POLISH & SLAVIC FEDERAL CREDIT UNION
Fairfield, New Jersey

FINANCIAL STATEMENTS
September 30, 2012 and 2011

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Independent Auditor's Report

Supervisory Committee
Polish & Slavic Federal Credit Union
Fairfield, New Jersey

We have audited the accompanying statements of financial condition of Polish & Slavic Federal Credit Union as of September 30, 2012 and 2011 and the related 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial condition of Polish & Slavic Federal Credit Union as of September 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

Baltimore, Maryland
December 19, 2012

FINANCIAL STATEMENTS

POLISH & SLAVIC FEDERAL CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
September 30, 2012 and 2011
(In Thousands)

	2012	2011
ASSETS		
Cash and cash equivalents	$ 53,550	$ 31,161
Securities available-for-sale	554,321	552,063
Federal Home Loan Bank of New York stock	2,527	2,412
Loans held-for-sale	50	865
Loans receivable, net	833,880	771,224
Accrued interest receivable	4,573	4,561
Premises and equipment, net	34,120	35,041
National Credit Union Share Insurance Fund deposit	12,096	11,894
Other assets	4,307	3,377
	$ 1,499,424	$ 1,412,598
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' shares	$ 1,303,104	$ 1,220,093
Borrowed funds	35,000	35,000
Accrued expenses and other liabilities	17,670	12,800
Total liabilities	1,355,774	1,267,893
MEMBERS' EQUITY		
Regular reserves	20,562	20,562
Undivided earnings	121,088	119,515
Accumulated other comprehensive income	2,000	4,628
Total members' equity	143,650	144,705
	$ 1,499,424	$ 1,412,598

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

POLISH & SLAVIC FEDERAL CREDIT UNION
STATEMENTS OF INCOME
Years Ended September 30, 2012 and 2011
(In Thousands)

	2012	2011
INTEREST INCOME		
Loans	$ 40,290	$ 40,758
Investments and cash equivalents	10,203	13,046
Total interest income	50,493	53,804
INTEREST EXPENSE		
Members' shares	10,584	11,054
Borrowed funds	1,315	1,315
Total interest expense	11,899	12,369
NET INTEREST INCOME	38,594	41,435
PROVISION FOR LOAN LOSSES	4,124	2,425
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	34,470	39,010
NON-INTEREST INCOME		
Service charges, fees, and commissions	4,868	3,875
Gains on sales of securities available-for-sale	397	442
Gains on sales of loans held-for-sale, net	907	320
Other	630	520
Total non-interest income	6,802	5,157
NON-INTEREST EXPENSE		
Salaries and employee benefits	21,417	21,419
Operations	6,767	6,159
Occupancy	4,535	4,475
Marketing	963	1,066
Loan servicing	1,485	1,276
Professional and outside services	974	655
National Credit Union Share Insurance Fund stabilization expense	1,189	2,973
Other	2,369	2,315
Total non-interest expense	39,699	40,338
NET INCOME	$ 1,573	$ 3,829

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

POLISH & SLAVIC FEDERAL CREDIT UNION
STATEMENTS OF MEMBERS' EQUITY AND COMPREHENSIVE INCOME
Years Ended September 30, 2012 and 2011
(In Thousands)

	Regular Reserves	Undivided Earnings	Accumulated Other Comprehensive Income	Total Members' Equity
BALANCE, SEPTEMBER 30, 2010	$ 20,562	$ 115,686	$ 1,610	$ 137,858
Comprehensive income:				
Net income	–	3,829	–	3,829
Other comprehensive income (loss):				
Net unrealized gain from securities available-for-sale arising during the year	–	–	4,530	4,530
Reclassification of gains on securities available-for-sale included in net income	–	–	(442)	(442)
Amortization and deferral of actuarial losses	–	–	(1,070)	(1,070)
Total comprehensive income				6,847
BALANCE, SEPTEMBER 30, 2011	20,562	119,515	4,628	144,705
Comprehensive income:				
Net income	–	1,573	–	1,573
Other comprehensive income (loss):				
Net unrealized loss from securities available-for-sale arising during the year	–	–	(714)	(714)
Reclassification of gains on securities available-for-sale included in net income	–	–	(397)	(397)
Amortization and deferral of actuarial losses	–	–	(1,517)	(1,517)
Total comprehensive income				(1,055)
BALANCE, SEPTEMBER 30, 2012	$ 20,562	$ 121,088	$ 2,000	$ 143,650

