

(In Thousands, US\$)	2008	2007	% CHANGE
STATEMENTS OF INCOME (FOR THE YEAR)			
Income	\$118,186	\$129,298	(8.6)
Dividends	58,514	67,603	(13.4)
Expenses	54,993	45,853	19.9
Net Income	4,679	15,842	(70.5)
STATEMENTS OF FINANCIAL CONDITION (AT YEAR-END)			
Cash and Investments	\$879,044	\$713,489	23.2
Loans (Net of Allowance for Loan Losses)	1,644,515	1,620,944	1.5
Deposits	2,190,337	1,991,927	10.0
Reserve and Undivided Earnings	350,940	347,336	1.0
Total Assets	2,576,145	2,377,144	8.4
RATIOS			
Reserve and Undivided Earnings to Deposits	16.0%	17.4%	(8.1)
Reserve and Undivided Earnings to Total Assets	13.6%	14.6%	(6.8)
OTHER			
Mortgage Servicing Portfolio	\$584,979	\$553,811	5.6
Members	59,481	57,241	3.9
Employees	292	295	(1.0)

Fully audited financial statements are available at BFSFCU.org.

TEN-YEAR PERFORMANCE SUMMARY

(In Thousands, US\$) 1999 2000 2001

STATEMENTS OF FINANCIAL CONDITION (AT YEAR-END)

Cash and Investments	\$440,547	\$413,344	\$474,368
Loans (Net of Allowance for Loan Losses)	627,597	744,675	866,481
Deposits	925,583	991,268	1,147,170
Reserve and Undivided Earnings	152,741	176,554	203,600
Total Assets	1,086,588	1,176,907	1,361,116

STATEMENTS OF INCOME (FOR THE YEAR)

Income	\$59,857	\$77,195	\$81,674
Dividends	28,083	34,944	34,652
Expenses	16,440	18,438	19,976
Net Income	15,334	23,813	27,046

KEY RATIOS

Interest-rate Sensitivity ¹	105.4	101.0	88.7
Liquidity ²	47.6	41.7	41.4
Loan to Deposit	67.8	75.1	75.5
Reserve and Undivided Earnings to Deposits	16.5	17.8	17.7
Reserve and Undivided Earnings to Total Assets	14.1	15.0	15.0

OTHER (AT YEAR-END)

Members	41,458	43,491	45,556
Employees	128	130	143

¹ Rate-sensitive assets as a percentage of rate-sensitive liabilities.

² Liquid assets as a percentage of deposits.

2002	2003	2004	2005	2006	2007	2008
\$490,399	\$568,489	\$553,099	\$516,579	\$560,845	\$713,489	\$879,044
1,040,612	1,174,906	1,360,022	1,509,477	1,571,856	1,620,944	1,644,515
1,309,712	1,498,402	1,634,122	1,727,870	1,810,065	1,991,927	2,190,337
234,079	261,654	287,861	312,008	330,313	347,336	350,940
1,554,217	1,769,586	1,942,142	2,057,779	2,168,624	2,377,144	2,576,145
\$75,892	\$70,003	\$71,742	\$89,471	\$110,758	\$129,298	118,186
24,118	17,560	16,585	33,353	52,017	67,603	58,514
21,295	24,868	28,950	31,971	37,469	45,853	54,993
30,479	27,575	26,207	24,147	21,272	15,842	4,679
88.0	94.1	89.7	88.4	83.7	82.8	83.2
37.4	37.9	32.3	28.4	29.6	24.6	32.1
79.5	78.4	83.2	87.4	86.8	81.4	75.1
17.9	17.5	17.6	18.1	18.2	17.4	16.0
15.1	14.8	14.8	15.2	15.2	14.6	13.6
47,863	50,038	51,889	53,841	55,448	57,241	59,481
171	195	211	237	274	295	292

Fully audited financial statements are available at BFSFCU.org.

