

2008 Annual Report




American Eagle[™]
Federal Credit Union

The right way to go.[™]

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Report to Our Membership

Since our founding in 1935, American Eagle Federal Credit Union has maintained its mission to provide the best service and products at the greatest value to its community of members. Looking back on 2008, we are honored to share with you some of the many initiatives and achievements that the Credit Union experienced on behalf of its 97,000 members.

With national concerns heightened over the financial condition of banking institutions, you should know that your Credit Union remains financially sound. We are pleased to report that our reserve position at the end of 2008 totaled \$95.9 million, or 8.5% of assets. This level of members' equity protects the Credit Union against unforeseen difficulties and poor economic conditions, ensuring protection of our members' assets. We have also continued our commitment to safeguarding member records and data against threats of intrusion. Independent audits have validated that the Credit Union has maximum measures in place to protect your personal and financial information. We are also pleased to report that we hold the highest rating possible from our regulatory authority, the National Credit Union Administration (NCUA).

To better serve our members, the newly relocated Bloomfield office was opened in January and the renovated Plainville branch held its grand re-opening in September. We also expanded our Member Contact Center to meet increasing demands for phone service and to provide improved support for our mortgage customers. All of these initiatives validate our mission to provide the best service and convenience to our members.

While much of the national banking community experienced financial difficulties in the past year, your Credit Union continued to post strong results during a particularly challenging economic period. Member deposits increased by \$61.7 million, or 6.6%, while loan balances increased \$70.5 million, or 10.9%. Loan delinquencies remained well below the national average, an indication of the sound lending policies practiced by the Credit Union. It is gratifying to know that these activity levels demonstrate that we are meeting the financial needs of our members for both savings and loans. We are also pleased to report that this solid growth enabled the Credit Union to earn \$5.6 million in net income, maintaining our strong members' equity position.

Over the past year, we continued our expansion of business services offered to our members. We enhanced our product offerings with the introduction of commercial loans and leases, lines of credit, and Small Business Administration loans. We also experienced increased demand for our credit and debit card products, merchant services, and business and commercial checking accounts. As this new product area matures, we will continue to focus on meeting the needs of an expanding group of members that is starting up new businesses or already self-employed.

To offer added convenience to our members, we enhanced a number of our online services, including e-Statements, providing safe access to financial information while offering an environmentally friendly alternative to paper statements. As we move forward with the introduction of new products and services to meet the financial needs of our members, we will continue to focus on ways to support the conservation of our environment without increasing the cost of operations. This strategy will enable us to maintain our position as a good corporate citizen in our community while providing maximum value to our members.

We wish to express our gratitude to our volunteer Board and Committee members for their guidance, dedication, and commitment to the Credit Union during this year and previous years. Their efforts have contributed greatly in helping the Credit Union achieve the level of success it enjoys today.

We also wish to express our appreciation to the Credit Union staff for their outstanding accomplishments during this past year.

As we strive to be our community's first choice in financial services, American Eagle Federal Credit Union remains committed to serving all of your financial needs in the years ahead. We thank you for your support.

Respectfully submitted,



A. Lisa Burgarella
Chairwoman



William J. Dokas
President & Chief Executive Officer

Our Community Involvement

American Eagle Federal Credit Union remains deeply committed to the communities it serves throughout the counties of Hartford, Middlesex, and Tolland. More than 50 nonprofit organizations and educational institutions received financial assistance during 2008.



We are proud of the unprecedented level of support by our employee volunteers during the last year. One hundred employees contributed in excess of 900 hours to help with local community efforts supporting education, basic human needs, and community development initiatives. To foster financial literacy, our employees helped students through Credit Union-sponsored seminars at such institutions as Assumption School (Manchester), Allied Rehabilitation Center (Enfield), Central Connecticut State University (New Britain), East Hartford Middle and High Schools (East Hartford), Pathways to Technology Magnet School (Windsor), and Wesleyan University (Middletown). American Eagle employees also helped children at East Hartford and Bloomfield public schools with reading literacy programs.

During the course of the year, American Eagle employees contributed many hours to Foodshare, helping at the Regional Market Warehouse in Hartford and with the Thanksgiving Turkey Drive in Bloomfield. A food drive was conducted through the Plainville branch for the Plainville Community Food Pantry. The Credit Union also provided financial support to the Bloomfield Education Foundation and Operation Fuel.

Our community development work included more than 250 volunteer hours spent painting and landscaping at the Middlesex YMCA supporting the United Way's nationwide program, One Day of Caring. More than 60 employees participated in the Juvenile Diabetes Research Foundation Walk in East Hartford;



William Dokas, American Eagle's President and CEO, served as the Vice Chairman for this event. Employees also prepared and served food at the Klingberg Family Center's Antique Auto Show in New Britain; the organization helps to build relationships that empower families. Donations were sought and contributed to the annual Salvation Army Holiday Store in Glastonbury. These efforts were augmented by local branch food, toy, and clothing drives.

Sustaining our core values of caring, trust, and dependability, American Eagle Federal Credit Union is steadfast in its strong commitment to the community.

Report of the Supervisory Committee

During the year, the Supervisory Committee, appointed by the Board of Directors, has represented the membership of the Credit Union. The Committee, together with the Credit Union's internal audit staff, performs a variety of audits to ensure that effective controls are in place to protect your assets. We are pleased to report that the business affairs of your Credit Union are handled accurately and comply with Federal regulations.

For the year ended December 31, 2008, the Credit Union's independent auditors, Orth, Chakler, Murnane & Co., performed a comprehensive annual audit. This year, as in the past, an unqualified opinion was issued on the financial statements of the Credit Union. This means that the financial statements fairly represent the financial results achieved during 2008 and that the practices and procedures followed are in accordance with generally accepted accounting principles.

In an era of rapidly changing technologies and the transmission of member data through multiple delivery channels, the Supervisory Committee will continue to focus on electronic data processing systems and processes. In addition, the Committee along with the internal audit staff will support the Credit Union in establishing Enterprise Risk Management as a key enabler to operational excellence.

The operations of the Credit Union are under daily review by the internal audit staff working under the direction of the Supervisory Committee and your Board of Directors. The audit staff conducts internal audits and reviews the adequacy and effectiveness of policies and procedures within your Credit Union. The Supervisory Committee is available to assist individual members in resolving any questions or problems they may have regarding their accounts or transaction activity. Please mail questions or concerns directly to the Supervisory Committee, P.O. Box 522, Glastonbury, CT 06033-0522. Upon receipt of a member's written request, the Committee will investigate and attempt to resolve issues of concern as fairly and expeditiously as possible.