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

POLISH & SLAVIC FEDERAL CREDIT UNION
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2012 and 2011
(In Thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,573	$ 3,829
Adjustments to reconcile net income to net cash provided by operating activities:		
Net premium amortization on securities available-for sale	9,606	5,730
Provision for loan losses	4,124	2,425
Depreciation and amortization of premises and equipment	2,806	2,769
Gains on sales of loans held-for-sale, net	(907)	(320)
Gains on sales of securities available-for-sale	(397)	(442)
Net losses on disposals of premises and equipment	1	91
Originations of loans held-for-sale, net of principal payments	(27,366)	(16,700)
Proceeds from sales of loans held-for-sale	28,898	16,733
Increase in accrued interest receivable	(12)	(142)
Increase in other assets	(625)	(252)
Increase (decrease) in accrued expenses and other liabilities	3,353	(2,082)
Net cash provided by operating activities	21,054	11,639
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities available-for-sale	(249,860)	(283,034)
Proceeds from maturities of securities available-for-sale	204,395	199,076
Proceeds from sales of securities available-for-sale	32,887	34,727
Purchases of Federal Home Loan Bank of New York stock	(115)	(139)
Originations of loans receivable, net of principal payments	(66,895)	(6,022)
Increase in the National Credit Union Share Insurance Fund deposit	(202)	(1,172)
Net purchases of premises and equipment	(1,886)	(2,993)
Net cash used by investing activities	(81,676)	(59,557)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' shares	83,011	48,415
Net cash provided by financing activities	83,011	48,415
INCREASE IN CASH AND CASH EQUIVALENTS	22,389	497
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	31,161	30,664
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 53,550	$ 31,161
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 11,986	$ 12,307
NON-CASH INVESTING ACTIVITY		
Transfers from loans receivable, net to other assets-foreclosed real estate owned	$ 115	$ –

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Organization: Polish & Slavic Federal Credit Union (the "Credit Union") is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act.

Subsequent Events: The Credit Union has considered the impact on its financial statements of events occurring subsequent to September 30, 2012 and through December 19, 2012, the date the financial statements were available to be issued.

Use of Estimates: 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 financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses.

Cash and Cash Equivalents: For the purpose of the statements of financial condition and the statements of cash flows, cash and cash equivalents includes cash on hand, amounts due from financial institutions, and interest-bearing deposits in other financial institutions. Amounts due from financial institutions and interest-bearing deposits in other financial institutions may, at times, exceed federally insured limits.

Securities Available-for-Sale: Securities 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 securities available-for-sale are excluded from earnings and accounted for as accumulated other comprehensive income. Gains and losses on the sale of securities available-for-sale are recorded on the trade date and determined using the specific identification method. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

The Credit Union recognizes other-than-temporary impairment of a debt security if the fair value of the security is less than its amortized cost and it intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost. The credit loss component of an other-than-temporary impairment of a debt security is recognized in earnings and the non-credit component in other comprehensive income when the Credit Union does not intend to sell the security and it is more likely than not that it will not be required to sell the security prior to recovery. In estimating whether a credit loss exists on a debt security, management considers a variety of factors, including the length of time and the extent to which the fair value has been less than the amortized cost basis, adverse conditions specifically related to the security, an industry or a geographic area, the historical and implied volatility of the fair value of the security, the payment structure of the security and the likelihood of the issuer being able to make payments that increase in the future, failure of the issuer of the security to make scheduled interest or principal payments, any changes to the rating of the security by a rating agency, and recoveries of additional declines in fair value subsequent to the statement of financial condition date.

Federal Home Loan Bank of New York ("FHLBNY") Stock: The Credit Union, as a member of the FHLBNY, is required to maintain an investment in the capital stock of the FHLBNY. No ready market exists for the stock, and it has no quoted market value. FHLBNY stock is carried at cost and reviewed for impairment based on the ultimate recoverability of the cost basis of the stock.

Loans Held-For-Sale: First mortgage loans intended for sale in the secondary market are carried at the lower of cost or fair value, as determined by aggregate outstanding commitments from investors or current investor yield requirements. Net unrealized losses are recognized through a valuation allowance by charges to income. All sales are made without recourse and with servicing retained.

Loans Receivable: Loans that the Credit Union has the intent and ability to hold for the foreseeable future or until maturity are classified as loans receivable and are reported at their outstanding principal balances less any charge-offs and the allowance for loan losses.

