Consolidated Financial Statements and
Report of Independent Certified Public Accountants

BETHPAGE FEDERAL CREDIT UNION AND SUBSIDIARIES

December 31, 2011 and 2010

BETHPAGE FEDERAL CREDIT UNION AND SUBSIDIARIES

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Members of
Bethpage Federal Credit Union

We have audited the accompanying consolidated statements of financial condition of Bethpage Federal Credit Union and Subsidiaries (the "Credit Union") as of December 31, 2011 and 2010, and the related consolidated statements of income, members' equity and comprehensive income, 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 established by the American Institute of Certified Public Accountants. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

Grant Thornton LLP

New York, New York
March 29, 2012

BETHPAGE FEDERAL CREDIT UNION AND SUBSIDIARIES
Consolidated Statements of Financial Condition
December 31, 2011 and 2010
(dollars in thousands)

ASSETS	**2011**	**2010**
Cash and cash equivalents	$ 71,555	$ 24,193
Investments		
Available-for-sale	1,988,237	1,763,527
Other	18,204	49,936
Loans held for sale	23,263	46,949
Loans receivable, net	2,297,018	2,028,566
Mortgage servicing rights, net	14,993	14,416
Accrued interest receivable	16,893	15,970
Property and equipment	23,023	20,507
National Credit Union Share Insurance Fund deposit	35,963	32,769
Real estate acquired through foreclosure	5,148	5,714
Other assets	10,807	8,786
Total assets	$ 4,505,104	$ 4,011,333
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' shares	$ 4,035,702	$ 3,586,771
Borrowed funds	-	18,205
Accrued expenses and other liabilities	103,929	74,050
Total liabilities	4,139,631	3,679,026
COMMITMENTS AND CONTINGENT LIABILITIES		
MEMBERS' EQUITY		
Retained earnings	356,433	315,446
Accumulated other comprehensive income	9,040	16,861
Total members' equity	365,473	332,307
Total liabilities and members' equity	$ 4,505,104	$ 4,011,333

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

BETHPAGE FEDERAL CREDIT UNION AND SUBSIDIARIES
Consolidated Statements of Income
For the years ended December 31, 2011 and 2010
(dollars in thousands)

	2011	2010
INTEREST INCOME		
Interest on loans receivable	$ 101,266	$ 100,236
Interest on investments and cash equivalents	60,395	59,625
Total interest income	161,661	159,861
INTEREST EXPENSE		
Dividends on members' shares	48,563	53,749
Interest on borrowed funds	68	2,887
Total interest expense	48,631	56,636
Net interest income	113,030	103,225
Provision for loan losses	12,692	16,551
Net interest income after provision for loan losses	100,338	86,674
NON-INTEREST INCOME		
Members' shares service charges and other fees	11,243	10,386
Mortgage servicing and loan fees	2,231	2,057
Gain on sale of mortgage loans	11,777	14,444
Investment services and insurance fees - commissions	8,955	7,359
Other non-interest income	600	380
Total non-interest income	34,806	34,626
Net income before expenses	135,144	121,300
NON-INTEREST EXPENSES		
Salaries and benefits	40,580	36,221
Operations	46,734	40,458
Occupancy	6,843	6,539
Total non-interest expenses	94,157	83,218
Net income	$ 40,987	$ 38,082

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

BETHPAGE FEDERAL CREDIT UNION AND SUBSIDIARIES
Consolidated Statements of Members' Equity and Comprehensive Income
For the years ended December 31, 2011 and 2010
(dollars in thousands)

	Regular Reserve	Undivided Earnings	Total	Accumulated Other Comprehensive Income	Comprehensive Income
Balance, December 31, 2009	$ 21,384	$ 255,980	$ 277,364	$ 17,227	
Net income	-	38,082	38,082	-	$ 38,082
Net change in unrealized holding gains on available-for-sale investments	-	-	-	331	331
Net change due to pension	-	-	-	(697)	(697)
Comprehensive income	-	-	-	-	$ 37,716
Balance, December 31, 2010	21,384	294,062	315,446	16,861	
Net income	-	40,987	40,987	-	$ 40,987
Net change in unrealized holding gains on available-for-sale investments	-	-	-	3,414	3,414
Net change due to pension	-	-	-	(11,235)	(11,235)
Comprehensive income	-	-	-	-	$ 33,166
Balance, December 31, 2011	$ 21,384	$ 335,049	$ 356,433	$ 9,040	

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

BETHPAGE FEDERAL CREDIT UNION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended December 31, 2011 and 2010
(dollars in thousands)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 40,987	$ 38,082
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization and impairment of servicing rights	5,563	3,335
Amortization of net premium on investments	26,540	20,602
Amortization of gain on secured borrowing	-	(801)
Provision for loan losses	12,692	16,551
Other-than-temporary impairment	-	1,126
Gain on sale of available-for-sale investments	(1,154)	(1,284)
Gain on sale of mortgage loans	(11,777)	(14,444)
Depreciation and amortization	3,448	3,368
Write down of other real estate owned	1,091	912
Gain on sale of other real estate owned	(35)	(45)
Mortgage loans originated for sale	(600,243)	(696,850)
Proceeds from sale of mortgage loans	628,941	676,751
Increase in accrued interest receivable	(923)	(485)
Decrease (increase) in other assets	2,814	(1,493)
Increase in accrued expenses and other liabilities	14,434	16,137
Net cash provided by operating activities	122,378	61,462
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale investments	(780,660)	(618,536)
Proceeds from maturities of available-for-sale investments	446,622	335,344
Proceeds from sale of available-for-sale investments	87,355	61,501
Proceeds from sale of other real estate owned	257	662
Net decrease in other investments	31,732	64,498
Net increase in loans receivable	(281,890)	(153,836)
Increase in the National Credit Union Share Insurance Fund deposit	(3,194)	(2,440)
Purchases of property and equipment	(5,964)	(3,916)
Net cash used in investing activities	(505,742)	(316,723)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in borrowed funds	-	18,205
Repayment of borrowed funds	(18,205)	(99,523)
Net increase in members' shares	448,931	339,920
Net cash provided by financing activities	430,726	258,602
Increase in cash and cash equivalents	47,362	3,341
Cash and cash equivalents at beginning of year	24,193	20,852
Cash and cash equivalents at end of year	$ 71,555	$ 24,193
Supplemental cash flow information:		
Dividends paid on members' shares and interest paid on borrowed funds	$ 48,631	$ 56,798
Schedule of non-cash investment activities:		
Transfer from loans receivable, net to real estate acquired through foreclosure	$ 747	$ 6,404

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

1. SIGNIFICANT ACCOUNTING POLICIES

Organization

Bethpage Federal Credit Union (the "Credit Union") is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Credit Union and its wholly owned subsidiary, Bethpage Management Services, LLC ("BMS"). BMS owns 100% of Bethpage Risk Management, LLC, and 51% of Land Bound Services, LLC, and CU Settlements Services, LLC. All material intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

The principal estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, temporary impairment of investment securities, and fair value of derivative financial instruments. The evaluation of the adequacy of the allowance for loan losses includes an analysis of the individual loans and overall risk characteristics and size of the different loan portfolios, and takes into consideration current economic and market conditions, the capability of specific borrowers to pay specific loan obligations, as well as current loan collateral values. However, actual losses on specific loans, which are also encompassed in the analysis, may vary from estimated losses.

