line of credit, variable rate	18,896,161	22,122,926
Participation loans purchased, secured by residential property	1,497,900	1,792,911
Total residential real estate loans	139,797,596	136,559,025
Business loans:		
Agency loans – variable rate	101,336,628	101,643,954
Agency loans – fixed rate	67,632,196	55,963,793
Commercial property loans	56,127,226	48,768,513
Participation loans purchased, secured by commercial property	30,820,656	28,199,733
Total business loans	255,916,706	234,575,993
Vehicle loans:		
Fixed rate	56,737,599	50,547,022
Variable rate	18,896,086	23,617,043
Total vehicle loans	75,633,685	74,164,065
Other consumer loans, primarily unsecured:		
Credit card loans	33,900,821	32,105,567
Other loans	11,194,169	9,249,261
Total other consumer loans	45,094,990	41,354,828
Gross loans outstanding	516,442,977	486,653,911
Deferred net loan origination costs	452,086	355,591
Allowance for loan losses	(3,367,532)	(1,116,687)
Net loans	$ 513,527,531	$ 485,892,815

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 multi-family 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.

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 sub-serviced by the originating credit unions. Of the amounts purchased and outstanding as of December 31, 2008, $170,184 is with recourse and $1,327,716 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 $6.6 million that are not guaranteed per the contract.

Included in fixed and variable rate mortgages as of December 31, 2008 and 2007 is approximately $87,051,015 and $79,318,000, respectively, in loans serviced by Community Mortgage Funding, LLC (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	
	2008	**2007**
California	$ 299,247,306	$ 277,398,798
Texas	58,135,124	57,207,564
Arizona	38,906,621	37,051,083
Illinois	25,203,933	24,879,558
Kansas	20,569,321	19,323,581
Colorado	5,632,174	18,110,778
Oklahoma	19,607,337	13,231,370
Ohio	9,675,206	13,207,036
Idaho	14,412,342	9,845,525
Oregon	13,505,912	5,699,337
Washington	6,000,997	5,429,202
Michigan	5,546,704	5,270,079
	$ 516,442,977	$ 486,653,911

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

	Years Ended December 31	
	2008	2007
Balance, beginning of year	$ 1,116,687	$ 964,734
Provision for loan losses	3,533,688	808,381
Recoveries	87,263	129,231
Loans charged off	(1,370,106)	(785,659)
Balance, end of year	$ 3,367,532	$ 1,116,687

In the latter part of 2007, general economic conditions in the communities in which the Credit Union provides services to members began a decline which has continued into 2008. Impaired loans were not significant during the year ended December 31, 2007.

As of December 31, 2008, impaired loans for which an allowance has been provided and the valuation allowance related to those impaired loans totaled approximately $4,443,329 and $1,921,959, respectively. There were $6,627,799 impaired loans that were evaluated for allowance purposes, and no allowance was deemed necessary at December 31, 2008. Interest collected on these loans for the period of impairment in 2008 was not significant as interest is not accrued on non-accrual loans past-due 90 days or more.

4. PROPERTY AND EQUIPMENT, INCLUDING LEASES

Property and equipment are summarized as follows:

	December 31	
	2008	2007
Leasehold improvements	$ 1,719,856	$ 1,701,142
Furniture and equipment	11,173,403	10,352,391
Accumulated depreciation and amortization	(10,337,003)	(9,338,872)
	$ 2,556,256	$ 2,714,661

The Credit Union leases 20 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, 2008 are as follows:

Years Ending December 31	
2009	$ 874,000
2010	895,000
2011	815,000
2012	767,000
2013	687,000
Subsequent years	735,000
	$ 4,773,000

Rental expense for the years ended December 31, 2008 and 2007 for all facilities leased under operating leases totaled approximately $806,000 and $725,000, respectively.

5. INVESTMENT IN LIMITED LIABILITY COMPANY

The Credit Union has a 20% investment in Community Mortgage Funding, LLC (CMF), a California Limited Liability Company. 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 $422,000 and $391,000, respectively, as of December 31, 2008 and 2007 and is included in Other Assets. Summarized financial data for CMF is as follows:

	December 31	
	2008 (Unaudited)	**2007 (Unaudited)**
Total assets	$ 3,599,060	$ 3,584,788
Total liabilities	$ 1,481,822	$ 1,612,069
Members' equity	$ 2,117,238	$ 1,972,719
Net income (loss) for year ended	$ 144,518	$ 367,795

Total mortgage loans serviced by CMF are approximately $420,435,000 and $382,336,000, respectively, as of December 31, 2008 and 2007. Total loans serviced by CMF on behalf of the Credit Union are approximately $87,051,000 and $79,318,000, respectively, as of December 31, 2008 and 2007.