Loans are transferred from loans receivable to loans held-for-sale when the intent to hold the loans has changed and there is a plan to sell the loans within a reasonable period of time. When the Credit Union no longer has the intent to sell loans, they are transferred from loans held-for-sale to loans receivable. Loans transferred between the categories are transferred at the lower of cost or fair value.

The accrual of interest on loans is discontinued on loans that become 90 days past due as to principal or interest, or when payment in full of principal or interest is doubtful. When a loan is placed on non-accrual status, accrued interest receivable is reversed against interest income and interest income is subsequently recognized on the cash basis until the loan qualifies for return to accrual status. Loans are generally returned to accrual status when all principal and interest amounts contractually due are brought current and the future collection of principal and interest payments is reasonably assured.

Allowance for Loan Losses: The allowance for loan losses is maintained at a level that management believes is adequate to absorb estimated probable credit losses inherent in the loan portfolio as of the date of the financial statements. Management's periodic evaluation of the adequacy of the allowance for loan losses is based on a variety of factors, including 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 prevailing economic conditions. These evaluations are inherently subjective as it requires estimates that are susceptible to significant revision as additional information becomes available. While the Credit Union makes allocations to specific loans and pools of loans, the total allowance for loan losses is available for all loan losses.

When available information indicates that specific loans or portions thereof are uncollectible, those amounts are charged off against the allowance for loan losses. Subsequent recoveries, if any, are credited to the allowance.

Specific allowances for loan losses are established, as necessary, for individual loans considered impaired. A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect all principal and interest amounts due according to the contractual terms of the loan agreement. Loans individually reviewed for impairment include loans with balances of $1 million or greater, loans restructured in a troubled debt restructuring, and, beginning in the year ended September 30, 2012, real estate loans in the process of foreclosure. When a loan individually reviewed for impairment has been identified as impaired, the measure of impairment is based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the underlying collateral.

General allowances for loan losses are established, on a pool basis by homogeneous products, for loans not considered impaired and are based on historical loss experience adjusted for qualitative factors.

Mortgage Servicing Rights: In connection with its sale of loans with servicing retained, the Credit Union records servicing assets based on the fair value of the servicing rights on the date the loans are sold. Changes in the fair value of mortgage servicing rights are recorded in earnings in the period in which the change occurs. Mortgage servicing rights are included in "Other assets" in the accompanying Statements of Financial Condition.

Premises and Equipment: Land is carried at cost. Buildings, leasehold improvements, and furniture and equipment are carried at cost, less accumulated depreciation and amortization. Buildings and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of their useful lives or lease terms.

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 shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts its insurance coverage to another source, or the operations of the fund are transferred from the NCUA Board. The share deposits of members of the Credit Union are currently insured to a maximum of $250,000 per ownership interest through the NCUSIF.

NCUSIF Insurance Premiums: During the years ended September 30, 2012 and 2011, the NCUA Board voted to assess each federally-insured credit union a premium of 0.95% of its insured shares as of June 30, 2012 and 0.25% of its insured shares as of June 30, 2011, respectively, to repay a portion of its Temporary Corporate Credit Union Stabilization Fund borrowings from the U. S. Treasury. For the Credit Union, these premiums amounted to $1,189,125 and $2,973,424 for the years ended September 30, 2012 and 2011, respectively.

Members' Shares: 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.

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

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

Adoption of New Accounting Pronouncement: In July 2010, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2010-20, which amends the authoritative accounting guidance under Accounting Standards Codification Topic 310, "Receivables." ASU 2010-20 requires an entity to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. The amendments in this guidance encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. For non-public entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2011.

NOTE 2 – SECURITIES AVAILABLE-FOR-SALE

The amortized cost, gross unrealized gains, gross unrealized losses, and fair value of securities available-for-sale are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2012				
Mortgage-backed securities	$ 544,613	$ 10,585	$ (877)	$ 554,321
September 30, 2011				
Federal agency securities	$ 5,304	$ 113	$ (9)	$ 5,408
Mortgage-backed securities	535,940	11,247	(532)	546,655
Total securities available-for-sale	$ 541,244	$ 11,360	$ (541)	$ 552,063

All of the mortgage-backed securities outstanding at September 30, 2012 and 2011 were issued by Federal agencies.