REPORT OF INDEPENDENT AUDITORS

SUPERVISORY COMMITTEE | BANK-FUND STAFF FEDERAL CREDIT UNION | WASHINGTON, DC

We have audited the accompanying statements of financial condition of Bank-Fund Staff Federal Credit Union (a federally chartered credit union) as of December 31, 2008 and December 31, 2007 and the related statements of income, comprehensive income, members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bank-Fund Staff Federal Credit Union as of December 31, 2008 and December 31, 2007, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 14 to the financial statements, during the fiscal year ending December 31, 2009 the Credit Union expects to incur a charge of approximately \$13,600,000 due to assessments and other actions taken by the National Credit Union Administration through the National Credit Union Insurance Fund in response to the economic strains on the corporate credit union system.

McGladrey & Pullen, LLP

Vienna, Virginia
March 30, 2009

FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL CONDITION

(In Thousands, US\$) At December 31

	2008	2007
ASSETS		
Cash	\$17,213	\$10,693
Federal Funds Sold and Short-Term Investments	457,293	329,881
Trading Account Securities, at Market Value	227,840	150,275
U.S. Government Securities, Held to Maturity (Market Value \$177,841 - 2008 and \$222,592 - 2007)	176,698	222,640
Loans to Members, Net of Allowance for Loan Losses and Net Deferred Costs	1,640,406	1,617,378
Loans Held for Sale	4,109	3,566
Accrued Interest Receivable	7,966	8,387
Other Assets	44,620	34,324
Total Assets	\$2,576,145	\$2,377,144
LIABILITIES AND MEMBERS' EQUITY		
Members' Deposit Accounts	\$2,190,337	\$1,991,927
Dividends Payable	16,020	17,229
Accrued Expenses and Other Liabilities	18,848	20,652
Total Liabilities	\$2,225,205	\$2,029,808
Regular Reserve	27,151	27,151
Undivided Earnings	326,651	321,971
Accumulated Other Comprehensive Income	(2,862)	(1,786)
Total Members' Equity	350,940	347,336
Total Liabilities and Members' Equity	\$2,576,145	\$2,377,144

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

STATEMENTS OF INCOME

(In Thousands, US\$) Years ended December 31

	2008	2007
INTEREST INCOME		
Interest and Fees on Loans	\$93,759	\$93,250
Total Return from Trading Account	5,345	9,709
Interest from Other Investments	12,854	21,057
Total Interest Income	111,958	124,016
Dividend Expense	58,514	67,603
Net Interest Income	53,444	56,413
Provision for Loan Losses	3,425	570
Net Interest Income after Provision for Loan Losses	50,019	55,843
NON-INTEREST INCOME		
Foreign Exchange Commissions	699	638
Loan Servicing Fees	787	840
Gain on Sale of Mortgage Loans	826	817
Other Non-interest Income	3,916	2,987
Total Non-interest Income	6,228	5,282
OPERATING EXPENSES		
Salaries and Employee Benefits	23,850	22,319
Office Operating Expenses	16,591	14,763
Office Occupancy Expenses	9,134	6,574
Trading Account Management Fees	360	313
Professional and Outside Services	1,632	1,314
Total Operating Expenses	51,567	45,283
Net Income	\$4,680	\$15,842

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

STATEMENTS OF RESERVE AND UNDIVIDED EARNINGS

(In Thousands, US\$) Years Ended December 31, 2008 and 2007	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income	TOTAL
Balance at December 31, 2006	\$27,151	\$306,129	(\$2,967)	\$330,313
Net Income	—	15,842	—	15,842
Adjustment to Accrued Retiree Health Care Liability	—	—	1,181	1,181
Balance at December 31, 2007	27,151	321,971	(1,786)	347,336
Net Income	—	4,680	—	4,680
Adjustment to Accrued Retiree Health Care Liability	—	—	(1,076)	(1,076)
Balance at December 31, 2008	\$27,151	\$326,651	(\$2,862)	\$350,940