Respectfully submitted,



Steven J. Vendetta
Chairman, Supervisory Committee

Board of Directors, Officers and Volunteers

Board of Directors



A. Lisa Burgarella
Chairwoman
Volunteer since 1992



Kenneth D. Stevenson, Jr.
First Vice Chairman
Volunteer since 1992



Raymond C. Gandy III
Second Vice Chairman
Volunteer since 1997



Mark P. Allen
Volunteer since 1998



Catherine M. Banbury
Volunteer since 1984



Judith E. Bankowski
Associate Director
Volunteer since 1999



Gerald Benedetto
Volunteer since 1982



Angela F. Bull
Volunteer since 1998



Joseph R. Camposeo
Volunteer since 1977



Michael P. DePasquale
Associate Director
Volunteer since 2002



Michael W. Hawman
Volunteer since 1998

Officers



William J. Dokas
President &
Chief Executive Officer



John C. Conant
Exec. Vice President,
Chief Financial Officer



Dean Marchessault
Exec. Vice President,
Chief Operations
Officer



Susan M. Bushnik
Vice President,
Human Resources



Jennifer L. Cowles
Vice President,
Chief Lending Officer



Terri A. Donahoe
Vice President,
Quality & Employee
Development



Jim Evans
Vice President,
Information Technology



Teresa E. Knox
Vice President,
Retail Delivery &
Operations

Volunteers

Arnold C. Anderson
Supervisory Committee
Volunteer since 1988

Steven J. Vendetta
Supervisory Committee
Volunteer since 2002

Archana Deskus
Marketing Committee
Volunteer since 2002

Kenneth R. Wilczewski
Supervisory Committee
Volunteer since 1998



In Recognition

We wish to recognize the recent retirement of William J. Ortwein from the Board of Directors. Mr. Ortwein served as a Credit Union volunteer from 1980 to September, 2008. He began his volunteer service as a member of the Credit Committee in 1980 and became a member of the Board of Directors in 1987. During his service to the Credit Union, he served on a multitude of Credit Union committees and served as Chairman of the Board from 2004-2007. We wish to recognize the dedication exhibited by Mr. Ortwein's 28 years of volunteer service to the Credit Union and acknowledge the significant contributions he made during his tenure.



In Recognition

We wish to recognize the recent retirement of Clifford F. Barrett from the Board of Directors. Mr. Barrett served as a Credit Union volunteer from 1967 to October, 2008. He began his volunteer service as a member of the Supervisory Committee in 1967 and became a member of the Board of Directors in 1973. During his service to the Credit Union, he served on a multitude of Credit Union committees and served as Chairman of the Board from 1989-1992. We wish to recognize the dedication exhibited by Mr. Barrett's 41 years of volunteer service to the Credit Union and acknowledge the significant contributions he made during his tenure.

Report of the Independent Auditors

March 5, 2009

To the Supervisory Committee of
American Eagle Federal Credit Union and Subsidiary:

We have audited the accompanying consolidated statements of financial condition of American Eagle Federal Credit Union (the "Credit Union") and subsidiary at December 31, 2008 and 2007, and the related consolidated statements of income, comprehensive income, members' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 consolidated financial position of American Eagle Federal Credit Union and subsidiary at December 31, 2008 and 2007, and the results of its consolidated operations and its consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Orth, Chakler, Murnane & Co.

Orth, Chakler, Murnane & Company
Certified Public Accountants

Consolidated Statements of Financial Condition

At December 31, 2008 and 2007

| (In Thousands) | <u>2008</u> | <u>2007</u> |
|-----------------------------------------------------|--------------------|---------------------|
| Assets | | |
| Cash | \$ 31,884 | \$ 23,875 |
| Investments: | | |
| Available-for-sale | 22,797 | 32,295 |
| Held-to-maturity | 205,000 | 113,764 |
| Other | 116,850 | 221,200 |
| Federal Home Loan Bank (FHLB) stock | 2,190 | 2,100 |
| Loans to members, net of allowance for loan losses | 714,664 | 644,178 |
| Accrued interest receivable | 4,495 | 4,529 |
| Other assets | 5,289 | 4,808 |
| Premises and equipment | 16,946 | 17,250 |
| National Credit Union Share Insurance Fund (NCUSIF) | <u>8,458</u> | <u>7,842</u> |
| Total assets | <u>\$1,128,573</u> | <u>\$1,071,841</u> |
| Liabilities and Members' Equity | | |
| Liabilities: | | |
| Members' share and savings accounts | \$1,000,844 | \$ 939,156 |
| Borrowed funds | 20,000 | 20,000 |
| Interest payable | 890 | 1,176 |
| Accrued expenses and other liabilities | <u>10,924</u> | <u>10,386</u> |
| Total liabilities | <u>1,032,658</u> | <u>970,718</u> |
| Commitments and contingent liabilities | - | - |
| Members' equity: | | |
| Undivided earnings | 111,380 | 106,022 |
| Accumulated other comprehensive loss | <u>(15,465)</u> | <u>(4,899)</u> |
| Total members' equity | <u>\$ 95,915</u> | <u>\$ 101,123</u> |
| Total liabilities and members' equity | <u>\$1,128,573</u> | <u>\$ 1,071,841</u> |

