DIRECTIONS CREDIT UNION

FINANCIAL STATEMENTS
December 31, 2008

DIRECTIONS CREDIT UNION
Sylvania, Ohio

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008

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Crowe Horwath LLP
Independent Member Crowe Horwath International

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Directions Credit Union
Sylvania, Ohio

We have audited the accompanying consolidated balance sheet of Directions Credit Union (Credit Union) as of December 31, 2008, and the related consolidated statements of income, changes in members' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Directions Credit Union as of December 31, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Cleveland, Ohio
June 26, 2009

DIRECTIONS CREDIT UNION
CONSOLIDATED BALANCE SHEET
December 31, 2008

	2008
ASSETS	
Cash and due from financial institutions	$ 21,297,436
Federal funds sold	20,151,679
Total cash and cash equivalents	41,449,115
Interest-bearing time deposits with financial institutions	49,410,461
Securities available for sale	45,215,462
Securities held to maturity (fair value – $4,075,399)	4,061,221
Equity method investments	381,561
Loans held for sale	1,473,425
Loans, net of allowance of $1,693,326	339,016,394
Premises and equipment, net	14,107,811
Loan servicing rights	669,589
Capital participation certificates	1,920,000
Accrued interest receivable	1,966,195
Other real estate owned	496,131
Federal Home Loan Bank stock	1,797,900
Share insurance deposit	4,363,343
Prepaid expenses and other assets	1,051,567
Total assets	$ 507,380,175
LIABILITIES AND MEMBERS' EQUITY	
Liabilities	
Members' shares	$ 449,479,479
FHLB advances	11,072,585
Accounts payable, accrued liabilities and escrow	3,328,307
Total liabilities	463,880,371
Members' equity	
Appropriated statutory reserve	11,380,528
Retained earnings	31,945,392
Accumulated other comprehensive income	173,884
Total members' equity	43,499,804
Total liabilities and members' equity	$ 507,380,175

See accompanying notes to financial statements.

DIRECTIONS CREDIT UNION
CONSOLIDATED STATEMENT OF INCOME
Year ended December 31, 2008

	2008
Interest and dividend income	
Loans, including fees	$ 23,030,677
Securities	2,148,245
Federal funds sold	403,031
Other interest and dividend income	2,074,946
Total interest and dividend income	27,656,899
Interest and dividend expense	
Share accounts	11,019,002
Borrowings	574,301
Total interest and dividend expense	11,593,303
Net interest income	16,063,596
Provision for loan losses	2,828,478
Net interest income after provision for loan losses	13,235,118
Noninterest income	
Service fees and charges	3,536,437
Interchange fees	1,888,589
Gain on sale of loans	475,395
Loss on sale of other real estate owned	(137,894)
Other	214,835
Total noninterest income	5,977,362
Noninterest expense	
Compensation and benefits	9,917,838
Directors' expenses	46,652
Occupancy and equipment	2,141,975
Data processing	3,455,994
Advertising	881,394
Postage, printing and supplies	714,515
Telephone	409,223
Professional fees	398,582
Correspondent account analysis charges	244,634
Other	1,098,450
Total noninterest expense	19,309,257
Net loss	$ (96,777)

See accompanying notes to financial statements.

DIRECTIONS CREDIT UNION
CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
Year ended December 31, 2008

	Appropriated Statutory Reserve	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance, January 1, 2008, as previously reported	$ 7,991,295	$ 23,642,312	$ 201,789	$ 31,835,396
Equity acquired in merger	3,389,233	8,399,857	(2,088)	11,787,002
Balance, January 1, 2008, as restated	11,380,528	32,042,169	199,701	43,622,398
Comprehensive income (loss)				
Net loss		(96,777)		(96,777)
Other comprehensive loss			(25,817)	(25,817)
Total comprehensive loss				(132,594)
Balance, December 31, 2008	$ 11,380,528	$ 31,945,392	$ 173,884	$ 43,499,804

See accompanying notes to financial statements.