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

STATEMENTS OF CASH FLOWS

(In Thousands, US\$) Years ended December 31	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$4,680	\$15,842
Adjustments to Reconcile Net Income to Net Cash:		
Depreciation and Amortization	3,389	2,271
Provision for Loan Losses	3,425	570
Real Estate Loans Originated for Sale	(98,578)	(54,333)
Real Estate Loans Sold	98,035	55,987
Net Decrease (Increase) in Trading Account	(77,565)	(13,070)
Changes in Other Liabilities and Assets:		
Securities Purchased Not Yet Settled	(3,270)	3,270
Dividends Payable	(1,209)	2,971
Accrued Interest Receivable	421	(1,463)
Net Purchases of Other Real Estate	(761)	(875)
Other, Net	(2,759)	1,446
Net Cash from Operations	(74,192)	12,616
CASH FLOWS FROM INVESTING		
Net Loan Principal Increase	(26,285)	(49,385)
Net Decrease in Federal Funds Sold and Short-term Investments	(127,412)	61,903
Net Increase of U.S. Government Securities, Held-to-Maturity	45,942	(196,682)
Net Purchases of Furniture and Equipment	(9,943)	(5,519)
Net Cash Used in Investing	(117,698)	(189,683)
CASH FLOWS FROM FINANCING		
Net Increase in Members' Deposits	198,410	181,862
Net Increase in Cash	6,520	4,795
Cash at Beginning of Year	10,693	5,898
Cash at End of Year	\$17,213	\$10,693

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Bank-Fund Staff Federal Credit Union (Credit Union) offers personal financial services worldwide to the staffs, retirees, and families of The World Bank Group, the International Monetary Fund (IMF), and their related organizations. The Credit Union is located in Washington, DC, where The World Bank Group and IMF are headquartered. The Credit Union accepts members' deposits, originates and services consumer and mortgage loans, and provides other member services. The Credit Union maintains its accounting records on an accrual basis and in accordance with generally accepted accounting principles. Pursuant to the Federal Credit Union Act, the Credit Union is exempt from payment of Federal and state income taxes. The significant accounting policies are:

LOANS TO MEMBERS—Loans to members are stated at the amount of unpaid principal, net of deferred costs and reductions for an allowance for loan losses. Interest on loans is accrued based on the amount of principal outstanding. It is the policy of the Credit Union to discontinue the accrual of interest on non-

performing loans when circumstances indicate that collection of interest is doubtful;

LOANS SOLD TO SECONDARY MARKETS—The Credit Union will, from time to time, originate fixed-rate, first-trust real estate loans intended for non-recourse sale in the secondary market. There is no significant difference between the cost and market value of these loans. Commitments for such sales are obtained from secondary market investors to offset the interest rate commitment made to the member;

ALLOWANCE FOR LOAN LOSSES—Through provisions charged directly to earnings, the Credit Union has established an allowance for loan losses. This allowance is reduced by actual loan losses and increased by subsequent recoveries, if any. Loans are classified as delinquent if the full monthly contract payment amount has not been received by its due date.

The allowance for loan losses is maintained at a level believed adequate by management to absorb losses inherent in the loan portfolio. Management's determination of the adequacy of the allowance is based on an evaluation of the portfolio, historical loan loss experience, current economic conditions, collateral values

of properties securing loans, quality and composition of the loan portfolio and other relevant factors. Unfavorable changes in any of these, or other factors, or the availability of new information, could require that the allowance for loan losses be increased in future periods. No portion of the resulting allowance is restricted to any individual loan or group of loans. The entire allowance is available to absorb losses from any and all loans;

TRADING ACCOUNT SECURITIES—The trading account securities are invested in U.S. Government obligations, funds collateralized by U.S. Government obligations, Federal agency securities, and U.S. municipal securities. This account is carried at market value. Gains and losses on such securities, which are calculated on the specific identification method, are included in Total Return from Trading Account Securities;

SECURITIES HELD-TO-MATURITY—Management determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. Debt securities are classified as held-to-maturity when the Credit Union has the positive intent and ability to hold

the securities to maturity. Held-to-maturity securities are stated at amortized cost;