At September 30, 2012 and 2011, securities available-for-sale with a fair value of $48,393,000 and $89,782,000, respectively, were pledged as collateral to secure actual and potential borrowings.

Information pertaining to securities available-for-sale with gross unrealized losses at September 30, 2012 and 2011, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows (in thousands):

	Less Than Twelve Months		Twelve Months or More		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
September 30, 2012						
Mortgage-backed securities	$ 719	$ 100,273	$ 158	$ 13,768	$ 877	$ 114,041
September 30, 2011						
Federal agency securities	$ 9	$ 968	$ –	$ –	$ 9	$ 968
Mortgage-backed securities	424	63,293	108	32,157	532	95,450
Total	$ 433	$ 64,261	$ 108	$ 32,157	$ 541	$ 96,418

At September 30, 2012, there were 46 securities with unrealized losses. The Credit Union does not have the intent to sell any such securities and has determined that it will not be required to sell any such securities prior to the recovery of the amortized cost basis and that no credit impairment exists for any of the securities.

The Credit Union did not recognize any other-than-temporary impairment losses on its securities available-for-sale during the years ended September 30, 2012 and 2011.

Gross realized gains and gross realized losses on sales of securities available-for-sale for the year ended September 30, 2012 were $425,000 and $28,000, respectively. Gross realized gains on sales of securities available-for-sale for the year ended September 30, 2011 were $442,000. There were no sales of securities available-for-sale at a loss during the year ended September 30, 2011.

NOTE 3 – LOANS RECEIVABLE, NET

The composition of loans receivable, net is as follows (in thousands):

	September 30, 2012	September 30, 2011
Residential real estate:		
First mortgage	$ 500,320	$ 480,609
Home equity and second mortgage	71,615	64,042
Commercial real estate	191,564	168,072
Consumer:		
Unsecured credit card	29,734	25,429
Other unsecured	21,226	20,875
Secured	19,702	12,373
Business:		
Unsecured credit card	1,053	1,132
Other unsecured	2,037	1,944
Secured	353	577
Total loans receivable	837,604	775,053
Allowance for loan losses	(3,724)	(3,829)
Loans receivable, net	$ 833,880	$ 771,224

A summary of the activity in the allowance for loan losses by loan segment for the year ended September 30, 2012 is as follows (in thousands):

	Year Ended September 30, 2012				
	Residential Real Estate	**Commercial Real Estate**	**Consumer**	**Business**	**Total**
Beginning balance	$ 1,727	$ 396	$ 1,580	$ 126	$ 3,829
Charge-offs	(2,119)	(425)	(1,600)	(304)	(4,448)
Recoveries	12	–	176	31	219
Provision	1,823	626	1,339	336	4,124
Ending balance	$ 1,443	$ 597	$ 1,495	$ 189	$ 3,724

A summary of the activity in the allowance for loan losses for the year ended September 30, 2011 is as follows (in thousands):

	Year Ended September 30, 2011
Beginning balance	$ 3,191
Charge-offs	(1,934)
Recoveries	147
Provision	2,425
Ending balance	$ 3,829

The following table sets forth the balance in the allowance for loan losses and the recorded investment in loans receivable by loan segment and based on impairment method as of September 30, 2012 (in thousands):

	September 30, 2012				
	Residential Real Estate	**Commercial Real Estate**	**Consumer**	**Business**	**Total**
Allowance for Loan Losses:					
Individually evaluated for impairment	$ 440	$ 257	$ 3	$ –	$ 700
Collectively evaluated for impairment	1,003	340	1,492	189	3,024
Total	$ 1,443	$ 597	$ 1,495	$ 189	$ 3,724
Loans Receivable:					
Individually evaluated for impairment	$ 19,285	$ 5,499	$ 51	$ –	$ 24,835
Collectively evaluated for impairment	552,650	186,065	70,611	3,443	812,769
Total	$ 571,935	$ 191,564	$ 70,662	$ 3,443	$ 837,604

The following table presents the aging of the recorded investment in past due loans receivable by loan class as of September 30, 2012 (in thousands):

	September 30, 2012					
	30 – 59 Days	**60 – 89 Days**	**90 Days or Greater**	**Total Past Due**	**Current**	**Total**
Residential real estate:						
First mortgage	$ 2,368	$ 814	$ 11,465	$ 14,647	$ 485,673	$ 500,320
Home equity and second mortgage	212	60	583	855	70,760	71,615
Commercial real estate	–	183	5,316	5,499	186,065	191,564
Consumer:						
Unsecured credit card	152	105	147	404	29,330	29,734
Other unsecured	160	51	56	267	20,959	21,226
Secured	23	4	6	33	19,669	19,702
Business:						
Unsecured credit card	12	2	–	14	1,039	1,053
Other unsecured	–	20	–	20	2,017	2,037
Secured	–	8	–	8	345	353
Total	$ 2,927	$ 1,247	$ 17,573	$ 21,747	$ 815,857	$ 837,604

The Credit Union evaluates the credit quality of its loans receivable primarily based on the aging status of the loans.