DIRECTIONS CREDIT UNION
CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended December 31, 2008

		2008
Cash flows from operating activities		
Net loss	$	(96,777)
Adjustments to reconcile net loss to net cash from operating activities		
Depreciation		949,187
Provision for loan losses		2,828,478
Amortization of loan servicing rights		73,392
Net amortization of securities		53,250
Gain on sale of loans		(475,395)
Originations of loans held for sale		(18,521,502)
Proceeds from sales of loans held for sale		21,099,446
FHLB stock dividends		(69,200)
Loss on sales of other real estate owned		137,894
Net change in:		
Deferred loan costs		252,606
Other assets		(256,460)
Accrued interest receivable		(4,591)
Accounts payable and other liabilities		(140,123)
Net cash from operating activities		6,110,451
Cash flows from investing activities		
Net cash received in merger		7,704,929
Net change in interest-bearing time deposits		(18,755,948)
Securities available for sale		
Purchases		(30,362,497)
Maturities, calls and principal repayments		23,769,506
Securities held to maturity		
Purchases		(4,062,100)
Maturities, calls and principal repayments		5,000,000
Net change in loans		16,066,472
Net equity method investment		(5,962)
Net change in share insurance deposits		29,361
Net change in capital participation certificates		(120,000)
Purchases of Federal Home Loan Bank stock		(39,400)
Proceeds from sale of other real estate owned		951,719
Improvements to other real estate owned		(56,990)
Property and equipment expenditures, net		(529,187)
Net cash from investing activities		(410,097)
Cash flows from financing activities		
Repayment of Federal Home Loan Bank advances		(8,194,415)
Proceeds from Federal Home Loan Bank advances		5,000,000
Net increase in members' shares		15,133,520
Net cash from financing activities		11,939,105
Net change in cash and cash equivalents		17,639,459
Cash and cash equivalents at beginning of year		23,809,656
Cash and cash equivalents at end of year	$	41,449,115
Supplemental cash flow information:		
Cash paid for interest and dividends	$	11,667,089
Transfers from loans to real estate owned		520,620

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Directions Credit Union ("Credit Union") conform to accounting principles generally accepted in the United States of America and general practice within the credit union industry. The more significant policies are described below.

Principles of Consolidation: The consolidated financial statements include the amounts of Directions Credit Union and its wholly-owned subsidiary, TFS Marketing, Inc. All significant intercompany accounts and transactions have been eliminated. The Credit Union has a 25% ownership in CU-op LLC. This investment is accounted for using the equity method. The Credit Union owns one-sixth of Area Financial Services, Inc. Its investment is accounted for under the cost method.

Nature of Operations: Directions Credit Union provides a variety of financial services to its members, most of whom live, work, worship, attend school or volunteer in Fulton, Wood, Lucas, Richland, Ashland, Wayne, and Tuscarawas Counties in Ohio, or members of other select groups. The Credit Union's primary source of revenue is from loans to its members. Its primary source of funds is savings deposits from its members. TFS Marketing, L.L.C., provides mortgage services to other credit unions.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The allowance for loan losses and fair values of financial instruments are particularly subject to change.

Cash Flows: Cash and cash equivalents include cash on hand, demand deposits in other institutions and federal funds sold, as well as investments with original maturities less than 90 days. Cash flows are reported net for member loan and share account transactions, certificates of deposit with other financial institutions, share insurance deposits, and capital participation certificates.

Interest-bearing Time Deposits in Other Financial Institutions: Interest-bearing time deposits in other financial institutions are carried at cost.

Securities: Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest income includes the amortization of purchase premiums and discounts. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are based on the amortized cost of the security sold as of the trade date.

Declines in the fair value of securities below their cost that are other than temporary are reflected as realized losses. In estimating other-than-temporary losses, management considers the length of time and extent that fair value has been less than cost, the financial condition and near term prospects of the issuer, and the Credit Union's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value.

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or market, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing rights. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan costs and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Net loan origination costs are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Accrual of interest is discontinued when full loan repayment is in doubt, typically when payments are contractually delinquent 93 days or more, unless the credit is well secured and in the process of collection. 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 collection of principal or interest is considered doubtful.

Uncollectible interest previously accrued is charged-off or an allowance is established by means of a charge to interest income. Interest received is recognized on the cash basis or cost recovery method until qualifying for return to accrual status. Accrual is resumed when all contractually due payments are current and future payments are reasonably assured.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

Loan impairment is reported when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential mortgage, consumer and credit card loans, and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is recorded on the straight-line method based on the estimated useful lives of the assets. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable. Maintenance and repairs are expensed and major improvements are capitalized.

Servicing Rights**:** Servicing rights are recognized separately when they are acquired through sales of loans. Servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Credit Union later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income which is reported on the income statement as other income is recorded for fees earned for servicing loans. Amortization of mortgage servicing rights is recorded as a reduction to other income. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amount of loans serviced for others totaled $73,035,873. Servicing fees totaled $157,876 and amortization of servicing rights totaled $73,392 for the year ended December 31, 2008. Late fees and ancillary fees related to loan servicing are not material.