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

Consolidated Statements of Income

Years ended December 31, 2008 and 2007

| (In Thousands) | <u>2008</u> | <u>2007</u> |
|-----------------------------------------------------|-----------------|-----------------|
| Interest income | | |
| Interest on loans | \$ 40,923 | \$ 37,035 |
| Interest on investments | <u>13,078</u> | <u>17,889</u> |
| Total interest income | <u>54,001</u> | <u>54,924</u> |
| Interest expense | | |
| Interest on members' share and savings accounts | 25,222 | 27,194 |
| Interest on borrowed funds | <u>621</u> | <u>1,004</u> |
| Total interest expense | <u>25,843</u> | <u>28,198</u> |
| Net interest income | 28,158 | 26,726 |
| Provision for loan losses | <u>2,897</u> | <u>795</u> |
| Net interest income after provision for loan losses | <u>25,261</u> | <u>25,931</u> |
| Non-interest income | | |
| Other fees, commissions and service income | 8,194 | 7,716 |
| VISA® interchange income and fees | 3,124 | 3,242 |
| Gain on disposition of VISA® stock | 1,190 | - |
| Mortgage loan servicing income | 488 | 552 |
| Investment commissions | <u>175</u> | <u>145</u> |
| Total non-interest income | <u>13,171</u> | <u>11,655</u> |
| Non-interest expense | | |
| Compensation | 14,507 | 13,113 |
| Office operations | 7,191 | 7,032 |
| Employee benefits | 4,478 | 4,819 |
| Loan origination and servicing | 2,098 | 1,770 |
| Occupancy | 2,048 | 1,666 |
| Education and promotion | 859 | 1,034 |
| Professional and outside services | 918 | 827 |
| Travel and conference | 380 | 329 |
| Member insurance | 175 | 176 |
| Federal supervision and examination | 202 | 172 |
| Miscellaneous | 131 | 93 |
| Association dues | <u>87</u> | <u>90</u> |
| Total non-interest expense | <u>33,074</u> | <u>31,121</u> |
| Net income | <u>\$ 5,358</u> | <u>\$ 6,465</u> |

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

Consolidated Statements

Years ended December 31, 2008 and 2007

Consolidated Statements of Comprehensive Operations

| (In Thousands) | <u>2008</u> | <u>2007</u> |
|----------------------------------------------------------------|-------------------|-----------------|
| Net Income | \$ 5,358 | \$ 6,465 |
| Other items of comprehensive income: | | |
| Net change in unrealized loss on securities available-for-sale | (6,159) | 4 |
| Net pension (losses)/gains | (4,407) | 1,134 |
| Other comprehensive (loss)/income | (10,566) | 1,138 |
| Comprehensive (loss)/income | <u>\$ (5,208)</u> | <u>\$ 7,603</u> |

Years ended December 31, 2008 and 2007

Consolidated Statements of Changes in Members' Equity

| (In Thousands) | <u>Undivided Earnings</u> | <u>Accumulated Other Comprehensive Income (Loss)</u> | <u>Total Members' Equity</u> |
|------------------------------------------------------|-------------------------------|------------------------------------------------------------------|--------------------------------------|
| Balance, at December 31, 2006 | \$ 99,557 | \$ (1,521) | \$ 98,036 |
| Net income | 6,465 | - | 6,465 |
| Net change in unrealized loss | | | |
| on securities available-for-sale | - | 4 | 4 |
| Net pension gains | - | 1,134 | 1,134 |
| Adjustment to initially apply FASB Statement No. 158 | - | (4,516) | (4,516) |
| Balance, at December 31, 2007 | <u>\$ 106,022</u> | <u>\$ (4,899)</u> | <u>\$ 101,123</u> |
| Net income | 5,358 | - | 5,358 |
| Net change in unrealized loss | | | |
| on securities available-for-sale | - | (6,159) | (6,159) |
| Net pension losses | - | (4,407) | (4,407) |
| Balance, at December 31, 2008 | <u>\$ 111,380</u> | <u>\$ (15,465)</u> | <u>\$ 95,915</u> |

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

Consolidated Statements of Cash Flows

Years ended December 31, 2008 and 2007

| (In Thousands) | <u>2008</u> | <u>2007</u> |
|-----------------------------------------------------------------------------------|------------------|------------------|
| Cash flows from operating activities | | |
| Net income | \$ 5,358 | \$ 6,465 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Capitalization of mortgage servicing rights | - | (326) |
| Amortization of mortgage servicing rights | 168 | 89 |
| Amortization of deferred loan (fees) costs, net | 648 | 471 |
| Loss on sale of premises and equipment | - | 2 |
| Provision for loan losses | 2,897 | 795 |
| Depreciation | 1,842 | 1,540 |
| Amortization of investment premiums/discounts, net | 51 | 89 |
| Changes in operating assets and liabilities: | | |
| Accrued interest receivable | 34 | 245 |
| Interest payable | (286) | (149) |
| Accrued expenses and other liabilities | (3,869) | (7,261) |
| Other assets | (649) | 679 |
| Total adjustments | <u>836</u> | <u>(3,826)</u> |
| Net cash provided by operating activities | <u>6,194</u> | <u>2,639</u> |
| Cash flows from investing activities | | |
| Investment securities available-for-sale: | | |
| Principal repayments on securities available-for-sale | 3,287 | 7,149 |
| Purchases | - | (20,000) |
| Investment securities held-to-maturity: | | |
| Proceeds from maturities | 167,140 | 157,600 |
| Purchases | (258,375) | (143,765) |
| Net change in FHLB stock | (90) | (621) |
| Net change in other investments | 104,350 | 4,500 |
| Net change in loans, net of charge-offs and recoveries | (74,031) | (75,048) |
| Net change in National Credit Union Share Insurance Fund | (616) | (856) |
| Purchases of premises and equipment | (1,538) | (3,319) |
| Net cash used in investing activities | <u>(59,873)</u> | <u>(74,360)</u> |
| Cash flows from financing activities | | |
| Net change in members' share and savings accounts | 61,688 | 58,343 |
| Net change in borrowed funds | - | 20,000 |
| Net cash provided by financing activities | <u>61,688</u> | <u>78,343</u> |
| Net change in cash | 8,009 | 6,622 |
| Cash at beginning of year | <u>23,875</u> | <u>17,253</u> |
| Cash at end of year | <u>\$ 31,884</u> | <u>\$ 23,875</u> |
| Supplemental Cash Flows disclosure: | | |
| Interest paid | \$ 26,129 | \$ 28,347 |
| Non-cash transactions: | | |
| Intangible pension asset | \$ (24) | \$ (28) |
| Net pension (losses)/gains | \$ (4,407) | \$ 1,134 |
| Unrealized loss on securities classified as available-for-sale | \$ 6,159 | \$ 4 |
| Adjustment to initially apply FASB Statement No. 158 | \$ - | \$ (4,516) |

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

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

I. Summary of Significant Accounting Policies

Organization

American Eagle Federal Credit Union (collectively with its wholly owned subsidiary American Eagle Financial Services, LLC™, the "Credit Union") is a Federally chartered credit union. The Credit Union is subject to the regulations of, and periodic examinations by, the National Credit Union Administration ("NCUA"). Participation in the Credit Union is limited to those who qualify for membership. The field of membership is defined in the Credit Union's Charter and Bylaws.