The Credit Union is a guarantor for CMF's $250,000 line of credit with Western Corporate Federal Credit Union (WesCorp). The Credit Union's guarantee is limited to 20% 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.

6. MEMBERS' SHARES

Members' shares are summarized as follows:

	December 31	
	2008	2007
Regular shares	$ 53,483,700	$ 48,488,327
Share draft accounts	57,450,793	56,214,839
Money market accounts	167,767,188	165,814,811
Individual retirement accounts	33,641,777	33,102,662
Certificates	234,655,017	242,191,696
	$ 546,998,475	$ 545,812,335

Shares by maturity as of December 31, 2008 are summarized as follows:

No contractual maturity	$ 312,343,458
0 – 1 year maturity	160,184,185
1 – 2 years maturity	45,679,697
2 – 3 years maturity	11,348,574
3 – 4 years maturity	10,330,938
4 – 5 years maturity	7,111,623
	$ 546,998,475

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	
	2008	2007
California	$ 302,203,625	$ 305,013,770
Texas	54,557,825	51,505,087
Arizona	37,545,881	38,459,194
Illinois	28,287,449	29,988,677
Kansas	32,222,081	29,595,566
Washington	23,627,984	24,038,404
Colorado	22,579,060	22,205,547
Idaho	11,646,358	13,190,527
Ohio	10,869,033	10,868,720
Oklahoma	11,719,844	10,415,806
Oregon	6,745,033	6,597,074
Michigan	4,994,302	3,933,963
	$ 546,998,475	$ 545,812,335

The NCUSIF insures members' shares and certain individual retirement and Keogh accounts. Effective October 3, 2008 and continuing through December 31, 2009, new legislation provides for an increase in the minimum NCUSIF coverage from $100,000 to $250,000 on member share accounts. 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, 2008 and 2007 is approximately $118,479,000 and $115,497,000, respectively.

7. **BORROWED FUNDS**

The Credit Union utilizes two demand loan agreements with Western Corporate Federal Credit Union. 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, 2008 and 2007, 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, 2008 and 2007, there were no borrowings under this agreement. The agreement is reviewed for continuation by the lender and the Credit Union annually.

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 credit worthiness 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.

Outstanding mortgage loan commitments at December 31, 2008 and 2007 total approximately $2,465,000 and $1,626,000, respectively.

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

	December 31	
	2008	**2007**
Credit card	$ 60,474,000	$ 62,019,000
Home equity	21,344,000	22,959,000
Business	18,321,000	20,197,000
Overdraft protection	7,501,000	7,384,000
Other consumer	3,548,000	6,616,000
	$ 111,188,000	$ 119,175,000

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.

10. EMPLOYEE BENEFITS

The Credit Union participates 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 is a defined benefit pension plan. The plan calls 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 reflect 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 is a non-contributory deferred profit sharing plan. Participation is limited to all regular employees who meet specific length of service and age limitations. Contributions are made by Farmers at the end of each plan year. The contribution is equal to 10% of Farmer's net income subject to a maximum of 15% of total participant compensation.

Total retirement plan costs paid by the Credit Union to Farmers for the years ended December 31, 2008 and 2007 amounted to approximately $1,120,000 and $1,054,000, respectively.

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 generally accepted accounting principles. 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 which 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, 2008 and 2007 were 6.2% and 6.2%, respectively. The minimum requirement to be considered "complex" under the regulatory framework is 6%. Management believes, as of December 31, 2008 and 2007, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2008, the most recent call reporting period, and 2007, the NCUA categorized the Credit Union as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Credit Union must maintain a minimum net worth ratio of 7% of assets. There are no conditions or events since that notification that management believes have changed the institution's category.

The Credit Union's actual capital amounts and ratios are presented in the following table:

	December 31, 2008		December 31, 2007	
	Amount	Ratio/Requirement	Amount	Ratio/Requirement
➢ Amount needed to be classified as "adequately capitalized"	$ 38,688,922	6.2%	$ 39,050,389	6.2%
➢ Amount needed to be classified as "well capitalized"	$ 43,681,041	7.0%	$ 44,089,149	7.0%
➢ Actual net worth	$ 70,867,184	11.4%	$ 77,233,879	12.3%

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.