MORTGAGE SERVICING RIGHTS—The Credit Union recognizes originated mortgage servicing rights (MSRs) as assets at the date of transfer by allocating the previous carrying amount between the loan and the servicing rights based on their relative fair values. The fair value of MSRs is based on the current market price for similar products. Significant assumptions used to estimate fair value include future prepayment rates based on current interest-rate levels, other economic conditions and market forecasts, as well as relevant characteristics of the servicing portfolio, such as loan types, interest-rate stratification, delinquencies and recent prepayment experience. Mortgage servicing rights are amortized based on a method which approximates the ratio of net servicing income received in the current period to total net servicing income projected to be realized from the MSRs. MSRs are evaluated for impairment based on the excess of the carrying amount of the MSRs over their fair value. For purposes of measuring impairment, MSRs are stratified on the basis of loan type (fixed and adjustable rate) and term (15 and 30 years);

REGULAR RESERVE—The Regular Reserve is required by and maintained in accordance with the Federal Credit Union Act and is not available for payment of dividends;

CASH—Cash includes vault cash and demand balances from other financial institutions. The carrying amount reported approximates fair value;

OTHER REAL ESTATE OWNED—Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. These assets are contained within the “Other Assets” section of the Statement of Financial Condition.

MEMBERS’ SHARES—Members’ shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. Irrespective of the amount of shares owned, no member has more than one vote.

Members’ shares are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members’ shares are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates are set by the Credit Union’s Board of Directors.

TRANSFERS OF FINANCIAL ASSETS—Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Credit Union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Current estimates may differ from the final results.

RECENTLY ISSUED ACCOUNTING STANDARDS—

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 157 (“SFAS 157”), Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. SFAS 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS 157, fair value measurements are disclosed by level within that hierarchy. SFAS 157 is effective for fiscal years beginning after November 15, 2007, except for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis for which delayed application is

permitted until fiscal years beginning after November 15, 2008. The Credit Union adopted SFAS 157 effective January 1, 2008 and the adoption did not have a material impact on the financial statement or results of operations of the Credit Union but did require the Credit Union to include additional disclosures in the footnotes to the financial statements.

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

NCUSIF INSURANCE PREMIUM—The Credit Union is required to pay an annual insurance premium equal to one-twelfth of one percent of total insured shares, unless the payment is waived or reduced by the NCUA Board. The NCUA Board waived the 2008 and 2007 insurance premiums; however additional premiums will be paid in 2009. See Note 14 for further information.

NOTE 2 | LOANS TO MEMBERS

The loan portfolio as of December 31 consisted of the following:

(In Thousands, US\$)	2008	2007
CONSUMER		
Variable:		
Secured	\$5,486	\$5,447
Unsecured	42,707	41,928
	48,193	47,375
Fixed:		
Secured	46,337	53,513
Unsecured	81,059	70,618
	127,396	124,131
Total	175,589	171,506
REAL ESTATE		
Adjustable	916,828	898,611
Fixed	552,699	550,370
	1,469,527	1,448,981
Gross Loans	1,645,116	1,620,487
Less: Allowance for Loan Losses	(4,710)	(3,109)
Net Loans	\$1,640,406	\$1,617,378

Changes in the Allowance for Loan Losses for the years ended December 31 were as follows:

	2008	2007
Balance at Beginning of Year	\$3,109	\$3,709
Provision Charged to Expense	3,425	570
Loan Charge-offs	(1,868)	(1,256)
Loan Recoveries	44	86
Balance at End of Year	\$4,710	\$3,109

The Credit Union is party to financial instruments with off-balance-sheet risk extended in the normal course of business to meet the financing needs of its members. These financial instruments consist of commitments to extend loans against approved lines of credit as long as there is no violation of any significant condition established in the contract. Commitments are made on both an open-ended and closed-ended basis. The open-ended loans are generally self-replenishing as long as payments are made. The closed-ended loans have fixed terms and are collateralized by real estate.

All variable-rate consumer loans are subject to being repriced within one year. The majority of all adjustable-rate real estate loans are subject to being repriced within three years. The majority of the real estate loans are collateralized by residential property located in the Washington, DC metropolitan area.