Principles of Consolidation

The consolidated financial statements include the accounts of the Credit Union and of its wholly owned subsidiary, American Eagle Financial Services, LLC. American Eagle Financial Services, LLC provides investment advisory and brokerage services to Credit Union members. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make significant 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

For purposes of the consolidated statements of cash flows, the Credit Union includes cash on hand and amounts in banks and corporate credit unions as cash. Amounts due from banks and corporate credit unions may, at times, exceed federally insured limits.

Investments

Debt securities that the Credit Union has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at cost, adjusted for the amortization of premiums and accretion of discounts over the estimated terms of the securities using a method that approximates the level yield method. Adjustments are recognized to interest income on investments. Debt securities that are not classified as held-to-maturity are classified as available-for-sale and reported at fair value, with unrealized gains and losses excluded from the results of operations and reported as a separate component of members' equity. A decline in market value of a security below cost that is deemed other than temporary is charged to earnings, resulting in the establishment of a new cost basis for the security. There were no such losses for the years ended December 31, 2008 and 2007. Gains and losses on sales of securities are recognized at the time of sale on a specific identification basis. The Credit Union has elected to classify certain cash equivalents as other investments.

Federal Home Loan Bank (FHLB) Stock

As a member of the FHLB, the Credit Union is required to invest in stock of the FHLB. The Credit Union's minimum stock investment is based on a formula developed by the FHLB that considers the Credit Union's total assets and outstanding advances from the FHLB. The FHLB stock is carried at cost and its disposition is restricted. No market exists for FHLB stock and it has no quoted market price.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

Loans to Members and Allowance for Loan Losses

Loans to members are stated at the amount of unpaid principal, net of certain deferred fees and costs and reduced by an allowance for loan losses. Interest on loans is recognized over the term of the loans based on stated rates applied to principal amounts outstanding. Accrual of interest on loans and impaired loans is discontinued when loan payments are 60 days or more past due, except for consumer loans that are 30 days or more past due. For loans that have been placed on non-accrual status, previously accrued but unpaid interest is reversed and subsequently recognized only to the extent payment is received. Loan origination fees and costs are being deferred and amortized over the contractual life of the loan as an adjustment to yield using a method that approximates the level yield method.

The allowance for loan losses is maintained at a level of coverage adequate to provide for incurred loan losses in the portfolio. This methodology estimates impairment on large groups of smaller-balance homogeneous loans by applying a historical loan loss rate to consumer loan pools that have similar risk characteristics. Individually significant non-homogeneous loans are measured for impairment in accordance with SFAS No. 114.

Mortgage Servicing Rights

Servicing assets are recognized when rights are acquired through sale of mortgage loans. A portion of the cost of originating mortgage loans is allocated to the servicing right based on relative fair value. 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, ancillary income, prepayments speeds and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

For purposes of measuring impairment, the mortgage servicing rights are stratified by the predominant risk characteristics, which include product types of the underlying loans and interest rates of the mortgage notes. Impairment is recognized through a valuation reserve for each impaired stratum and is included in amortization of mortgage servicing rights.

Servicing income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding loan balance and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

Premises and Equipment

Land is stated at cost. Land improvements, premises and equipment are stated at cost, less accumulated depreciation. Depreciation of land improvements, buildings and equipment is accumulated on a straight-line basis over the estimated useful lives of the assets. Estimated lives are thirty years for buildings, twenty years for land improvements and three to ten years for equipment, furniture and fixtures. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period. The Credit Union reviews premises and equipment (long-lived assets) for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

National Credit Union Share Insurance Fund

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with National Credit Union Administration (NCUA) regulations, which require maintenance of a deposit by each federally insured credit union. 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. Credit unions are 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. The NCUA Board waived the 2008 and 2007 insurance premium.

Members' Share and Savings Accounts

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

Income Taxes

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

Pension Plan

The Credit Union has a noncontributory defined benefit pension plan covering substantially all employees. The Credit Union's policy is to fund the amounts necessary to meet the minimum funding standards established by the Employee Retirement Income Security Act (ERISA).

Fair Value of Financial Instruments

Financial instruments include cash, investments, Federal Home Loan Bank stock, loans to members, accrued interest receivable, mortgage servicing rights, members' share and savings accounts, borrowed funds, interest payable, and certain off-balance-sheet items. Other items that are not considered financial instruments and are excluded from fair value disclosures include premises and equipment and other assets and accrued liabilities.

Fair value estimates are made at a specific point in time based on market information, where available, or other more subjective information if a market for the financial instrument does not exist. These estimates incorporate assumptions and other matters of judgment and may not reflect the true financial impact that could result from selling the entire amount of a financial instrument on one date.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

Reclassifications

Certain 2007 consolidated financial statement amounts have been reclassified to conform with classifications adopted in 2008.

2. Investments

The amortized cost and estimated fair value of investments at December 31, 2008 and 2007 are as follows:

(In Thousands)

| | <u>2008</u> | | | |
|-------------------------------------|-----------------------|-------------------------|--------------------------|-----------------------------|
| <u>Available-for-sale</u> | <u>Amortized Cost</u> | <u>Unrealized Gains</u> | <u>Unrealized Losses</u> | <u>Estimated Fair Value</u> |
| Mortgage-backed securities | \$ 29,338 | \$ 1 | \$ (6,542) | \$ 22,797 |
| | | | | |
| | | | | |
| | <u>2007</u> | | | |
| <u>Available-for-sale</u> | <u>Amortized Cost</u> | <u>Unrealized Gains</u> | <u>Unrealized Losses</u> | <u>Estimated Fair Value</u> |
| Mortgage-backed securities | \$ 32,677 | \$ 24 | \$ (406) | \$ 32,295 |
| | | | | |
| | | | | |
| | <u>2008</u> | | | |
| <u>Held-to-maturity</u> | <u>Amortized Cost</u> | <u>Unrealized Gains</u> | <u>Unrealized Losses</u> | <u>Estimated Fair Value</u> |
| Federal Agency securities | \$ 205,000 | \$ 1,933 | \$ (20) | \$ 206,913 |
| | | | | |
| | | | | |
| | <u>2007</u> | | | |
| <u>Held-to-maturity</u> | <u>Amortized Cost</u> | <u>Unrealized Gains</u> | <u>Unrealized Losses</u> | <u>Estimated Fair Value</u> |
| Federal Agency securities | \$ 113,764 | \$ 850 | \$ - | \$ 114,614 |
| | | | | |
| | | | | |
| | | | <u>2008</u> | <u>2007</u> |
| <u>Other investments</u> | | | | |
| Cash repurchase agreements | | | \$ - | \$ 100,000 |
| Deposits in corporate credit unions | | | 116,850 | 121,200 |
| | | | <u>\$ 116,850</u> | <u>\$ 221,200</u> |