The Credit Union periodically evaluates each individual investment for impairment. Based upon the impairment testing completed as of December 31, 2011, the Credit Union determined that there were no investments that were other than temporarily impaired. In 2010, certain investments in corporate member capital accounts were other than temporarily impaired. The Credit Union recorded other-than-temporary impairment charges of approximately $1,126 at December 31, 2010 in other non-interest income. As of December 31, 2010, investments in corporate member capital accounts were written down 100%.

Cash, Cash Equivalents and Cash Flows

Cash and cash equivalents consist of cash on hand, demand deposits, overnight investments, and non-term share deposits in a Corporate Credit Union. For purposes of reporting cash flows, loans receivable, other investments, and members' shares are reported net. Amounts due from financial institutions may exceed federally insured limits.

Investments

Investments that the Credit Union intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available-for-sale and are carried at fair value. Unrealized gains and losses on investments classified as available-for-sale have been accounted for as accumulated other comprehensive income.

Gains and losses on available-for-sale securities are determined using the specific-identification method.

Amortization of premiums and discounts are recognized in interest income over the period to maturity. Declines in the fair value of individual available-for-sale securities below their respective costs that are other than temporary will result in write-downs of the individual securities to their fair value. Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or that management would not have the ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value. Other investments are classified separately and are stated at cost.

Federal Home Loan Bank Stock

At year end, the Credit Union was required to hold Federal Home Loan Bank of New York (“FHLBNY”) stock equal to the sum of 0.2% of mortgage-related assets and 4.5% of outstanding FHLBNY borrowings. The Credit Union has met these requirements for both 2011 and 2010.

No ready market exists for the FHLBNY stock, and it has no quoted market value. Therefore, the Credit Union’s investment in FHLBNY stock is carried at cost and tested for impairment. At December 31, 2011 and 2010, management did not believe the stock was impaired.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated fair value. Mortgage loans held for sale are sold with the mortgage servicing rights retained by the Credit Union.

Loans Receivable and Allowance for Loan Losses

Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses and increased by deferred net loan origination costs. Interest on loans receivable is recognized over the terms of the loans and is calculated using the interest method on principal amounts outstanding. Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income.

The Credit Union determines a loan to be delinquent when payments have not been made according to contractual terms, typically evidenced by nonpayment of a monthly installment by the due date.

The Credit Union maintains its allowance for loan losses in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 450, “Contingencies” and FASB ASC 310, “Receivables.” Both statements require the Credit Union to evaluate the collectability of interest and principal loan payments. FASB ASC 450 requires the accrual of a loss when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. FASB ASC 310 requires that impaired loans be measured based upon the present value of expected future cash flows discounted at the loan's effective interest rate or, as an alternative, at the loan's observable market price of fair value of the collateral.

A loan is defined under FASB ASC 310 as impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. In applying the provisions of FASB ASC 310, the Credit Union considers its investment in consumer loans to be homogeneous and therefore excluded from individual identification for evaluation of impairment. These homogeneous loan groups are evaluated for impairment on a collective basis under FASB ASC 450. With respect to the Credit Union's investment in residential, commercial and other loans, and its evaluation of impairment thereof, management believes such loans are collateral dependent and as a result impaired loans are carried as a practical expedient at the lower of cost or fair value of the collateral.

It is the Credit Union's policy to charge off unsecured loans that are more than 150 days delinquent. Similarly, non-homogeneous collateral-dependent loans which are more than ninety days delinquent are considered to constitute more than a minimum delay in repayment and are individually evaluated for impairment under FASB ASC 310 at that time.

The allowance for loan losses is increased by a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). Loans are charged against the allowance for loan losses when management believes that collectability of the principal is unlikely. The allowance is an amount management believes will be adequate to absorb estimated losses on existing loans. Management's periodic evaluation of the adequacy of the allowance is based on the Credit Union's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and current economic conditions. While management uses the best information available to make its evaluations, further adjustments to the allowance may be necessary if there are significant changes in economic conditions.

Transfers and Servicing of Financial Assets

The Credit Union accounts for the right to service mortgage loans sold to others under FASB ASC 860, "Transfers and Servicing." Mortgage servicing rights have been recognized as a separate asset and are being amortized in proportion to and over the period of estimated net servicing income.

FASB ASC 860 requires the Credit Union to recognize as a separate asset the right to service mortgage loans for others. An institution that acquires mortgage servicing rights through either the purchase or the origination of mortgage loans and sells those loans with servicing rights retained must allocate a portion of the cost of the loans to the mortgage servicing rights. Under FASB ASC 860, the Credit Union could elect to either amortize the mortgage servicing rights over the life of the loan or carry the mortgage servicing rights at fair value. Under both methodologies, the mortgage servicing rights would be tested for impairment. Management elected to continue with the amortization method of accounting for mortgage servicing rights.

Mortgage servicing rights are periodically evaluated for impairment based on the fair value of those rights. Fair values are estimated using discounted cash flows based on current market rates of interest and current expected future prepayment rates. For purposes of measuring impairment, the rights must be stratified by one or more predominant risk characteristics of the underlying loans. The amount of impairment recognized is the amount, if any, by which the amortized cost of the rights for each stratum exceed their fair value.

The mortgage servicing rights recorded by the Credit Union were segregated into pools for valuation purposes, using as pooling criteria the loan type, loan term, investor, interest rate, maturity date, origination date, and coupon rate. Once pooled, each grouping of loans was evaluated on a discounted earnings basis to determine the present value of future earnings that a purchaser could expect to realize from each portfolio. Earnings were projected from a variety of sources including loan servicing fees, interest earned on float, net interest earned on escrows, miscellaneous income, and costs to service the loans. The present value of future earnings is the economic value of the pool, i.e., the net realizable present value to an acquirer of the servicing rights.

The valuation of mortgage servicing rights is influenced by market factors, including servicing volumes and market prices, as well as management's assumptions regarding mortgage prepayment speeds and interest rates. Impairment is measured based on the fair value of each pool. Management utilizes periodic third-party valuations by market professionals to evaluate the fair value of its capitalized mortgage servicing assets.

Accrued Interest on Loans

Interest is accrued as earned unless the collectability of the loan is in doubt. Accrual of interest on loans is discontinued when management believes that, after considering economics, business conditions, and collection efforts, the borrower's financial condition is such that collection of principal and interest is doubtful. The Credit Union's policy is to stop accruing interest when the loan becomes 90 days delinquent. All interest accrued but not collected for loans that are placed on nonaccrual status or subsequently charged off is reversed against interest income. Income is subsequently recognized on the cash basis until, in management's judgment, the borrower's ability to make periodic interest and principal payments has returned to normal and future payments are reasonably assured, in which case the loan is returned to accrual status.

Property and Equipment

Land is carried at cost. Building, furniture and equipment, data processing and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Buildings, furniture and equipment and data processing are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases.

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.

Real Estate Acquired Through Foreclosure

Real estate acquired through foreclosure is carried at fair value on the date of acquisition plus certain capitalized costs, net of estimated disposal costs. Carrying costs such as maintenance, interest and taxes are charged to operations as incurred. Because of changing market conditions, there are inherent uncertainties in the assumptions with respect to the estimated fair value of other real estate owned. Because of these inherent uncertainties, the amount ultimately realized on other real estate owned may differ from the amounts reflected in the consolidated financial statements.