Loans receivable on non-accrual status are summarized as follows as of September 30, 2012 (in thousands):

	September 30, 2012
Residential real estate:	
First mortgage	$ 15,307
Home equity and second mortgage	671
Commercial real estate	6,355
Consumer:	
Unsecured credit card	147
Other unsecured	56
Secured	6
Total	$ 22,542

At September 30, 2011, loans receivable on non-accrual status amounted to $20,027,000.

The Credit Union did not have any loans greater than 90 days past due that were still accruing interest at September 30, 2012 and 2011.

Information concerning impaired loans receivable at September 30, 2012 by loan class is summarized as follows (in thousands):

	September 30 2012				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Residential real estate:					
First mortgage	$ 8,607	$ 11,681	$ –	$ 7,232	$ 29
Home equity and second mortgage	564	1,290	–	460	–
Commercial real estate	5,096	5,491	–	3,350	6
Consumer:					
Other unsecured	3	3	–	1	–
Secured	6	6	–	5	–
With a related allowance:					
Residential real estate:					
First mortgage	10,017	10,017	432	8,955	342
Home equity and second mortgage	97	97	8	108	5
Commercial real estate	403	403	257	17	–
Consumer:					
Other unsecured	42	42	3	43	3
Total impaired loans	$ 24,835	$ 29,030	$ 700	$ 20,171	$ 385

No additional funds are committed to be advanced in connection with the impaired loans outstanding at September 30, 2012.

Information pertaining to impaired loans receivable at September 30, 2011 is summarized as follows (in thousands):

	September 30, 2011
Impaired loans without a valuation allowance	$ 3,462
Impaired loans with a valuation allowance	8,956
Total impaired loans	$ 12,418
Valuation allowance related to impaired loans	$ 626

The following table presents the number of loans modified in TDRs during the year ended September 30, 2012 and their balances immediately prior to the modification date and post-modification as of September 30, 2012 (dollars in thousands):

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential real estate:			
First mortgage	14	$ 3,721	$ 3,669
Consumer:			
Other unsecured	1	17	12
Secured	1	8	6

The following table presents loans modified in TDRs within the previous twelve months from September 30, 2012 and for which there was a payment default during the year ended September 30, 2012 (dollars in thousands):

	Number of Loans	Outstanding Recorded Investment
Residential real estate:		
First mortgage	1	$ 258

Unfunded commitments to extend credit consisted of the following (in thousands):

	September 30, 2012	September 30, 2011
Commitments to grant real estate loans	$ 10,607	$ 12,771
Unfunded commitments under lines of credit:		
Real estate equity	57,201	49,219
Credit card	71,355	68,553
Other	11,838	10,741
Total unfunded commitments to extend credit	$ 151,001	$ 141,284

Loan commitments 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 financial statements.

Members' ability to repay loans to the Credit Union may be affected by the economic climate of the geographic regions in which they reside. A significant number of the Credit Union's members reside in the New York City Metropolitan area.

NOTE 4 – LOAN SERVICING

Loans serviced for others by the Credit Union are not included in the accompanying Statements of Financial Condition. The unpaid principal balances of first mortgage loans serviced for others were $81,142,000 and $75,940,000 at September 30, 2012 and 2011, respectively.

The following table summarizes activity pertaining to mortgage servicing rights (in thousands):

	Years Ended September 30, 2012	Years Ended September 30, 2011
Balance at beginning of year	$ 467	$ 364
Additions	190	99
Changes in fair value	(79)	4
Balance at end of year	$ 578	$ 467

NOTE 5 – PREMISES AND EQUIPMENT, NET

Premises and equipment, net is summarized as follows (in thousands):

	September 30, 2012	September 30, 2011
Land	$ 4,646	$ 4,646
Buildings	32,389	32,203
Leasehold improvements	4,018	3,845
Furniture and equipment	15,293	14,023
Total premises and equipment	56,346	54,717
Accumulated depreciation and amortization	(22,226)	(19,676)
Premises and equipment, net	$ 34,120	$ 35,041

Future minimum rent commitments under non-cancelable operating leases for premises at September 30, 2012 are as follows (in thousands):

Years Ending September 30,	
2013	$ 860
2014	826
2015	813
2016	743
2017	726
Thereafter	1,093
Total future minimum lease payments	$ 5,061

Rent expense for the years ended September 30, 2012 and 2011 for premises leased under operating leases totaled $1,129,000 and $1,074,000, respectively.