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

At December 31, 2008, the amortized cost and estimated fair value of securities by contractual maturity are shown below:

(In Thousands)

| | <u>Available-for-sale</u> | | <u>Held-to-maturity</u> | |
|---------------------------------------|---------------------------|-----------------------------|-------------------------|-----------------------------|
| | <u>Amortized Cost</u> | <u>Estimated Fair Value</u> | <u>Amortized Cost</u> | <u>Estimated Fair Value</u> |
| Due less than one year | \$ - | \$ - | \$ 50,000 | \$ 50,023 |
| Due after one year through five years | - | - | 155,000 | 156,890 |
| Due after five years | - | - | - | - |
| Mortgage-backed securities | <u>29,338</u> | <u>22,797</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 29,338</u> | <u>\$ 22,797</u> | <u>\$ 205,000</u> | <u>\$ 206,913</u> |

At December 31, 2008 and 2007, the gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

| | <u>2008</u> | | | | | |
|-------------------------------|--------------------------------|-----------------------------|--------------------------------|-----------------------------|--------------------------------|-----------------------------|
| | <u>Less Than Twelve Months</u> | | <u>Over Twelve Months</u> | | <u>Total</u> | |
| | <u>Gross Unrealized Losses</u> | <u>Estimated Fair Value</u> | <u>Gross Unrealized Losses</u> | <u>Estimated Fair Value</u> | <u>Gross Unrealized Losses</u> | <u>Estimated Fair Value</u> |
| Securities Available-for-sale | | | | | | |
| Mortgage-backed securities | \$ 38 | \$ 2,496 | \$ 6,504 | \$ 20,203 | \$ 6,542 | \$ 22,699 |
| Securities Held-to-maturity | | | | | | |
| Federal Agency securities | \$ 20 | \$ 4,980 | \$ - | \$ - | \$ 20 | \$ 4,980 |

| | <u>2007</u> | | | | | |
|-------------------------------|--------------------------------|-----------------------------|--------------------------------|-----------------------------|--------------------------------|-----------------------------|
| | <u>Less Than Twelve Months</u> | | <u>Over Twelve Months</u> | | <u>Total</u> | |
| | <u>Gross Unrealized Losses</u> | <u>Estimated Fair Value</u> | <u>Gross Unrealized Losses</u> | <u>Estimated Fair Value</u> | <u>Gross Unrealized Losses</u> | <u>Estimated Fair Value</u> |
| Securities Available-for-sale | | | | | | |
| Mortgage-backed securities | \$ 280 | \$ 20,276 | \$ 126 | \$ 8,318 | \$ 406 | \$ 28,594 |

Management has conducted extensive stress testing on the mortgage-backed securities under various foreclosure and loss severity scenarios. The results of the stress testing indicate that due to a high level of credit protection associated with these investments, the Credit Union does not expect any material credit losses on its mortgage-backed portfolio at this time. Accordingly, management has determined that all unrealized losses reflected above are temporary given the creditworthiness of the issuers and the underlying collateral. In addition, for securities issued by a U.S. government agency or GSE, the issuer guarantees the timely payment of principal and interest on these investments. Because the decline in market value is attributable to changes in interest rates and illiquidity in the credit markets and because the Credit Union has the ability and intent to hold these investments through to a recovery of fair value, which may be maturity, the Credit Union does not consider these investments to be other-than-temporarily impaired at December 31, 2008.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

At December 31, 2007, included in other investments, the Credit Union had outstanding tri-party cash repurchase agreements. The related collateral underlying these agreements comprised AAA-rated mortgage-backed securities and Federal Agency securities. The market value of the securities was equal to 102 percent of the repurchase amount at December 31, 2007. The amount, repurchase rate and average coupon rate of securities safe kept on these investments were as follows at December 31, 2007:

| (In Thousands) | <u>2007</u> |
|-----------------|-------------|
| Amount | \$100,000 |
| Repurchase rate | 4.50% |
| Coupon rate | 4.03% |

These investments matured on January 2, 2008.

3. Loans to Members and Allowance for Loan Losses

At December 31, 2008 and 2007, the composition of loans to members is as follows:

| (In Thousands) | <u>2008</u> | <u>2007</u> |
|---------------------------------------------|-------------------|-------------------|
| First mortgage | \$ 302,770 | \$ 242,069 |
| Second mortgage | 166,633 | 183,684 |
| Home equity line of credit | 58,379 | 49,230 |
| Commercial real estate | 24,118 | 2,000 |
| Automobile | 75,677 | 84,162 |
| VISA® | 73,404 | 68,912 |
| Unsecured | 12,946 | 11,716 |
| Other | 1,243 | 1,350 |
| Deferred loan origination costs (fees), net | <u>1,747</u> | <u>1,906</u> |
| | 716,917 | 645,029 |
| Less allowance for loan losses | <u>2,253</u> | <u>851</u> |
| | <u>\$ 714,664</u> | <u>\$ 644,178</u> |

Participation in the Credit Union is limited to those who qualify for membership as defined in the Credit Union's bylaws. Substantial portions of the Credit Union's members are employed and reside in the New England area. Therefore, borrowers' ability to repay may be affected by the economic climate of the overall geographic region where borrowers reside.

A significant amount of the Credit Union's business activity is with members who are current and former employees of Pratt & Whitney and other units of United Technologies Corporation. The Credit Union may be exposed to credit risk since a significant concentration of its borrowers work for or provide services to United Technologies Corporation. However, the loan portfolio is diversified and the Credit Union does not have any significant concentration of credit risk, except for unsecured loans, which by their nature increase the risk of loss compared to loans that are collateralized.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

A summary of the activity in the allowance for loan losses for the years ended December 31, 2008 and 2007, is as follows:

| (In Thousands) | <u>2008</u> | <u>2007</u> |
|------------------------------|-----------------|---------------|
| Balance at beginning of year | \$ 851 | \$ 695 |
| Provisions for loan losses | 2,897 | 795 |
| Loans charged off | (1,641) | (810) |
| Recoveries | <u>146</u> | <u>171</u> |
| Balances at end of year | <u>\$ 2,253</u> | <u>\$ 851</u> |

Loans on which the accrual of interest has been discontinued or reduced amounted to \$3,980,207 and \$1,818,284 at December 31, 2008 and 2007, respectively. If interest had been accrued, such income would have amounted to \$93,325 and \$32,393 for the years ended December 31, 2008 and 2007, respectively.