Derivative Financial Instruments

Derivative financial instruments are recognized as assets and liabilities on the consolidated statements of financial condition. This information is presented in Note 10.

Derivative Loan Commitments

Mortgage loan commitments are considered derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. Loan commitments that are derivatives are recognized at fair value on the consolidated statements of financial condition in other assets or other liabilities with changes in fair values recorded in gain on sale of mortgage loans.

The Credit Union records a zero value for the loan commitment at inception (at the time the commitment is issued to a borrower) and does not recognize the value of the expected normal servicing rights until the underlying loan is sold. Subsequent to inception, changes in the fair value of the loan commitment are recognized based on changes in the fair value of the underlying mortgage loan due to interest rate changes, changes in the probability the derivative loan commitment will be exercised and the passage of time. In estimating fair value, the Credit Union assigns a probability to a loan commitment based on an expectation that it will be exercised and the loan will be funded.

Forward Loan Sale Commitments

The Credit Union utilizes forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that might result from the exercise of the derivative loan commitments. Generally, the Credit Union's contracts meet the definition of derivative instruments. Accordingly, forward loan sale commitments are recognized at fair value on the consolidated statements of financial condition in other assets or other liabilities with changes in their fair values recorded in gain on sale of mortgage loans.

The Credit Union estimates the fair value of its forward loan sales commitments using a methodology similar to that used for derivative loan commitments.

Members' Shares

Members' shares are the 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 management.

Income Taxes

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

Pension Plan

The Credit Union has a qualified, noncontributory defined-benefit pension plan covering substantially all of its employees. The Credit Union's policy is to fund an amount in excess of the minimum amount required under the Employee Retirement Income Security Act ("ERISA"). The Credit Union accounts for the pension plan in accordance with FASB ASC 715, "Compensation". FASB ASC 715 requires an employer to (a) recognize in its balance sheet the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation; (b) measure a plan's assets and its obligations that determine its funded status as of the date of its year-end balance sheet; and (c) recognize as a component of other comprehensive income the actuarial gains and losses and the prior service costs and credits that arise during the period. FASB ASC 715 does not change how an employer determines the amount of net periodic benefit cost.

Comprehensive Income/Loss

The Credit Union records unrealized gains and losses on available-for-sale securities in other comprehensive income in the members' equity section. Gains and losses on available-for-sale securities reclassified to net income as gains or losses are realized upon the sale of securities. Unrealized gains arising during 2011 approximated $3,414 and are recorded in other comprehensive income net of a reclassification adjustment of approximately $1,154 for gains included in net income. Unrealized gains arising during 2010 approximated $331 and are recorded in other comprehensive income net of a reclassification adjustment of approximately $1,284 for gains included in net income.

The Credit Union recorded $11,235 and $697 in comprehensive losses related to the pension plans in 2011 and 2010, respectively. See Note 11 - Employee Benefits for further information.

Recent Accounting Pronouncements

In January 2010, the FASB issued ASU 2010-06, which amends the authoritative accounting guidance under ASC Topic 820 "Fair Value Measurements and Disclosures." The update requires the following additional disclosures: (1) separately disclose the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and (2) separately disclose information about purchases, sales, issuances and settlements in the reconciliation for fair value measurements using Level 3. The update provides for amendments to existing disclosures as follows: (1) fair value measurement disclosures are to be made for each class of assets and liabilities; and (2) disclosures are to be made about valuation techniques and inputs used to measure fair value for both recurring and non-recurring fair value measurements. The update also includes conforming amendments to guidance on employers' disclosure about postretirement benefit plan assets. The update is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Adoption of this update did not have a material impact on the Credit Union's consolidated financial statements.

In July 2010, the FASB issued ASU 2010-20, which amends the authoritative accounting guidance under ASC Topic 310 "Receivables." The update is to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. The update requires disclosures that facilitate financial statement users' evaluation of the following: (1) the nature of credit risk inherent in the entity's portfolio of financing receivables; (2) how that risk is analyzed and assessed in arriving at the allowance for credit losses; and (3) the changes and reasons for those changes in the allowance for credit losses. An entity is required to provide disclosures on a disaggregated basis by portfolio segment and class of financing receivables. This update requires the expansion of currently required disclosures about financing receivables as well as requiring additional disclosures about financing receivables. For nonpublic companies, the disclosures are effective for annual reporting periods ending on or after December 15, 2011. Adoption of this update did not have a material impact on the Credit Union's consolidated financial statements.

In April 2011, the FASB issued ASU 2011-02, which clarifies the guidance for determining whether a loan restructuring constitutes a troubled debt restructuring ("TDR") outlined in ASC No. 310-40, "Receivables—Troubled Debt Restructurings by Creditors," by providing additional guidance to a creditor in making the following required assessments needed to determine whether a restructuring is a TDR: (i) whether or not a concession has been granted in a debt restructuring; (ii) whether a temporary or permanent increase in the contractual interest rate precludes the restructuring from being a TDR; (iii) whether a restructuring results in an insignificant delay in payment; (iv) whether a borrower that is not currently in payment default is experiencing financial difficulties; and (v) whether a creditor can use the effective interest rate test outlined in debtor's guidance on restructuring of payables (ASC Topic No. 470-60- 55-10) when evaluating whether or not a restructuring constitutes a TDR. For nonpublic companies, the disclosures are effective for annual reporting periods ending on or after December 15, 2012. Adoption of this update is not expected to have a material effect on the Credit Union's consolidated financial statements.

In April 2011, the FASB issued ASU No. 2011-03, which amends the authoritative accounting guidance under ASC Topic 860 "Transfers and Servicing." The amendments in this update remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee and (2) the collateral maintenance implementation guidance related to that criterion. The amendments in this update are effective for the annual period beginning on or after December 15, 2011 and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. Adoption of this update is not expected to have a material effect on the Company's consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, which amends the authoritative accounting guidance under ASC Topic 820 “Fair Value Measurement.” The amendments in this update clarify how to measure and disclose fair value under ASC Topic 820. The amendments in this update are effective for the annual period beginning on or after December 15, 2011 and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. Adoption of this update is not expected to have a material effect on the Company’s consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, which amends the authoritative accounting guidance under ASC Topic 220 “Comprehensive Income.” The amendments eliminate the option to present components of other comprehensive income in the statement of stockholders’ equity. Instead, the new guidance requires entities to present all nonowner changes in stockholders’ equity either as a single continuous statement of comprehensive income or as two separate but consecutive statements. The amendments in this update are effective for the annual period beginning on or after December 15, 2012 and must be applied retrospectively. Early adoption is permitted. Adoption of this update is not expected to have a material effect on the Company’s consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11, which provides common disclosure requirements to facilitate a comparison of financial statements prepared under U.S. GAAP and those prepared under IFRS. Under the amendments, entities with financial instruments and derivatives that are either offset on the balance sheet or subject to a master netting or similar arrangement are required to disclose the following information separately for assets and liabilities in a tabular format: (1) gross amounts of recognized assets and liabilities (2) offsetting amounts that determine the net amount presented in the balance sheet (3) net amounts presented in the balance sheet (4) amounts subject to an enforceable master netting arrangement that were not already included in the disclosure required by (2), including: (i) amounts related to recognized financial instruments and other derivative instruments if either (a) management makes an accounting election not to offset the amounts, or (b) the amounts do not meet the right of setoff conditions in ASC 210-30-45, Balance Sheet: Offsetting, or in ASC 815-10-45, Derivatives and Hedging (ii) amounts related to financial collateral (5) Net amount after deducting the amounts in (4) from the amounts in (3) above. In addition to the tabular disclosures described above, entities are required to provide a description of the setoff rights associated with assets and liabilities subject to an enforceable master netting arrangement. These amended disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013. The disclosures required must be provided retrospectively for all comparative periods presented. Adoption of this update is not expected to have a material effect on the Company’s consolidated financial statements.