NOTE 6 – MEMBERS' SHARES

Members' shares are summarized as follows (in thousands):

	September 30, 2012	September 30, 2011
Regular shares	$ 641,999	$ 517,598
Share drafts	114,364	86,173
Money markets	35,289	97,553
Individual retirement account ("IRA") shares	49,629	45,291
Certificates	461,823	473,478
Total members' shares	$ 1,303,104	$ 1,220,093

Scheduled maturities of certificates as of September 30, 2012 are as follows (in thousands):

Years Ending September 30,	
2013	$ 207,668
2014	78,147
2015	59,168
2016	87,421
2017	29,419
Total share and IRA certificates	$ 461,823

The aggregate amounts of certificates in denominations of $100,000 or more at September 30, 2012 and 2011 were $143,827,000 and $142,730,000, respectively.

NOTE 7 – BORROWED FUNDS

Borrowings from Alloya Corporate Federal Credit Union ("Alloya") are as follows (dollars in thousands):

Maturity Date	Fixed Interest Rate	September 30, 2012 and 2011
January 5, 2015	3.82 %	$ 10,000
January 4, 2018	4.00	15,000
January 23, 2018	3.29	10,000
Total borrowed funds		$ 35,000

The borrowing maturing January 5, 2015 became subject to repayment at the option of Alloya on January 5, 2012 and is subject to repayment at the option of Alloya every three months thereafter. The borrowings maturing January 4, 2018 and January 23, 2018 are subject to repayment at the option of Alloya on January 4, 2013 and January 23, 2013, respectively.

NOTE 8 –LEGAL CONTINGENCIES

The Credit Union is a party to various legal actions in which claims for monetary damages are asserted. Because of the inherent difficulty of predicting the outcome of pending legal actions, the Credit Union cannot state what the eventual outcome of the pending lawsuits will be. Based on current knowledge, management does not believe that liabilities, if any, arising from the legal actions will have a material adverse effect on the Credit Union's financial condition, results of operations, or liquidity.

NOTE 9 – EMPLOYEE BENEFITS

The Credit Union sponsors a non-contributory defined benefit pension plan (the "Pension Plan") that covers substantially all employees. The Pension Plan provides for benefits to be paid to eligible employees at retirement based primarily upon credited years of service and average compensation levels. Employees begin vesting after three years of service at a rate of 20% per year and become fully vested after seven years of service. The Credit Union's policy is to fund not less than the minimum amount required under the Employee Retirement Income Security Act of 1974.

In August 2012, the Pension Plan was amended so that after November 30, 2012 all benefit accruals shall cease and no employee hired or rehired after that date will be eligible for any benefits under the Pension Plan. In October 2012, the Credit Union's Board of Directors approved terminating the Pension Plan effective as of December 31, 2012. It is currently expected that the termination process will be completed, including the distribution of Pension Plan assets to Pension Plan participants, during the year ended September 30, 2013.

In accordance with U.S. GAAP, the Credit Union is required to recognize the overfunded or underfunded status of the Pension Plan as an asset or liability, respectively, in its statement of financial condition and to recognize changes in that funded status in the year in which the changes occur through other comprehensive income.

The following tables set forth information regarding the Pension Plan (in thousands):

	September 30,	
	2012	**2011**
Projected benefit obligation	$ 19,975	$ 17,856
Fair value of plan assets	13,576	13,268
Funded status	$ (6,399)	$ (4,588)
Accumulated benefit obligation	$ 16,419	$ 13,875

	Years Ended September 30,	
	2012	**2011**
Net pension cost	$ 2,138	$ 1,915
Other changes in plan assets and benefit obligations recognized in other comprehensive income:		
Current year actuarial loss	1,890	1,377
Amortization of actuarial loss	(373)	(307)
Total recognized in other comprehensive income	1,517	1,070
Total recognized in net periodic benefit cost and other comprehensive income	$ 3,655	$ 2,985
Employer contributions	$ 1,845	$ 2,728
Benefits paid	1,882	245

Amounts recognized in accumulated other comprehensive loss consist of the following (in thousands):

	September 30,	
	2012	2011
Net actuarial loss	$ 7,708	$ 6,191

Net actuarial losses included in accumulated other comprehensive loss that are expected to be recognized as a component of net periodic pension cost over the year ending September 30, 2013 total $259,000. This expected amount assumes the Pension Plan is not terminated as discussed above.