Certain officers and directors of the Credit Union and individuals related to such persons have loans with the Credit Union. Loans to directors and officers were \$1,025,429 and \$1,289,611 at December 31, 2008 and 2007, respectively. All loans to officers and directors of the Credit Union are current and performing as agreed at December 31, 2008.

4. Mortgage 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 are \$122,581,859 and \$137,646,099 at December 31, 2008 and 2007, respectively.

The following summarizes the activity pertaining to mortgage servicing rights for the years ended December 31, 2008 and 2007:

| (In Thousands) | <u>2008</u> | <u>2007</u> |
|---------------------------------------|-----------------|-----------------|
| Mortgage servicing rights: | | |
| Balance at beginning of year | \$ 1,602 | \$ 1,365 |
| Mortgage servicing rights capitalized | - | 326 |
| Mortgage servicing rights amortized | <u>(168)</u> | <u>(89)</u> |
| Balance at end of year | <u>\$ 1,434</u> | <u>\$ 1,602</u> |

The fair value of servicing rights was determined using discount rates and prepayment speeds, depending upon the stratification of the specific right. At December 31, 2008 and 2007, the fair value of mortgage servicing rights approximated cost.

Custodial balances maintained in connection with the foregoing loan servicing were \$1,946,445 and \$2,078,892 at December 31, 2008 and 2007, respectively.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

5. Premises and Equipment

At December 31, 2008 and 2007, a summary of premises and equipment is as follows:

| (In Thousands) | <u>2008</u> | <u>2007</u> |
|------------------------------------|------------------|------------------|
| Land | \$ 2,468 | \$ 2,605 |
| Land improvements | 67 | 67 |
| Buildings | 16,104 | 15,413 |
| Furniture, fixtures, and equipment | 10,126 | 11,316 |
| Construction in process | <u>612</u> | <u>498</u> |
| | 29,377 | 29,899 |
| Less accumulated depreciation | <u>12,431</u> | <u>12,649</u> |
| | <u>\$ 16,946</u> | <u>\$ 17,250</u> |

Total depreciation expense for the years ended December 31, 2008 and 2007, was \$1,842,089 and \$1,540,380, respectively.

The Credit Union leases certain office space. The minimum noncancellable lease obligations at December 31, 2008, are as follows:

| (In Thousands) | |
|---------------------------------|-----------------|
| <u>Year Ending December 31,</u> | |
| 2009 | \$ 335 |
| 2010 | 336 |
| 2011 | 340 |
| 2012 | 352 |
| 2013 | 369 |
| Thereafter | <u>5,499</u> |
| | <u>\$ 7,231</u> |

Lease expense amounted to \$385,055 and \$223,741 for the years ended December 31, 2008 and 2007, respectively.

6. Members' Share and Savings Accounts

A summary of members' share and savings accounts at December 31, 2008 and 2007, are as follows:

| (In Thousands) | <u>2008</u> | <u>2007</u> |
|----------------------------|---------------------|-------------------|
| Share drafts | \$ 106,976 | \$ 106,051 |
| Regular shares | 150,577 | 152,304 |
| Money market | 186,305 | 133,993 |
| Share and IRA certificates | <u>556,986</u> | <u>546,808</u> |
| | <u>\$ 1,000,844</u> | <u>\$ 939,156</u> |

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

At December 31, 2008, scheduled maturities of share and IRA certificates are as follows:

(In Thousands)

| <u>Year Ending December 31,</u> | |
|---------------------------------|-------------------|
| 2009 | \$ 465,093 |
| 2010 | 83,008 |
| 2011 | 1,524 |
| 2012 | 3,521 |
| 2013 | <u>3,840</u> |
| | <u>\$ 556,986</u> |

The aggregate amount of members' time deposit accounts in denominations of \$100,000 or more was \$130,951,540 and \$123,456,055 at December 31, 2008 and 2007, respectively. The amount of negative balances reclassified to loans was \$352,624 and \$370,180 at December 31, 2008 and 2007, respectively.

Share Insurance: Members' shares and savings accounts are insured by the NCUSIF up to \$250,000. Individual Retirement Accounts carry an additional \$250,000 coverage.

7. Borrowed Funds

As a member of the Federal Home Loan Bank of Boston ("FHLBB"), and in accordance with an agreement with them, the Credit Union is required to maintain qualified collateral, as defined in the FHLBB Statement of Credit Policy, free and clear of liens, pledges and encumbrances as collateral for the advances. The Credit Union maintains qualified collateral as defined by the FHLBB in excess of the amount required to collateralize the outstanding advances at December 31, 2008.

Advances from the FHLBB consist of the following at December 31, 2008 and 2007:

| <u>Origination Date</u> | <u>Rate</u> | <u>Maturity Date</u> | <u>2008</u> | <u>2007</u> |
|-------------------------|-------------|----------------------|--------------|--------------|
| May 23, 2008 | 3.27% | May 23, 2018 | \$20,000,000 | |
| January 25, 2008 | 3.00% | May 23, 2008 | | \$20,000,000 |

The FHLBB has a quarterly put option on the outstanding advance beginning on May 23, 2011, and ending on February 23, 2018.

8. Off-Balance-Sheet Risk

The Credit Union's exposure to credit loss in the event of nonperformance by the other party to commitments to extend credit is represented by the contractual amount of those instruments. The Credit Union uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. In extending commitments, the Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Credit Union upon extension of credit, is based on management's credit evaluation of the counter-party. Collateral held, if any, is primarily residential real estate.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

The following financial instruments were outstanding at December 31, 2008 and 2007:

| (In Thousands) | <u>2008</u> | <u>2007</u> |
|--------------------------------------------|-------------------|-------------------|
| Commitments to grant loans | \$ 34,833 | \$ 12,370 |
| Overdraft protection program commitments | 21,156 | 20,400 |
| Unfunded commitments under lines of credit | <u>404,291</u> | <u>373,040</u> |
| | <u>\$ 460,280</u> | <u>\$ 405,810</u> |

9. Capital Requirements

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 the 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 generally accepted practices. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the succeeding table) of net worth (as defined in NCUA's Rules and Regulations) to total assets (as defined in NCUA's Rules and Regulations). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR), which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR at December 31, 2008 and 2007, was 6.19% and 5.92%, respectively. The minimum requirement to be considered complex under the regulatory framework is 6.00%. Management believes, at December 31, 2008 and 2007, that the Credit Union meets all capital adequacy requirements to which it is subject.