In December 2011, FASB ASU No. 2011-12, amended ASC Topic 220 “Comprehensive Income.” The amendments defer certain disclosure requirements regarding reclassifications within ASU No. 2011-05, until the FASB can deliberate further on these requirements. The amendments in this update are effective for the annual period beginning on or after December 15, 2012 and must be applied retrospectively. Adoption of this update is not expected to have a material effect on the Credit Union’s consolidated financial statements.

(dollars in thousands)

Reclassifications

Certain account reclassifications have been made to the 2010 consolidated financial statements in order to conform to classifications used in the current year.

2. INVESTMENTS

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

December 31, 2011	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Agency issued securities	$ 62,764	$ 1,832	$ -	$ 64,596
Agency issued MBS/CMOs*	1,535,762	28,023	(2,745)	1,561,040
Municipal bonds	328,711	10,580	(45)	339,246
Auction rate securities	24,300	-	(945)	23,355
	$1,951,537	$ 40,435	$ (3,735)	$1,988,237

* MBS and CMO represents Mortgage Backed Securities and Collateralized Mortgage Obligations, respectively.

December 31, 2010	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Agency issued securities	$ 75,188	$ 1,801	$ (37)	$ 76,952
Agency issued MBS/CMOs*	1,331,576	29,570	(3,033)	1,358,113
Municipal bonds	285,627	7,276	(1,281)	291,622
Auction rate securities	37,850	-	(1,010)	36,840
	$1,730,241	$ 38,647	$ (5,361)	$1,763,527

(dollars in thousands)

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2011 and 2010 are as follows:

		Continuous Unrealized Losses Existing For					
December 31, 2011	**Fair Value**	**Number of Securities**	**Less Than 12 Months**	**Number of Securities**	**12 Months or Greater**	**Total Number of Securities**	**Total Unrealized Losses**
Available-for-sale							
Agency issued securities	$ -	-	$ -	-	$ -	-	$ -
Agency issued MBS/CMOs	369,173	88	(2,540)	14	(205)	102	(2,745)
Municipals bonds	18,823	8	(40)	5	(5)	13	(45)
Auction rate securities	18,455	-	-	3	(945)	3	(945)
	$ 406,451	96	$ (2,580)	22	$ (1,155)	118	$ (3,735)

		Continuous Unrealized Losses Existing For					
December 31, 2010	**Fair Value**	**Number of Securities**	**Less Than 12 Months**	**Number of Securities**	**12 Months or Greater**	**Total Number of Securities**	**Total Unrealized Losses**
Available-for-sale							
Agency issued securities	$ 2,732	1	$ (37)	-	$ -	1	$ (37)
Agency issued MBS/CMOs	243,595	54	(2,674)	11	(359)	65	(3,033)
Municipals bonds	68,286	65	(1,270)	4	(11)	69	(1,281)
Auction rate securities	27,940	-	-	4	(1,010)	4	(1,010)
	$ 342,553	120	$ (3,981)	19	$ (1,380)	139	$ (5,361)

The unrealized losses associated with these investments are considered temporary as the Credit Union does not have the intention to sell nor will they be required to sell prior to recovery or maturity. Management believes that the temporary unrealized loss is due to the interest rate and liquidity environment. Such determination was based upon an evaluation of the creditworthiness of the issuers and/or guarantors, the underlying collateral, if applicable, as well as the continuing performance of the securities. Management also evaluates other facts and circumstances that may be indicative of an other-than-temporary impairment condition. This includes, but is not limited to, an evaluation of the type of security and length of time and extent to which the fair value has been less than cost, as well as certain collateral related characteristics.

(dollars in thousands)

Other investments consist of the following:

	December 31, 2011	December 31, 2010
Certificates of deposit in banks and savings institutions	$ 11,929	$ 39,388
Share certificate in a corporate credit union	-	4,000
Federal Home Loan Bank stock	6,275	6,548
	$ 18,204	$ 49,936

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

At December 31, 2011 and 2010, there were approximately $1,646 and $4,306, respectively, in Credit Union and bank deposits with individual balances in excess of the insured limit.

Investments by maturity as of December 31, 2011, are summarized as follows:

	Amortized Cost	Fair Value	Other Investments
No contractual maturity	$ -	$ -	$ 6,275
Less than 1 year maturity	55,831	56,749	4,527
1-5 years maturity	261,685	271,083	7,402
5-10 years maturity	73,959	76,010	-
Mortgage-backed securities	1,535,762	1,561,040	-
Auction rate securities	24,300	23,355	-
	$ 1,951,537	$ 1,988,237	$ 18,204

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

There were $172,829 in available-for-sale securities and $6,275 in FHLBNY stock pledged as collateral for potential borrowings at December 31, 2011. There were $150,013 in available-for-sale securities and $6,548 in FHLBNY stock pledged to the FHLBNY and Federal Reserve Bank as collateral for potential borrowings at December 31, 2010. As of December 31, 2011, there were no amounts borrowed from the FHLBNY or the Federal Reserve Bank. As of December 31, 2010 the Credit Union borrowed $18,205 from the FHLBNY. See Note 7 - Borrowed Funds for further information.

(dollars in thousands)

3. LOANS RECEIVABLE AND CREDIT QUALITY

The Credit Union categorized loans into risk categories based on numerous factors. Some of those factors include, but are not limited to, financial strength, industry/economic trends, and credit history. Each loan is assessed individually and grouped into a sub-category such as commercial, commercial real estate, commercial loan participations - real estate, residential and home equity and home equity lines of credit. This analysis is performed on a quarter to semi-annual basis. The ratings listed below are what the Credit Union uses when determining what each loan should be rated:

Special Mention - A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Credit Union's credit position at some future date. Special mention assets are not adversely classified and do not expose the Credit Union to sufficient risk to warrant adverse classification.

Substandard - A substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or by the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected.

Doubtful - A doubtful loan has all the weaknesses inherent in one classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable on the basis of currently known facts, conditions, and values.

All loans that are deemed to not fall within these risk ratings are given a pass risk rating.