Capital Participation Certificates: As a member of Corporate One Federal Credit Union, the Credit Union is required to maintain an investment in capital participation certificates, based on its membership category, of 1% of assets, capped at a maximum of $1,500,000. The Credit Union also owns Paid In Capital shares totaling $420,000.

Foreclosed Assets: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Federal Home Loan Bank (FHLB) Stock: The Credit Union is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Share Insurance Deposit: The Credit Union is required to maintain a deposit with the National Credit Union Share Insurance Fund (NCUSIF) in an amount equal to one percent of its insured shares. Earnings are not guaranteed and contingent on fund management. The deposit would be refunded to the credit union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA board. Note 13 to these financial statements presents information about events that occurred subsequent to the balance sheet date that impacted the Credit Union's share insurance deposit.

NCUSIF Premiums: The Credit Union is required to pay an annual insurance premium equal to one-twelfth of one percent of its total insured shares, unless the payment is waived or reduced by the NCUA board.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Note 13 to these financial statements presents information about events that occurred subsequent to the balance sheet date that will have an impact on the NCUSIF premiums the Credit Union is required to pay.

Long-Term Assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Members' Share Accounts: Members' share accounts are subordinated to all other liabilities of the Credit Union. Dividend rates on members' share accounts are set by the Board of Directors based on an evaluation of current and future market conditions.

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

Income Taxes: The Credit Union is exempt from federal and state income taxes; accordingly, no income tax expense is reflected in the income statement for the Credit Union.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, which are also recognized as a separate component of members' equity.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans and lines of credit, issued to meet member-financing needs. The face amount for these items represents the exposure to loss, before considering collateral or ability to repay. Such financial instruments are recorded when they are funded.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank of $2,458,000 was required to meet regulatory reserve and clearing requirements. These balances do not earn interest.

Retirement Plans: Defined contribution expense and profit sharing expense is the amount of matching contributions.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Collateral Assignment Split-dollar Life Insurance Arrangements: The Credit Union has entered into three collateral assignment split dollar life insurance arrangements with officers of the Credit Union. The life insurance policy is owned by the officer but premiums are paid by the Credit Union. The premium payments are accounted for as a loan to the officer. A post-retirement obligation is recognized for the cost of maintaining the insurance after the officers' retirement. The post-retirement expense recognized under these arrangements during 2008 was $157,234.

Fair Values of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Adoption of New Accounting Standards: In September 2006, the FASB issued Statement No. 157, Fair Value Measurements (FAS 157). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard was effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued Staff Position (FSP) 157-2, Effective Date of FASB Statement No. 157. This FSP delays the effective date of FAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The impact of adoption was not material. In October 2008, the FASB issued Staff Position (FSP) 157-3, *Determining the Fair Value of a Financial Asset when the Market for That Asset Is Not Active*. This FSP clarifies the application of FAS 157 in a market that is not active. The impact of adoption was not material.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. The standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new standard was effective for the Credit Union on January 1, 2008. The Credit Union did not elect the fair value option for any financial assets or financial liabilities as of January 1, 2008.

(Continued)

NOTE 2 – ACQUISITION

On January 1, 2008, the Erie Shores Credit Union was merged into the Credit Union. The transaction was accounted for as a pooling-of-interest. As such, the results of operations of Erie Shores Credit Union have been included in the Credit Union's statements as of the earliest date presented.

Below is a summary of the net assets and liabilities at the date of the merger.

Cash and cash equivalents	$ 7,704,929
Interest bearing time deposits with financial institutions	20,705,221
Securities available for sale	3,371,686
Federal Home Loan Bank Stock	755,200
Capital participation certificates	900,000
Member share insurance deposit	1,226,019
Loans held for sale	158,800
Loans, net	86,060,785
Premises and equipment, net	3,645,910
Other real estate owned	953,031
Accrued interest receivable	598,468
Other assets	215,962
Members' shares	(110,028,281)
Borrowings	(3,767,000)
Other liabilities	(713,728)
Net assets received in merger	$ 11,787,002

NOTE 3 – SECURITIES

The fair values of available for sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows.