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, 2008 and 2007 are $2,110,155 and $1,930,460, respectively. Deposits from related parties at December 31, 2008 and 2007 amounted to $2,062,549 and $1,877,401, respectively.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

Effective January 1, 2008, the Credit Union adopted SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Credit Union has elected to apply the deferral provisions in FSP 157-2 and therefore has only partially applied the provisions of SFAS No. 157. The Credit Union's adoption of SFAS No. 157 did not have a material impact on the Credit Union's financial condition or results of operations but did require the Credit Union to include additional disclosures in the footnotes to the financial statements as further described below.

The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Level 1 valuations are based on trades in active exchange markets. Level 2 valuations are those trades in less active dealer or broker markets with information obtained from third party pricing services for identical or similar assets or liabilities. Level 3 valuations are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques.

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Credit Union's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Credit Union.

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 investments 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.

Other Investments: 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. For member and permanent capital shares, the carrying value approximates fair value based on the redemption provisions of the underlying investments.

Loans Receivable: 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. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Accrued Interest: 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.

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 table below includes the carrying value and fair value of the Credit Union's financial instruments subject to fair value measurement on a recurring basis. These recurring measurement instruments consist of available for sale investments which utilize Level 2 inputs. Financial instruments subject to nonrecurring basis fair value measurement at December 31, 2008 consist of impaired loans as described in Note 3. The fair value of impaired loans is generally based on the value of the collateral securing such loans and is classified at Level 3 in the fair value hierarchy.

The 2008 fair value information in the table below has been prepared using methodologies in accordance with SFAS No. 157. The prior year fair value information was prepared using methodologies acceptable prior to the implementation of SFAS No. 157. Carrying amounts and fair values of financial instruments are summarized as follows:

	December 31, 2008		December 31, 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	$ 4,549,000	$ 4,549,000	$ 71,669,000	$ 71,669,000
Investments available-for-sale	5,443,000	5,443,000	9,984,000	9,984,000
Other investments	86,381,000	87,539,000	49,608,000	49,608,000
Loans receivable, net	513,528,000	492,279,000	485,893,000	486,439,000
Accrued interest receivable	3,197,000	3,197,000	3,209,000	3,209,000
Financial Liabilities:				
Members' shares	546,998,000	543,698,000	547,704,000	548,590,000

14. SUBSEQUENT EVENTS

In January 2009, U.S. Central Federal Credit Union (U.S. Central) announced that it was taking a $1.2 billion charge during the fourth quarter of 2008 as a result of determining that certain of its investment securities were other-than-temporarily impaired. On January 28, 2009, the NCUA announced that it was injecting $1 billion of capital into U.S. Central from the NCUSIF and offering a temporary guarantee through December 31, 2010 of all member shares in participating corporate credit unions to provide stability and help maintain liquidity in the corporate credit union system. All federally-insured credit unions will share the cost of these actions proportionately through a partial write-off of the credit unions' existing 1% NCUSIF deposit and future assessments of additional premiums to return the NCUSIF to the normal operating level of 1.3% of insured deposits. The impairment of the deposit was estimated at .51% of the December 31, 2008 insured deposits with an additional assessment of .3% of insured deposits as of December 31, 2008.

In March 2009, the NCUA announced that both U.S. Central and WesCorp were taken into conservatorship and the original loss reserve estimate had increased by $1.2 billion since the January 2009 estimate was made. Based on this adjustment of the loss reserve estimate, the impairment of the NCUSIF deposit was revised to 69% of the insured deposits as of December 31, 2008. The additional assessment of .3% of insured deposits as of December 31, 2008 remained unchanged.

On March 27, 2009, the NCUA introduced an amendment to the Federal Credit Union Act to Congress that, if enacted, could substantially impact the amount of impairment currently estimated. The proposed legislation would create the Corporate Credit Union Stabilization Fund to absorb losses associated with the corporate credit union stabilization actions and assess federally insured credit unions for associated costs over as much as a 7-year period. Without the benefit of the current proposed legislation, the Credit Union could record a charge of approximately $5,227,000 in its financial statement for the year ending December 31, 2009. As of the date of this report, the impact of the legislation on the financial statements cannot yet be estimated.

In addition, at December 31, 2008, the Credit Union wrote-off all of its $7,139,658 capital investment in WesCorp based on the March 20, 2009 announcement that the losses at this institution exceed their capital in the organization.

The Credit Union applied to participate in the National Credit Union Central Liquidity Facility's (CLF) Credit Union System Investment Program (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. 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. In 2009, the Credit Union received approved advances totaling $228,066,000 from the CLF.