The following is a summary of the credit risk profile of the real estate loans (principal balance only). The Credit Union utilizes internally assigned grades for commercial loans and payment activity for residential real estate and home equity loans:

	December 31, 2011				
	Commercial	Commercial Real Estate	Commercial Loan Participations Real Estate	Residential	Home Equity Loans and Home Equity Lines of Credit
Grade:					
Pass	$ 18,004	$ 278,241	$ 35,427	$ 1,050,073	$ 639,350
Special Mention	814	-	-	4,873	3,977
Substandard	-	4,040	6,645	3,663	1,766
Doubtful	34	-	2,392	3,890	3,399
Total	$ 18,852	$ 282,281	$ 44,464	$ 1,062,499	$ 648,492

(dollars in thousands)

For consumer loans, the Credit Union evaluates credit quality based on payment activity. Consumer loans that are 3 months or more past due are are considered non-performing, while all remaining consumer loans are evaluated as performing. The following is a summary of the credit risk profile of consumer loans (principal balance only) by payment activity:

	December 31, 2011		
	Consumer-Credit Card	Consumer-Other	Consumer-Auto
Performing	$ 33,682	$ 45,470	$ 187,114
Non-performing	178	384	535
Total	$ 33,860	$ 45,854	$ 187,649

Loans receivable consist of the following at December 31:

	1 Month	2 Months	3 Months or More	Total Past Due	Current	2011 Total	2010 Total
Real estate loans							
Fixed rate mortgages	$ 3,553	$ 1,967	$ 2,496	$ 8,016	$ 582,750	$ 590,766	$ 528,403
Hybrid/balloon mortgages	2,872	1,916	6,047	10,835	460,898	471,733	400,860
Home equity line of credit, variable rate	4,950	857	5,073	10,880	481,102	491,982	473,612
Home equity loans	6,122	1,197	2,015	9,334	147,176	156,510	153,563
Commercial-real estate	-	-	379	379	281,902	282,281	143,042
Commercial participation loans	-	852	3,345	4,197	40,267	44,464	63,384
Vehicle loans	1,709	341	535	2,585	185,064	187,649	172,295
Vehicle participation loans	-	-	-	-	-	-	798
Consumer loans	488	280	384	1,152	44,702	45,854	48,594
Commercial loans	3	-	-	3	18,849	18,852	32,964
Consumer credit cards	171	241	178	590	33,270	33,860	33,742
	$ 19,868	$ 7,651	$ 20,452	$ 47,971	$ 2,275,980	2,323,951	2,051,257
Allowance for loan loss						(31,969)	(27,381)
Deferred origination costs						5,036	4,690
Total						$ 2,297,018	$ 2,028,566

(dollars in thousands)

The Credit Union has purchased commercial loan participations originated by various other credit unions and banks. All of these loan participations were purchased without recourse and are collateralized by real property.

The Credit Union offers nontraditional hybrid/balloon mortgage loans to its members. Hybrid/balloon loans consist of loans that are fixed for an initial period of three, five, seven, or ten years. After this period, the mortgages are converted to variable rate using the fully indexed rate capped at an annual increase of two percent, which can result in significant payment increase to the borrower. During 2011 and 2010, the Credit Union did not engage in subprime lending.

In accordance with U.S. GAAP, the Credit Union is required to account for certain loan modifications or restructurings as “troubled debt restructurings.” In general, such a modification or restructuring of a loan constitutes a troubled debt restructuring if the Credit Union grants a concession to a borrower experiencing financial difficulty. Loans modified in a troubled debt restructuring are considered impaired loans. Loans modified in a troubled debt restructuring, totaled $42,267 and $19,119 at December 31, 2011 and 2010, respectively.

The Credit Union has not restructured troubled consumer loans, as its consumer loan portfolio is small and has not had any problem issues warranting restructuring. Therefore, all TDRs have been made on real estate loans. The following table summarizes activity related to TDRs as of and for the periods indicated:

	December 31, 2011		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Residential	41	12,748	11,465
Home equity loans and home equity lines of credit	70	7,735	7,822
Commercial real estate	3	2,548	2,512

	Number of Contracts	Recorded Investment
Troubled debt restructurings That subsequently defaulted:		
Residential	5	1,490
Home equity loans and home equity lines of credit	1	438

(dollars in thousands)

The total amount of loans on non-accrual status was $31,318 and $23,200 at December 31, 2011 and 2010, respectively, including $10,507 and $10,967 of troubled debt restructuring loans.

The following table summarizes loans and non-accrual status for the period indicated:

	At December 31, 2011
Commercial	$ -
Commercial real estate	3,724
Consumer:	
Consumer - auto	563
Consumer - other	390
Consumer credit cards	178
Residential	15,684
Home equity loans and home equity lines of credit	10,779
Total	$ 31,318

The total amount of loans classified as impaired was $61,599 and $34,226 at December 31, 2011 and 2010, respectively. The portion of the allowance for loan losses allocated to impaired loans was $13,505 and $7,715 at December 31, 2011 and 2010, respectively. During the years ended December 31, 2011 and 2010, the Credit Union recorded net losses of $2,147 and $1,616, respectively, related to impaired loans.

The following table summarizes loans that were individually evaluated for impairment at December 31, 2011:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential	$ 11,537	$ 11,646	$ -	$ 11,660	$ 461
Home equity loans and home equity lines of credit	7,114	7,018	-	7,168	374
Total	18,651	18,664	-	18,828	835
With an allowance recorded:					
Commercial	220	220	68	234	12
Commercial real estate	7,191	7,178	1,294	7,236	210
Residential	20,096	20,360	4,160	20,267	720
Home equity loans and home equity lines of credit	15,313	15,177	7,983	15,335	557
Total	42,820	42,935	13,505	43,072	1,499
Total	$ 61,471	$ 61,599	$ 13,505	$ 61,900	$ 2,334

(dollars in thousands)

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 all or part of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using, among other factors, past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, and economic conditions. Allocations to 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.

The following table presents data regarding the allowance for loan losses and loans evaluated for impairment by class of loan within the real estate loan segment as well as for the aggregate consumer loan segment:

	Commercial	Commercial Real Estate	Consumer	Residential	Home Equity Loans and Home Equity Lines of Credit	Unallocated	Total at December 31, 2011	Total at December 31, 2010
Allowance for loan losses:								
Beginning balance	$ 591	$ 2,811	$ 6,851	$ 4,295	$ 12,833	$ -	$ 27,381	$ 21,646
Charge-offs	(185)	(482)	(4,667)	(843)	(3,249)	-	(9,426)	(12,106)
Recoveries	-	-	1,150	8	164	-	1,322	1,290
Provision	(135)	831	1,823	3,603	6,570	-	12,692	16,551
Ending Balance	$ 271	$ 3,160	$ 5,157	$ 7,063	$ 16,318	$ -	$ 31,969	$ 27,381
Ending balance: individually evaluated for impairment	$ 68	$ 1,294	$ -	$ 4,160	$ 7,983	$ -	$ 13,505	
Ending balance: collectively evaluated for impairment	$ 203	$ 1,866	$ 5,157	$ 2,903	$ 8,335	$ -	$ 18,464	
Loans receivable:								
Ending Balance	$ 18,799	$ 324,506	$ 267,903	$ 1,062,210	$ 655,569	$ -	$ 2,328,987	
Ending balance: individually evaluated for impairment	$ 220	$ 7,178	$ -	$ 20,360	$ 15,177	$ -	$ 42,935	
Ending balance: collectively evaluated for impairment	$ 18,579	$ 317,328	$ 267,903	$ 1,041,850	$ 640,392	$ -	$ 2,286,052	

(dollars in thousands)

4. LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of these loans at December 31, 2011 and 2010 are summarized as follows:

	December 31,	
	2011	**2010**
Mortgage loans underlying pass-through securities		
Federal National Mortgage Association	$ 1,989,598	$ 1,641,903
Charlie Mac, LLC	7,476	10,751
Government National Mortgage Association	21,754	-
Federal Home Loan Mortgage Corporation	349,927	383,595
	$ 2,368,755	$ 2,036,249

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in members' shares, were approximately $13,964 and $12,738 at December 31, 2011 and 2010, respectively.