	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
2008			
U.S. government sponsored enterprises	$ 33,573,371	$ 595,534	$ -
Bank notes	3,500,000	-	(30,782)
Corporate bonds	5,258,509	-	(417,687)
Mortgage backed securities	2,883,582	31,874	(5,055)
Total	$ 45,215,462	$ 627,408	$ (453,524)

(Continued)

NOTE 3 – SECURITIES (Continued)

The carrying amount, unrecognized gains and losses, and fair value of securities held to maturity were as follows.

	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
2008				
U.S. government sponsored enterprises	$ 1,000,000	$ -	$ (938)	$ 999,062
Corporate bonds	3,061,221	19,371	(4,255)	3,076,337
Total	$ 4,061,221	$ 19,371	$ (5,193)	$ 4,075,399

There were no sales of securities classified as available for sale during 2008.

The fair value of securities, and carrying amount if different, at year-end 2008 by contractual maturity were as follows. Securities not due at a single maturity date are shown separately.

2008		Held to Maturity	
	Available For Sale	Carrying Amount	Fair Value
One year or less	$ 501,250	$ -	$ -
After one year through five years	41,330,630	4,061,221	4,075,399
After five years through ten years	500,000	-	-
Mortgage backed securities	2,883,582	-	-
Total	$ 45,215,462	$ 4,061,221	$ 4,075,399

At year end 2008, there were no holdings of securities of any one issuer, other than debentures issued by U.S. government sponsored enterprises, in an amount greater than 10% of members' equity.

(Continued)

NOTE 3 – SECURITIES (Continued)

Securities with unrealized losses at year-end 2008, aggregated by investment category and length of time that individual securities have been in a continuous loss position are as follows.

2008	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available for sale						
Bank notes	$ 3,500,000	$ (30,782)	$ -	$ -	$ 3,500,000	$ (30,782)
Corporate bonds	5,258,509	(417,687)	-	-	5,258,509	(417,687)
Mortgage backed securities	466,953	(4,298)	749,243	(757)	1,216,195	(5,055)
Total temporarily impaired	$ 9,225,462	$(452,767)	$ 749,243	$ (757)	$ 9,974,704	$ (453,524)
Held to Maturity						
U.S. Government sponsored enterprises	$ 999,062	$ (938)	$ -	$ -	$ 999,062	$ (938)
Corporate bonds	1,548,812	(4,255)	-	-	1,548,812	(4,255)
Total temporarily impaired	$ 2,547,874	$ (5,193)	$ -	$ -	$ 2,547,874	$ (5,193)

Most of the unrealized losses in the Credit Union's securities portfolio relate to its holdings of bank notes and corporate bonds. The unrealized losses arose due to the adverse conditions faced by the issuers of these notes and bonds and the severe market reaction. In each case, unrealized losses on the bank notes and corporate bonds have not been recognized into income because management has the intent and ability to hold these securities until they recover their value, which may be the maturity date.

(Continued)

NOTE 4 – LOANS

Loans at year-end were as follows.

	2008
Real estate	
Residential first lien	$ 143,328,196
Residential junior lien	33,398,975
Commercial	3,794,849
Commercial loans	642,106
Consumer installment	117,604,127
Credit card	25,061,275
Auto leases	14,832,101
Student	1,494,448
Negative shares	119,717
Total loans	340,275,794
Net deferred loan costs	433,926
Allowance for loan losses	(1,693,326)
Loans, net	$ 339,016,394

Loans to officers and directors totaled approximately $1,689,774 at year-end 2008.

Activity in the allowance for loan losses for the year was as follows.

	2008
Beginning balance	$ 2,019,709
Adjustment due to merger	282,808
Provision for loan losses	2,828,478
Loans charged-off	(3,982,245)
Recoveries	544,576
Ending balance	$ 1,693,326

Due to the nature of the loan portfolio, no loans were required to be evaluated individually for impairment. Loans on which the accrual of interest has been discontinued or reduced amounted to $2,405,274 at December 31, 2008.

(Continued)

NOTE 5 – PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows.

	2008
Land	$ 3,467,416
Buildings and improvements	12,892,919
Furniture and equipment	7,207,764
Leasehold improvements	106,885
Total	23,674,984
Less accumulated depreciation	(9,567,173)
	$ 14,107,811

The Credit Union leases certain branch facilities. Rent expense was $177,574 for 2008. Rent commitments under noncancelable operating leases were as follows, before considering renewal options that generally are present.