Weighted-average assumptions used to determine benefit obligations for the Pension Plan were as follows:

	September 30,	
	2012	2011
Discount rate	4.00%	4.75%
Rate of compensation increase	2.50	3.00

Weighted-average assumptions used to determine net periodic pension cost for the Pension Plan were as follows:

	Years Ended September 30,	
	2012	2011
Discount rate	4.75%	5.25%
Expected long-term return on plan assets	6.50	6.50
Rate of compensation increase	3.00	3.25

The expected long-term return on plan assets is determined by applying historical average investment returns from published indexes relating to the current allocation of assets in the portfolio.

The Pension Plan's assets consist of an unallocated deposit administration contract with CUNA Mutual Insurance Society. Deposits in this contract are guaranteed the contract minimum rate of return.

The fair value of the deposit administration contract is determined by the following formula. The rate of interest currently offered on new deposits less the interest rate earned in the most recent time period (expressed as a decimal) is multiplied by a factor of 3. The result is subtracted from 1 and multiplied by the balance of the deposit administration contract at the date of calculation. A reduction is made on the value of one-half of any excess over 100%.

The fair value of the deposit administration contract at September 30, 2012 and 2011 is based on significant other observable inputs (Level 2). See Note 12 for a discussion of the three levels used by the Credit Union, pursuant to U.S. GAAP, to estimate fair values of financial assets and liabilities generally measured at fair value.

The Pension Plan's investment strategy seeks preservation of capital with a consistent return on assets.

The Credit Union's contribution, if any, to the Pension Plan during the year ended September 30, 2013 will be determined in connection with the Pension Plan termination process.

The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid assuming the Pension Plan termination process is not completed (in thousands):

Years Ending September 30,	
2013	$ 239
2014	855
2015	543
2016	1,940
2017	894
5 years thereafter	12,061
	$ 16,532

NOTE 10 – 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 regulations and the regulatory framework for prompt corrective action ("PCA"), 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 U.S. GAAP. 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 table below) of net worth to total assets. Further, credit unions over $10,000,000 in assets are also required to calculate a Risk-Based Net Worth ("RBNW") requirement which establishes whether or not the credit union will be considered "complex" under the regulatory framework. The Credit Union's RBNW requirements as of September 30, 2012 and 2011 were 5.30% and 5.52%, respectively. The minimum ratio to be considered "complex" under the regulatory framework is 6.00%. Management believes, as of September 30, 2012 and 2011, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of September 30, 2012, the most recent call reporting period, the NCUA categorized the Credit Union as "well capitalized" under the regulatory framework for PCA. To be categorized as "well capitalized," the Credit Union must maintain a minimum net worth ratio of 7.00% of assets and meet any applicable RBNW requirement. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

The Credit Union's actual and required capital amounts and ratios are presented in the following table (dollars in thousands):

	Actual		To be Adequately Capitalized Under PCA Provisions		To be Well Capitalized Under PCA Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
September 30, 2012						
Net worth	$141,650	9.44%	$89,965	6.00%	$104,960	7.00%
RBNW requirement	79,469	5.30	n/a	n/a	n/a	n/a
September 30, 2011						
Net worth	$140,077	9.91%	$84,756	6.00%	$98,882	7.00%
RBNW requirement	77,975	5.52	n/a	n/a	n/a	n/a

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

NOTE 11 – RELATED PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends credit to its directors, supervisory committee members and executive officers. The aggregate loans to related parties totaled $3,286,000 and $3,857,000 at September 30, 2012 and 2011, respectively. Deposits from related parties amounted to $1,667,000 and $1,460,000 at September 30, 2012 and 2011, respectively.

NOTE 12 – FAIR VALUES OF FINANCIAL INSTRUMENTS

As defined in U.S. GAAP, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In accordance with U.S. GAAP, the Credit Union groups its financial assets and financial liabilities generally measured at fair value in the three levels set forth below, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

- Level 1 - Valuations are based on unadjusted quoted prices in active markets for identical assets or liabilities.