A summary of the changes in the balance of mortgage servicing rights in 2011 and 2010 was as follows:

	Years Ended December 31,	
	2011	**2010**
Balance, beginning of year	$ 14,416	$ 11,184
Servicing assets recognized during the year	6,140	6,567
Amortization of servicing assets	(4,244)	(3,125)
Impairment of servicing assets	(1,319)	(210)
Balance, end of year	$ 14,993	$ 14,416
Fair value of mortgage servicing rights	$ 16,613	$ 16,536

(dollars in thousands)

5. PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

	2011	2010
Land and improvements	$ 1,800	$ 1,800
Building	15,154	14,935
Furniture and equipment	13,885	10,342
Data processing	16,645	15,340
Leasehold improvements	14,016	13,134
	61,500	55,551
Accumulated depreciation and amortization	(38,477)	(35,044)
	$ 23,023	$ 20,507

The Credit Union leases various 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, 2011, are as follows:

Years ending December 31,	
2012	$ 2,747
2013	2,712
2014	2,467
2015	2,282
2016	1,674
Subsequent years	10,692
	$ 22,574

Rental expense for the years ended December 31, 2011 and 2010 for all facilities leased under operating leases totaled $3,284 and $3,106, respectively.

(dollars in thousands)

6. MEMBERS' SHARES

Members' shares are summarized as follows:

	December 31,	
	2011	**2010**
Regular shares	$ 470,203	$ 383,160
Share draft accounts	375,634	301,881
Money market accounts	1,407,124	1,240,643
Individual retirement accounts - money market	120,840	117,959
Certificates	1,661,901	1,543,128
	$ 4,035,702	$ 3,586,771

Shares by maturity as of December 31, 2011 are summarized as follows:

No contractual maturity	$ 2,373,801
0-1 year maturity	807,435
1-2 years maturity	346,249
2-3 years maturity	175,169
3-4 years maturity	193,875
4-5 years maturity	139,173
	$ 4,035,702

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 National Credit Union Share Insurance Fund insures members' shares up to $250. The aggregate amount of certificates in denominations of $250 or more at December 31, 2011 and 2010 is approximately $105,693 and $91,018, respectively.

At December 31, 2011 and 2010, overdraft demand shares reclassified to loans totaled $179 and $117, respectively.

(dollars in thousands)

7. BORROWED FUNDS

Borrowed funds are summarized as follows:

	December 31,	
	2011	2010
Federal Home Loan Bank advance	$ -	$ 18,205
	$ -	$ 18,205

The Credit Union has lines of credits with various financial institutions. The terms of the agreements call for pledging assets as security for any and all obligations taken by the Credit Union. The agreements provide for a total borrowing capacity of $1,600,000 with interest charged at a rate determined by the lenders on a periodic basis. At December 31, 2011, there were no borrowings under the agreements. At December 31, 2010, the Credit Union borrowed $18,205 at a rate of 0.40% from the FHLBNY with a maturity date of January 3, 2011. Additionally, there were no draws outstanding on these lines of credit for any material length of time in 2011 or 2010. The agreements are reviewed for continuation by the lenders and the Credit Union annually.

8. CONCENTRATIONS OF CREDIT RISK

Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined in the Credit Union's bylaws. Under a community charter approved during 2003 by NCUA, the Credit Union's field of membership includes all individuals who live, work, worship, or attend school in New York's Nassau County and in substantially all of New York's Suffolk County. Although the Credit Union has a diversified loan portfolio, borrowers' ability to repay loans may be affected by the economic climate of the overall geographic region in which borrowers reside.

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.

The Credit Union has approximately $110,528 and $99,129 in outstanding commitments to sell loans at December 31, 2011 and 2010, respectively. There are no commitments to sell investments at December 31, 2011 and 2010.

Outstanding mortgage loan commitments at December 31, 2011 and 2010 total approximately $435,846 and $371,580, respectively.

(dollars in thousands)

Outstanding loan commitments are summarized as follows:

	December 31, 2011	December 31, 2010
Home equity	$ 259,452	$ 240,753
Credit card loans	146,356	125,509
Other consumer	149,346	126,096
Member business loans	11,570	6,027
	$ 566,724	$ 498,385

Commitments for home equity and unsecured lines of credit may expire without being drawn upon. Therefore, the total commitment amount does not necessarily represent future cash requirements of the Credit Union. These commitments are not reflected in the consolidated financial statements.

In the ordinary course of business, the Credit Union is exposed to potential claims and/or litigation under representations and warranties made to purchasers and insurers of mortgage loans as well as the purchasers of servicing rights. Under certain circumstances, the Credit Union may be required to repurchase mortgage loans or indemnify the purchasers of loans or servicing rights for losses if there has been a breach of representations or warranties. Any resulting liabilities would be recorded at the date the loss is probable and could be reasonably estimated.

10. DERIVATIVE FINANCIAL INSTRUMENTS

Certain derivative instruments do not meet the requirements to be accounted for as hedging instruments. These undesignated derivative instruments are recognized in other assets and accrued expenses and other liabilities on the consolidated statements of financial condition at fair value, with changes in fair value recorded in on sale of mortgage loans.

Derivative Loan Commitments

Mortgage loan commitments are considered derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. The Credit Union enters into commitments to fund residential mortgage loans at specified times in the future, with the intention that these loans will subsequently be sold in the secondary market. A mortgage loan commitment binds the Credit Union to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60 days after inception of the rate lock.

Outstanding derivative loan commitments expose the Credit Union to the risk that the price of the loans arising from exercise of the loan commitment might decline from inception of the rate lock to funding of the loan due to increases in mortgage interest rates. If interest rates increase, the value of these loan commitments decreases. Conversely, if interest rates decrease, the value of these loan commitments increases.

(dollars in thousands)

Forward Loan Sale Commitments

To protect against the price risk inherent in derivative loan commitments, the Credit Union utilizes forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments.

With a forward loan sale contract, the Credit Union commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor if the loan to the underlying borrower closes. Generally, the price the investor will pay the seller for an individual loan is specified prior to the loan being funded.

Derivatives are summarized as follows:

	December 31, 2011			
	Notional	Fair Value - Asset	Fair Value - (Liability)	Gain (Loss) Recognized
Forward loan sales commitment	$ 110,528	$ -	$ (1,841)	$ (1,841)
Derivative loan commitment	292,973	2,619	-	2,619

	December 31, 2010			
	Notional	Fair Value - Asset	Fair Value - (Liability)	Gain (Loss) Recognized
Forward loan sales commitment	$ 99,129	$ 2,369	$ -	$ 2,369
Derivative loan commitment	270,288	-	(1,440)	(1,440)

(dollars in thousands)

11. EMPLOYEE BENEFITS

The Credit Union sponsors a funded, noncontributory defined benefit pension plan. The Credit Union also sponsors an unfunded, noncontributory, nonqualified defined benefit supplemental executive retirement plan. The plans call 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. Plan assets consist primarily of equity securities.

The Credit Union also sponsors a postretirement benefit plan to provide health care benefits to retirees of the Credit Union from retirement until Medicare benefits become available. The postretirement benefits take into account actuarial assumptions that consider employee's age, years to retirement, and years to Medicare benefits. Other assumptions include that the plan will pay a portion of the health care premium for the retirees, and a factor of the health care cost trend rate.