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

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

The Credit Union's actual and required net worth amounts and ratios at December 31, 2008 and 2007, are presented in the table below:

| (In Thousands) | <u>Actual</u> | | <u>To be Adequately Capitalized Under PCA Provisions</u> | | <u>To be Well Capitalized Under PCA Provisions</u> | |
|--------------------------|---------------|--------------|----------------------------------------------------------|--------------|----------------------------------------------------|--------------|
| | <u>Amount</u> | <u>Ratio</u> | <u>Amount</u> | <u>Ratio</u> | <u>Amount</u> | <u>Ratio</u> |
| <i>December 31, 2008</i> | | | | | | |
| Net Worth | \$111,380 | 9.87% | \$67,714 | 6.0% | \$79,000 | 7.0% |
| <i>December 31, 2007</i> | | | | | | |
| Net Worth | \$106,022 | 9.89% | \$64,310 | 6.0% | \$75,029 | 7.0% |

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

10. Pension Plans

The Credit Union has a qualified, non-contributory, defined benefit plan covering employees who have attained the age of 21 and completed one year of employment in which 1,000 hours were rendered. An employee who is not yet age 21 may become a participant after five years of employment in which 1,000 hours of service have been completed. The Credit Union funds the benefits of each employee through contributions to the plan, which are invested by the plan's administrator. Benefits become 100% vested after five years of service. Employees hired after December 31, 2005, are not eligible to participate in the defined benefit plan.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

The following sets forth information regarding the plan:

| (In Thousands) | At December 31, | |
|---------------------------------------------------|-------------------|-------------------|
| | 2008 | 2007 |
| Benefit obligation | \$ 23,260 | \$ 20,217 |
| Fair value of plan assets | <u>17,734</u> | <u>15,329</u> |
| | <u>\$ (5,526)</u> | <u>\$ (4,888)</u> |
| Intangible assets | <u>\$ 35</u> | <u>\$ 59</u> |
| Accumulated benefit obligation | <u>\$ 18,071</u> | <u>\$ 15,920</u> |
| Assumptions used to determine benefit obligation: | | |
| Discount rate | 6.00% | 6.25% |
| Rate of compensation increase | 5.00% | 5.00% |

| | Years Ended December 31, | |
|-------------------------------------------------|--------------------------|-----------------|
| | 2008 | 2007 |
| Net periodic benefit cost | \$ 1,088 | \$ 1,565 |
| Employer contributions | <u>\$ 4,900</u> | <u>\$ 4,360</u> |
| Benefits paid | <u>\$ (541)</u> | <u>\$ (452)</u> |
| Assumptions used to determine net pension cost: | | |
| Discount rate | 6.25% | 5.80% |
| Expected long-term return on plan assets | 8.00% | 8.00% |
| Rate of compensation increase | 5.00% | 5.00% |

| Asset Allocation by Asset Category: | At December 31, | |
|-------------------------------------|-----------------|----------------|
| | 2008 | 2007 |
| Guaranteed deposit accounts | 79.00% | 43.00% |
| Insurance company separate accounts | <u>21.00%</u> | <u>57.00%</u> |
| | <u>100.00%</u> | <u>100.00%</u> |

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

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

(In Thousands)

| <u>Year Ending December 31,</u> | |
|---------------------------------|-----------------|
| 2009 | \$ 710 |
| 2010 | 780 |
| 2011 | 800 |
| 2012 | 950 |
| 2013 | 980 |
| 2014-2018 | <u>5,800</u> |
| | <u>\$10,020</u> |

Expected long-term return on plan assets is determined by comparing historical average investment returns from published indexes relating to the current allocation of assets in the portfolio. The rate of return on plan assets for the years ended December 31, 2008 and 2007, was -11.74% and 6.84%, respectively.

The Credit Union is expecting to contribute \$1,000,000 to its pension plan during 2009.

The Board of Directors has established a policy that permits the plan administrator to invest up to 40% of the plan assets in equity investments and maintain the balance in a stable asset investment.

On September 29, 2006, the Financial Accounting Standards Board issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Post-Retirement Plans," an amendment of statements SFAS 87, 88, and 132R. These changes were made to improve the existing reporting for defined benefit pension plans by requiring the recognition of the funded status in the consolidated statements of financial condition. This statement now requires recognition of the gains and losses, prior service costs, and transition asset or obligation as a component of other comprehensive operations. The Credit Union adopted this statement as of December 31, 2007.

The Credit Union also maintains a retirement savings plan. Employees hired after December 31, 2005, receive a contribution to the retirement savings plan of 6 percent of the employee's salary. In addition, the Credit Union contributes one half of all employees' contribution to the plan, up to a total of 3 percent of the employee's salary. The employees are eligible to participate in the plan on the first day of the month after completing 30 days of service with the Credit Union. Employees are 100 percent vested in the Credit Union's matching contributions upon completion of at least 1,000 hours of service in each of the first two years of employment with the Credit Union. The retirement savings plan expense was \$421,119 and \$337,460 for the years ended December 31, 2008 and 2007, respectively.

11. Commitments and Contingencies

The Credit Union has a line of credit available with Constitution Corporate Federal Credit Union, with a limit of \$11,000,000 at December 31, 2008 and 2007, payable on demand. Outstanding advances bear interest at rates indexed to the prime rate and/or the Federal Funds overnight rate. There were no obligations outstanding under this line of credit at December 31, 2008 and 2007.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

As a member of the Federal Home Loan Bank of Boston ("FHLBB"), and in accordance with an agreement with them, the Credit Union is required to maintain qualified collateral, as defined in the FHLBB Statement of Credit Policy, free and clear of liens, pledges and encumbrances as collateral for the advances. The Credit Union also participates in the IDEAL Way Line of Credit Program with the FHLBB. These advances are one-day variable rate loans with automatic rollover. The Credit Union has a pre-approved line up to 2 percent of total assets. There were no advances outstanding at December 31, 2008.