- Level 2 - Valuations are based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

- Level 3 - Valuations are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

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

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

Securities available-for-sale: The fair values for securities available-for-sale are based on quoted market prices, if available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The Credit Union obtains fair value measurements for securities available-for-sale from an independent pricing service. The fair value measurements consider observable data that may include, among other things, dealer quotes, market spreads, cash flows, reported trades, trade execution data, market consensus prepayment speeds, credit information, and the securities' terms and conditions.

Loans receivable: For variable rate loans that reprice frequently, fair values are based on carrying values. Fair values for certain impaired loans are estimated using underlying collateral values. The fair value for other loans is determined by discounting the estimated cash flows, adjusted for prepayments, using the current rate at which similar loans would be made to borrowers with similar credit ratings and maturities.

Loans Held-for-Sale: The fair value of loans held-for-sale is estimated based on current secondary market prices for loans with similar terms.

Mortgage servicing rights: The fair value of mortgage servicing rights is computed by an independent third party using a valuation model that calculates the present value of estimated future net servicing income. The model incorporates various market-based assumptions, including discount rates, prepayment speeds, servicing income, servicing costs, and default rates.

Members' shares: The fair values of regular shares, share drafts, money market accounts, and IRA shares are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). Fair values of share and IRA certificates are estimated by discounting the estimated contractual cash flows using rates currently offered for alternative funding sources of similar remaining maturities.

Borrowed funds: The fair values of borrowed funds are estimated based on the discounted value of contractual cash flows using rates currently offered for similar types of borrowing arrangements.

Accrued interest receivable and payable: The carrying values of accrued interest receivable and accrued interest payable approximate their fair values.

Off-balance sheet financial instruments: The fair values of off-balance sheet commitments are estimated based on fees charged to enter into similar agreements, taking into account the remaining terms of the agreements and credit standing of the members. The fair value for such financial instruments is nominal.

The following table presents assets measured at fair value on a recurring basis by classification within the fair value hierarchy (in thousands):

	Carrying Value			
	Level 1	Level 2	Level 3	Total
September 30, 2012				
Securities available-for-sale:				
Federal agency securities	$ –	$ 554,321	$ –	$ 554,321
Mortgage servicing rights	–	–	578	578
Total	$ –	$ 554,321	$ 578	$ 554,899
September 30, 2011				
Securities available-for-sale:				
Federal agency securities	$ –	$ 5,408	$ –	$ 5,408
Mortgage-backed securities	–	546,655	–	546,655
Total securities available-for-sale	–	552,063	–	552,063
Mortgage servicing rights	–	–	467	467
Total	$ –	$ 552,063	$ 467	$ 552,530

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs (in thousands):

	Mortgage Servicing Rights	
	September 30,	
	2012	2011
Balance at beginning of year	$ 467	$ 364
Total realized (losses) gains included in net income	(79)	4
Additions	190	99
Balance at end of year	$ 578	$ 467

The following table presents assets measured at fair value on a non-recurring basis by classification within the fair value hierarchy (in thousands):

	Carrying Value			
	Level 1	Level 2	Level 3	Total
September 30, 2012				
Impaired loans receivable	$ –	$ –	$ 6,434	$ 6,434
Foreclosed real estate owned	–	–	115	115
Total	$ –	$ –	$ 6,549	$ 6,549
September 30, 2011				
Impaired loans receivable	$ –	$ –	$ 2,857	$ 2,857

The carrying values and estimated fair values of the Credit Union's financial instruments are summarized as follows (in thousands):

	September 30, 2012		September 30, 2011	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Financial Assets:				
Cash and cash equivalents	$ 53,550	$ 53,550	$ 31,161	$ 31,161
Securities available-for-sale	554,321	554,321	552,063	552,063
FHLBNY stock	2,527	2,527	2,412	2,412
Loans held-for-sale	50	52	865	883
Loans receivable, net	833,880	839,215	771,224	773,162
Accrued interest receivable	4,573	4,573	4,561	4,561
Mortgage servicing rights	578	578	467	467
Financial Liabilities:				
Members' shares	1,303,104	1,314,382	1,220,093	1,231,008
Borrowed funds	35,000	40,931	35,000	38,115
Accrued interest payable	1,143	1,143	1,231	1,231