The accrued pension benefits and net periodic pension costs for the years ended December 31, 2011 and 2010 are as follows:

	Pension Plans		**Postretirement Benefit**	
	2011	**2010**	**2011**	**2010**
Change in benefit obligation				
Benefit obligation at beginning of year	$ 38,946	$ 33,883	$ 7,107	$ 6,176
Service cost	1,638	1,341	458	372
Interest cost	2,184	2,111	415	377
Plan amendments	-	-	(167)	(508)
Benefits paid	(1,251)	(1,225)	(343)	(303)
Actuarial loss	8,009	2,836	1,837	993
Benefit obligation at end of year	49,526	38,946	9,307	7,107
Change in plan assets				
Fair value of plan assets at beginning of year	28,637	24,155	-	-
Actual return on plan assets	(236)	3,467	-	-
Employer contributions	2,200	2,240	343	303
Benefits paid	(1,251)	(1,225)	(343)	(303)
Fair value of plan assets at end of year	29,350	28,637	-	-
Funded status at end of year	$ (20,176)	$ (10,309)	$ (9,307)	$ (7,107)
Accumulated benefit obligation	$ 44,021	$ 35,013	$ -	$ -

(dollars in thousands)

	Pension Plans		Postretirement Benefit	
	2011	**2010**	**2011**	**2010**
Amounts recognized in the statement of financial position consist of:				
Accrued benefit liability	$ (20,176)	$ (10,309)	$ (9,307)	$ (7,107)
Accumulated other comprehensive income	$ 24,435	$ 14,857	$ 3,225	$ 1,568
Amounts recognized in accumulated other comprehensive income (loss) consist of:				
Net actuarial loss	$ 24,551	$ 15,114	$ 4,487	$ 2,828
Prior service credit	(116)	(257)	(1,262)	(1,260)
Total	$ 24,435	$ 14,857	$ 3,225	$ 1,568
Weighted-average assumptions used to determine benefit obligations as of December 31				
Discount rate	4.64 %	5.68 %	4.63 %	5.61 %
Rate of compensation increase	3.50 %	3.50 %	N/A	N/A
Weighted-average assumptions used to determine net periodic pension cost as of December 31				
Discount rate	5.68 %	6.11 %	5.61 %	6.05 %
Expected return on plan assets	8.00 %	8.00 %	N/A	N/A
Rate of compensation increase	3.50 %	4.00 %	N/A	N/A
Inflation	3.00 %	3.00 %	N/A	N/A
Health care inflation				
Medical trend rates			8.0% - 5.0%	8.0%-5.0%
Year of ultimate achievement			2016	2015
Dental trend rates			5.0 %	5.0 %
Year of ultimate achievement			N/A	N/A

	1% Point Increase	1% Point Increase
Effect on total service and interest cost components	$ 164	$ 152
Effect on postretirement benefit obligation	1,725	1,265

(dollars in thousands)

The funded, noncontributory defined benefit pension plan's expected long-term rate of return assumption is based on a building block approach, determining risk-free asset return assumptions, and applying a weighted average methodology to the proportion of plan assets in each applicable asset class.

The Credit Union's pension plan approximate weighted-average asset allocations by asset category are as follows:

	Pension Plans	
	2011	**2010**
Equity securities (Level 1)	72 %	79 %
Debt securities (Level 2)	25	18
Other (Level 1)	3	3
	100 %	100 %

The Credit Union's pension investment strategies are targeted to produce a total return that, when combined with the Credit Union's contributions to the plan, will maintain the fund's ability to meet all required benefit obligations. Risk is controlled through diversification of asset types and investments in domestic and international equities, fixed income securities and cash.

The minimum contribution requirement is $4,000 for the pension plan and approximately $273 to the postretirement benefit plan in 2012.

The following pension and postretirement benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Years Ending December 31,	
2012	$ 1,597
2013	1,678
2014	1,803
2015	1,932
2016	2,112
2017-2021	14,289
	$ 23,411

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was enacted. The Act established a prescription drug benefit under Medicare, known as "Medicare Part D," and a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The Credit Union believes that benefits provided to certain participants will be at least actuarially equivalent to Medicare Part D and, accordingly, the Credit Union will be entitled to a subsidy.

The Credit Union has a defined contribution 401(k) plan that allows employees to defer a portion of their salary into the 401(k) plan. The Credit Union matches a portion of employees' wage contributions. Plan costs are accrued and funded on a current basis. The Credit Union contributed approximately $864 and $781, respectively, to the plan for the years ended December 31, 2011 and 2010.

The compositions of plan assets for the years ended December 31, 2011 and 2010 are all Level 1 and 2 securities.

12. 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 U.S. GAAP. The Credit Union's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth to total assets. Further, Credit Unions over $10,000 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, 2011 and 2010 were 5.90% and 5.79%, respectively. The minimum requirement to be considered "complex" under the regulatory framework is 6%. Management believes, as of December 31, 2011 and 2010, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2011, the most recent call reporting period, and 2010, 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.

(dollars in thousands)

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

	December 31, 2011		December 31, 2010	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Amount needed to be classified as "adequately capitalized"	$ 270,306	6.0 %	$ 240,680	6.0 %
Amount needed to be classified as "well capitalized"	315,357	7.0 %	280,793	7.0 %
Actual net worth	356,433	7.9 %	315,446	7.9 %

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.

13. 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, 2011 and 2010 are $4,311 and $3,362, respectively. Deposits from related parties at December 31, 2011 and 2010 amounted to $2,586 and $2,488, respectively.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Credit Union generally holds its earning assets, other than securities available-for-sale and loans held for sale, to maturity and settles its liabilities at maturity. However, fair value estimates are made at a specific point in time and are based on relevant market information. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Credit Union's entire holdings of a particular instrument. Accordingly, as assumptions change, such as interest rates and prepayments, fair value estimates change and these amounts may not necessarily be realized in an immediate sale.

Disclosure of fair value does not require fair value information for items that do not meet the definition of a financial instrument or certain other financial instruments specifically excluded from its requirements. These items include property and equipment, leases, foreclosed properties, and equity.

Further, fair value disclosure does not attempt to value future income or business. These items may be material and, accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying "market" or franchise value of the Credit Union.

The Credit Union accounts for and discloses fair value using the guidance of FASB ASC 820, "Fair Value Measurement and Disclosures." FASB ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value. FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. FASB ASC 820 also 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. A financial instrument's level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement. There have been no material changes in valuation techniques as a result of the adoption of FASB ASC 820.

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices in markets that are not active for identical or similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and significant to the fair value of the assets or liabilities that are developed using the reporting entities' estimates and assumptions, which reflect those that market participants would use.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

A description of the valuation methodologies used for financial instruments measured at fair value on a recurring basis, as well as the classification of the instruments pursuant to the valuation hierarchy, are as follows:

Securities classified as available-for-sale are reported using Level 1, Level 2 and Level 3 inputs. Level 1 securities generally include equity securities valued based on quoted market prices in active markets. Level 2 instruments include U.S. Government agency obligations, municipal bonds, mortgage-backed securities, collateralized mortgage obligations and certain auction rate securities. For these securities, the Credit Union obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. Level 3 securities available-for-sale consist of instruments that are not readily marketable and may only be redeemed with the issuer at par such as Federal Home Loan Bank stock and certain auction rate securities. These securities are stated at par value, which is deemed to approximate fair value.