2009	$ 103,277
2010	103,277
2011	97,101
2012	66,224
2013	66,224
Thereafter	82,780
Total	$ 518,883

(Continued)

NOTE 6 – MEMBERS' SHARE ACCOUNTS

Year-end members' share accounts were as follows.

	2008
Regular shares	$ 111,612,671
Checking accounts	59,145,440
Money market accounts	77,928,870
Club accounts	5,901,513
IRA accounts	7,844,183
Share and IRA certificates	184,052,802
Nonmember share certificates	2,994,000
Total share accounts	$ 449,479,479

Scheduled maturities of members' and nonmembers' share certificate accounts are as follows.

2009	$ 120,814,662
2010	33,766,930
2011	9,084,715
2012	18,487,642
2013	4,892,853
Total	$ 187,046,802

Members' and nonmembers' share certificate accounts in denominations of $100,000 or more were $40,305,578 at year-end 2008.

Share accounts of officers and directors at year end 2008 totaled $309,838.

Nonmember share certificates are certificates obtained from brokered sources.

NOTE 7 – BORROWINGS

At December 31, 2008, the Credit Union has a $10,000,000 line of credit available at Corporate One Federal Credit Union. At December 31, 2008, the Credit Union had no borrowings under this line.

(Continued)

NOTE 8 – FHLB ADVANCES

The Credit Union has outstanding borrowed funds from Federal Home Loan Bank of Cincinnati. Those notes with the Federal Home Loan Bank with a single maturity date mature and carry interest rates as follows.

	Interest Rate	Maturity Date	2008
Fixed rate advance, interest payable monthly	5.25%	08/17/09	$ 1,000,000
Fixed rate advance, interest payable monthly	3.80%	10/23/09	1,000,000
Fixed rate advance, interest payable monthly	4.71%	08/03/10	1,000,000
Fixed rate advance, interest payable monthly	4.94%	09/28/12	2,500,000
Fixed rate advance, interest payable monthly	3.93%	10/18/13	5,000,000
			$ 10,500,000

Each advance is payable at its maturity date, with a prepayment penalty for early payoffs. In addition, the Credit Union is obligated under an amortizing advance with an unpaid principal balance of $572,585 and a final maturity of June 1, 2013. Principal and interest is payable monthly. The advance carries a fixed rate of 2.81%. The advances were collateralized by $135,811,222 of first mortgage loans under a blanket lien arrangement at year-end 2008. Based on this collateral and the Credit Union's holdings of FHLB stock, the Credit Union is eligible to borrow up to $41,642,365 at year-end 2008.

NOTE 9 – EMPLOYEE BENEFITS

The Credit Union has a contributory defined contribution pension plan available to employees with one year of service who have attained the age of 18 at the anniversary date of the plan. The plan provides that 50% of the employees' first 6% of deferrals will be matched, for a total of up to 3% of the employees' compensation. The total employee contribution limit is 18% of compensation. Total expense for the year ended December 31, 2008 was $159,910.

The Credit Union has a profit-sharing plan covering substantially all employees. The contribution is determined by the Board of Directors annually. The expense was $27,800 for the year ended December 31, 2008.

(Continued)

NOTE 10 – LOAN COMMITMENTS AND RELATED ACTIVITIES

Some financial instruments, such as loan commitments, credit lines, and overdraft protection, are issued to meet member financing needs. These are agreements to provide credit, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amount of financial instruments with off-balance-sheet risk was as follows at year-end.

	2008
Open-end loans	$ 711,446
Credit card	47,608,655
Home equity	16,438,693
Letter of credit	500,000
Overdraft protection program commitments	1,809,539
Total	$ 67,068,333

At year-end 2008, fixed rate commitments were $9,554,556 with rates ranging from 6% to 18%.

NOTE 11 – FAIR VALUES OF FINANCIAL INSTRUMENTS

Statement 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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 use in pricing an asset or liability.

NOTE 11 – FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used to in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at December 31, 2008 Using	
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)
Assets:		
Available for sale securities	$ -	$ 45,215,462

Carrying amounts and estimated fair values of financial instruments were as follows at year-end.