12. Fair Value of Financial Instruments

Fair values for cash, accrued interest receivable, and interest payable approximate the instruments' carrying value due to their short-term nature.

Investments - The fair value of investments is estimated based on bid prices published in financial newspapers or dealer quotes on similar instruments. The carrying amounts for short-term investments and time deposits approximate fair value because they mature in 90 days or less. Federal Home Loan Bank stock is not marketable and the carrying amount (cost) is a reasonable estimate of their fair value.

Loans to members - Loans are segregated by type. Real estate loans are further segmented into fixed and adjustable rate interest terms. The portfolio balances for each of the categories is reduced by its proportionate share of the allowance for loan loss in order to estimate the effect of credit risk. The fair value of loans, except first mortgage residential real estate loans, home equity line of credit, credit card, and student loans, is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan. The estimate of maturity is based on the Credit Union's projected cash flow for each loan category. The fair value estimate of first mortgage residential real estate loans is based on the FNMA market prices for loans with like terms. The estimated value of home equity line of credit, credit card, and student loans is equal to the Credit Union's amortized cost. The rate on home equity line of credit loans is indexed at the Prime Rate and adjusts to changes in the Prime Rate within 30 days. Credit card loan rates are subject to change with a 30-day notice. Assumptions regarding credit risk, cash flows, and discount rates are judgmentally determined using available market information and specific borrower information.

Members' share and savings accounts - The fair value of deposits with no stated maturity, such as share drafts, regular shares, club accounts, IRA shares, and money market accounts, is equal to the amount payable on demand. The fair value of share certificates is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities in our competitive market. The fair value of certificates that mature in less than ninety days is estimated at the carrying amount.

Borrowed funds - The fair value of borrowed funds from the Federal Home Loan Bank of Boston is estimated using discounted cash flow analyses, based on the Credit Union's current incremental borrowing rates for similar types of borrowing arrangements.

Mortgage servicing rights - The fair value of servicing rights 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.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

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

At December 31, 2008 and 2007, the estimated fair values of financial instruments were:

| (In Thousands) | <u>2008</u> | | <u>2007</u> | |
|------------------------------------------------|-----------------------|-----------------------------|-----------------------|-----------------------------|
| | <u>Carrying Value</u> | <u>Estimated Fair Value</u> | <u>Carrying Value</u> | <u>Estimated Fair Value</u> |
| Financial Assets: | | | | |
| Cash | \$ 31,884 | \$ 31,884 | \$ 23,875 | \$ 23,875 |
| Investments: | | | | |
| Available-for-sale | 22,797 | 22,797 | 32,295 | 32,295 |
| Held-to-maturity | 205,000 | 206,913 | 113,764 | 114,614 |
| Other | 116,850 | 116,850 | 221,200 | 221,200 |
| Federal Home Loan Bank stock | 2,190 | 2,190 | 2,100 | 2,100 |
| Loans to members, net | 714,664 | 713,280 | 644,178 | 640,350 |
| Accrued interest receivable | 4,495 | 4,495 | 4,529 | 4,529 |
| Mortgage servicing rights | 1,434 | 1,434 | 1,602 | 1,602 |
| Financial Liabilities: | | | | |
| Regular shares, share drafts and money markets | \$ 443,858 | \$ 443,858 | \$ 392,348 | \$ 392,348 |
| Share certificates | 556,986 | 565,692 | 546,808 | 554,731 |
| Borrowed funds | 20,000 | 20,989 | 20,000 | 20,000 |
| Interest payable | 890 | 890 | 1,176 | 1,176 |
| Unrecognized Financial Instruments: | | | | |
| Commitments to extend credit | \$ - | \$ 460,280 | \$ - | \$ 405,810 |

Limitations

The fair value estimates are made at a specific point in time based on relevant market information and information about the financial instruments. 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 financial instrument. Because no market exists for a portion of the Credit Union's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and such other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

In addition, the fair value estimates are based on existing on-balance-sheet and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business.

Management has made estimates of fair value discount rates that it believes to be reasonable. However, because there is no market for certain of these financial instruments, management has no basis to determine whether the fair value presented above would be indicative of the value negotiated in an actual sale.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

13. Subsequent Events

NCUA Corporate Stabilization Plan: On January 28, 2009, all federally insured credit unions were informed that actions taken by the National Credit Union Administration (NCUA) to stabilize the corporate credit union system would result in a partial write-down of the Credit Union's deposit in the National Credit Union Share Insurance Fund (NCUSIF). The estimated write-down amounts to \$4,313,580 based on NCUA's Letter to Credit Unions 09-CU-02. There are efforts by the credit union trade associations and others to explore alternative funding mechanisms and, if successful, the write-down would be reduced.

NCUA HARP and SIP Programs: In early December 2008, NCUA announced two programs to provide assistance to individual credit union members (HARP – Home Affordability Relief Program) and to stabilize select corporate credit unions (SIP – System Investment Program). Both of these programs require participants to borrow funds from NCUA's Central Liquidity Facility (CLF) and automatically reinvest the proceeds in a corporate credit union. The investments in the corporate credit unions are senior unsecured debt obligations, guaranteed by NCUSIF. The Credit Union has elected to participate in the HARP and SIP programs in the amounts of \$5 million and \$330 million, respectively. The borrowing and debt obligations simultaneously mature in one year for the SIP program and two years for the HARP program. The SIP program reimburses the Credit Union a net amount of .25% of the outstanding SIP funds while the HARP program reimburses the Credit Union 50% of the interest rate relief provided to members up to 1% of the outstanding HARP funds.

East Hartford Main Office

417 Main Street
East Hartford, CT 06118

Bloomfield

699 Cottage Grove Road
Bloomfield, CT 06002

Cromwell

4 Hammerhead Place (Rt. 372)
Cromwell, CT 06416

Enfield

201 Elm Street
Enfield, CT 06082

Farmington

4 Farm Springs Road
Farmington, CT 06032

Glastonbury

109 Sycamore Street
Glastonbury, CT 06033

Manchester

304 Broad Street
Manchester, CT 06040

Plainville

378 New Britain Avenue
Plainville, CT 06062

Vernon

455 Hartford Turnpike (Rt. 30)
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