Mortgage servicing rights are classified as Level 3 financial instruments with the methodology described in Note 1 - Significant Accounting Policies: Transfers and Servicing of Financial Assets.

(dollars in thousands)

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of the recorded investment in the loan or market value. The loans identified as impaired are collateral dependent secured by real estate. Market value is determined by using the value of the collateral securing the loans and is therefore classified as a Level 3 hierarchy. The value of the real estate is determined by independent licensed appraisers contracted by the Credit Union to perform the assessment. The appraised value is then discounted based upon management's experience, which includes estimated disposal costs, understanding of the member and the member's business as well as economic conditions. Impaired loans are reviewed and evaluated on a quarterly basis for additional impairment and adjusted accordingly, based upon the pertinent conditions.

Assets measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurement Using			
	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance December 31, 2011
Impaired loans	$ -	$ -	$ 61,599	$ 61,599
Real estate acquired through foreclosure	-	-	5,148	5,148
	$ -	$ -	$ 66,747	$ 66,747

	Fair Value Measurement Using			
	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance December 31, 2010
Impaired loans	$ -	$ -	$ 34,226	$ 34,226
Real estate acquired through foreclosure	-	-	5,714	5,714
	$ -	$ -	$ 39,940	$ 39,940

(dollars in thousands)

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

	Fair Value Measurement Using			
	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance December 31, 2011
Investment securities available-for-sale:				
Agency issued securities	$ -	$ 64,596	$ -	64,596
Agency issued MBS/CMOs	-	1,561,040	-	1,561,040
Municipal bonds	-	339,246	-	339,246
Auction rate securities	-	-	23,355	23,355
Mortgage servicing rights	-	-	16,613	16,613
Loans held for sale	-	23,910	-	23,910
Total assets	$ -	$ 1,988,792	$ 39,968	$ 2,028,760

The above table includes $3,735 in unrealized losses on the Credit Union's available-for-sale securities. The Credit Union has reviewed its investment portfolio at December 31, 2011, and has determined that the unrealized losses are temporary.

	Fair Value Measurement Using			
	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance December 31, 2010
Investment securities available-for-sale:				
Agency issued securities	$ -	$ 76,952	$ -	$ 76,952
Agency issued MBS/CMOs	-	1,358,113	-	1,358,113
Municipal bonds	-	291,622	-	291,622
Auction rate securities	-	-	36,840	36,840
Mortgage servicing rights	-	-	16,536	16,536
Loans held for sale	-	46,949	-	46,949
Total assets	$ -	$ 1,773,636	$ 53,376	$ 1,827,012

The above table includes $5,361 in unrealized losses on the Credit Union's available-for-sale securities. The Credit Union has reviewed its investment portfolio at December 31, 2010, and has determined that the unrealized losses are temporary.

(dollars in thousands)

The following table sets forth the Credit Union's assets and liabilities that are carried at fair value on a recurring basis, classified within Level 3 of the valuation hierarchy for the period indicated:

	Auction Rate Securities - Level 3	
	December 31, 2011	**December 31, 2010**
Balance, beginning of year	$ 36,840	$ 47,743
Securities called by the issuer	(13,550)	(11,500)
Change in unrealized losses	65	597
Balance, end of year	$ 23,355	$ 36,840

The following table sets forth the Credit Union's assets and liabilities that are carried at fair value on a non-recurring basis, classified within Level 3 of the valuation hierarchy for the period indicated:

	Other Real Estate Owned - Level 3	
	December 31, 2011	**December 31, 2010**
Balance, beginning of year	$ 5,714	$ 839
Additions	747	6,404
Writedown of assets	(1,091)	(912)
Sales of assets	(222)	(617)
Balance, end of year	$ 5,148	$ 5,714

The estimated fair value amounts have been determined by the Credit Union using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Credit Union could realize in a market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following methods and assumptions were used to estimate fair values of financial instruments not previously discussed as disclosed herein:

Loans Receivable, net and Loans Held for Sale

The estimated fair value for all fixed rate loans is determined by discounting the estimated cash flows using the current rate at which similar loans would be made to borrowers with similar credit ratings and maturities. The estimated fair value for variable rate loans is the carrying amount.

The impact of delinquent loans on the estimation of the fair values described above is not considered to have a material effect and, accordingly, delinquent loans have been disregarded in the valuation methodologies employed.

The estimated fair value of loans held for sale is determined in the aggregate based on the market price of similar loans.

Other Investments

For other investments the fair value is deemed to approximate cost.

Members' Shares and Borrowed Funds

The estimated fair value of demand deposit accounts (regular shares, share draft accounts, money market accounts and individual retirement accounts) is the carrying amount. The fair value of fixed-maturity certificates and borrowed funds is estimated by discounting the estimated cash flows using the current rate at which similar certificates would be issued.

Other On-Balance-Sheet Financial Instruments

Other on-balance-sheet financial instruments include cash and cash equivalents and accrued interest receivable. The carrying value of each of these financial instruments is a reasonable estimation of fair value.

Off-Balance-Sheet Financial Instruments

The fair values for the Credit Union's off-balance-sheet commitments are estimated based on fees charged to others to enter into similar agreements taking into account the remaining terms of the agreements and credit standing of the members. The estimated fair value of these commitments is not significant.

(dollars in thousands)

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

	December 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 71,555	$ 71,555	$ 24,193	$ 24,193
Investments available-for-sale	1,988,237	1,988,237	1,763,527	1,763,527
Other investments	18,204	18,242	49,936	53,409
Loans held for sale	23,263	23,910	46,949	46,949
Loans receivable, net	2,297,018	2,354,317	2,028,566	2,021,724
Mortgage servicing rights	14,993	16,613	14,416	16,536
Financial liabilities				
Members' shares	4,035,702	4,001,904	3,586,771	3,546,487
Borrowed funds	-	-	18,205	18,205

15. SECURITIZATIONS

During 2011, the Credit Union began securitizing loans. These securitizations are a source of funding for the Credit Union. In a securitization, debt securities are issued and are generally collateralized by a single class of transferred assets, such as residential mortgages. During the year ended December 31, 2011, the Credit Union had issued and sold approximately $21,761 of GNMA guaranteed Residential Mortgage Backed Security securities (RMBS) while retaining the rights to servicing.

Under the provisions of the RMBS program, the Credit Union, as the issuer and servicer, in specific instances is obligated to collect certain "defaulted" mortgages that are subject to a specific collection process under FHA and HUD guidelines. Management has determined that under certain circumstances it is possible that the Credit Union might, in some instances, collect amounts that are less than the HUD guaranteed amount. Additionally, if a borrower prepays a loan at any time during any month other than at the end of the month the Credit Union cannot charge a prepayment penalty and must pay the bond holders interest as if the loan were outstanding all month.

As part of the securitization process the Credit Union enters into forward delivery contracts. At December 31, 2011 outstanding forward delivery contracts were $1,950. These agreements are matched to the dollar amount of each securitization trade. At December 31, 2011, there were no mortgages held for sale on the balance sheet that were financed under these agreements.

16. SUBSEQUENT EVENTS

The Credit Union evaluated subsequent events through March 29, 2012, the date the financial statements were available to be issued. The Credit Union is not aware of any subsequent events which require recognition or disclosure in the audited consolidated financial statements.