	2008	
	Carrying Amount	Fair Value
Financial Assets		
Cash and cash equivalents	$ 41,449,115	$ 41,449,000
Interest bearing time deposits	49,410,461	49,410,000
Securities available-for-sale	45,215,462	45,215,000
Securities held-to-maturity	4,061,221	4,075,000
Member share insurance deposit	4,363,343	4,363,000
Loans, net (including loans held for sale)	339,016,394	376,805,000
Accrued interest receivable	1,966,195	1,966,000
Financial Liabilities		
Members' shares and deposits	(449,479,479)	(452,513,000)
Borrowed funds	(11,072,585)	(11,562,000)
Accrued interest payable	(68,050)	(68,000)

NOTE 11 – FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The following methods and assumptions were used to estimate fair values for financial instruments. The estimated fair value approximates carrying amount for all items except those described below. Estimated fair value of interest-bearing time deposits with other financial institutions is deemed to be equal to book value due to short maturity dates and repricing features. For fixed rate loans fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk (entry price). Estimated fair value for fixed-maturity share certificates is based on the rates paid at year-end, applied until maturity. Fair value of FHLB advances is based upon current rates for similar financing. It was not practicable to determine the fair value of FHLB stock or Corporate One capital participation certificates due to restrictions placed on its transferability. It was not practicable to calculate the fair value of equity method investments due to restrictions on the transferability of ownership. Estimated fair value for other financial instruments and off-balance-sheet loan commitments are considered nominal.

NOTE 12 – CAPITAL REQUIREMENTS

The Credit Union is subject to various regulatory capital requirements administered by the National Credit Union Administration (NCUA). Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's consolidated financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under accounting principles generally accepted in the United States of America. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the following table) of net worth (as defined) to total assets (as defined). Credit Unions are also required to calculate a risk-based net worth requirement (RBNWR) that establishes whether the Credit Union will be considered "complex" under the regulatory framework.

As of December 31, 2008, the most recent call reporting period, the Credit Union's regulator 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 7.0% of assets. There are no conditions or events since the balance sheet date that management believes have changed the Credit Union's category. Management believes, as of December 31, 2008, that the Credit Union meets all capital adequacy requirements to which it is subject.

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NOTE 12 – CAPITAL REQUIREMENTS (Continued)

The Credit Union's required risk-based net worth ratio as of December 31, 2008 was 5.89%. The minimum ratio requirement to be considered complex under the regulatory framework is 6.0%. Because the RBNWR ratio requirement is less than the net worth ratio requirement to be considered complex, the Credit Union retains its original category of well capitalized.

Actual and required capital amounts (in millions) and ratios are presented below:

	Actual		To Be Adequately Capitalized Under Prompt Corrective Action Provisions		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
2008						
Net worth to total assets	$ 43.5	8.6%	$ 30.5	6.0%	$ 35.5	7.0%

Further, in performing its calculation of total assets, the Credit Union used the average daily assets of the current and three preceding calendar quarter-end balances.

NOTE 13- SUBSEQUENT EVENTS (UNAUDITED)

On January 28, 2009, the National Credit Union Administration (NCUA) announced certain actions it was taking to stabilize the corporate credit union system. The NCUA indicated that the expense of the actions would be passed on proportionately to all federally-insured credit unions through the partial (estimated by NCUA to be 51%) write-off of such credit unions' existing deposits with the National Credit Union Share Insurance Fund (NCUSIF), as well as the assessment of an insurance premium sufficient to return the NCUSIF's equity to insured shares ratio to 1.30 percent.

The Credit Union, as well as other federally insured credit unions are required to maintain a refundable deposit with the NCUSIF in an amount equal to one percent of the credit union's total insured shares. The amount on deposit in the insurance fund is periodically adjusted for changes in the balance of a credit union's insured shares. In addition, a credit union is required to pay an additional annual insurance premium equal to one-twelfth of one percent of its insured shares. At December 31, 2008, the Credit Union's NCUSIF deposit totaled $4,363,343.

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NOTE 13- SUBSEQUENT EVENTS (UNAUDITED) (Continued)

Based on the NCUA's disclosures that it had no obligation to undertake the actions approved on January 28, 2009, and that the NCUSIF deposits were refundable under the circumstances described in the American Institute of Certified Public Accountants' Statement of Position 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*, the Credit Union's NCUSIF deposit became impaired on January 28, 2009. The impairment at January 28, 2009 is estimated to be approximately $2.2 million or 51% of the Credit Union's deposit at that date.

At December 31, 2008, the Credit Union continues to value their NCUSIF deposit at $4,363,343, and has not recognized any impairment of the deposit, which occurred on January 28, 2009, and does not have any liability accrued for the potential special assessment of deposit insurance premium that is anticipated to occur during the year ended December 31, 2009.

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