The aggregate amount of loans on which the accrual of interest has been discontinued was \$4,706,000 as of December 31, 2008. Interest on non-accrual loans is immaterial to the financial statements.

Origination fee income received on loans and amounts representing the estimated direct costs of origination are deferred and recognized in income over the term of the loan as an adjustment of yield.

NOTE 3 | CASH ACCOUNTS

The Credit Union is required by Federal regulation to maintain an account with the Federal Reserve Bank. Balances maintained with the Federal Reserve Bank totaled \$4,398,076 and \$829,030 as of December 31, 2008 and 2007, respectively.

NOTE 4 | INVESTMENT SECURITIES

Total return from the trading account securities consisted of the following:

(In Thousands, US\$)	2008	2007
Interest	\$3,644	\$6,160
Gain on trading account securities	7,486	4,176
Loss on trading account securities	(5,785)	(627)
	<u>\$5,345</u>	<u>\$9,709</u>

The U.S. Government Securities, Held-to-Maturity portfolio consists of Treasury Inflation Protected Securities (TIPS) and U.S. Treasury Notes. The TIPS will mature on January 15, 2009. These securities are carried at amortized cost and had a market value of \$26,238,000 and \$26,243,000 as of December 31, 2008 and 2007, respectively. As of these dates, these securities had a gross unrealized market loss of \$209,000 and a gain of \$52,000, respectively. The U.S. Treasury notes will mature on March 31, 2009, June 30, 2009, and September 30, 2009. These securities are carried at amortized cost and had a market value of \$151,603,000 and \$196,349,000 as of December 31, 2008 and 2007, respectively. As of these dates, these securities had a gross unrealized market gain of \$1,352,000 and a loss of \$100,000, respectively.

At December 31, 2008 and 2007, no securities were pledged as collateral.

NOTE 5 | OTHER ASSETS

The National Credit Union Administration (NCUA) requires each Federally insured credit union to place on deposit with the National Credit Union Share Insurance Fund (NCUSIF) an amount equal to 1% of the total insured deposits. As a result of this investment, which is included in Other Assets, the annual premium for deposit insurance was waived by the NCUA. The Credit Union is a member of the NCUA Central Liquidity Facility (Facility), which was formed to assist member credit unions in meeting their short-term liquidity needs. Membership is obtained through investment in shares of the Facility as determined by a statutory formula. As of December 31, 2008, the Credit Union had not borrowed from this Facility.

The composition of Other Assets as of December 31 was as follows:

(In Thousands, US\$)	2008	2007
NCUSIF Deposit	\$12,835	\$12,015
Facility Shares	5,532	5,157
Furniture and Equipment, Net of Accumulated Depreciation	15,440	8,885
Other Real Estate Owned	1,636	875
Other	9,177	7,392
	<u>\$44,620</u>	<u>\$34,324</u>
Depreciation and Amortization Expense	\$3,389	\$2,271

NOTE 6 | MEMBERS' DEPOSIT ACCOUNTS

The composition of Members' Deposit Accounts as of December 31 was as follows:

(In Thousands, US\$)	Weighted Average Rate at December 31, 2008	2008	2007
Checking	0.03%	\$383,994	\$357,631
Money Management	0.91%	935,946	785,570
Quarterly	0.25%	182,779	177,303
Share Certificate (91-day)	1.49%	11,198	6,458
Share Certificate (6-month)	1.90%	28,618	27,719
Jumbo Share Certificate (7 days to 18 months)	2.54%	342,403	387,314
Share Certificate (4 to 72 months)	4.00%	289,383	238,306
IRA	3.51%	16,016	11,626
		\$2,190,337	\$1,991,927

At June 30, 2008, the National Credit Union Share Insurance Fund (NCUSIF) insured members' shares up to \$100,000, and certain individual retirement and Keogh accounts up to \$250,000. On October 3, 2008, the "Emergency Economic Stabilization Act of 2008" was signed into law, which temporarily increased federal deposit insurance coverage. The increased insurance coverage became effective on October 3, 2008, and will remain in place through December 31, 2009. The new law provides an increase in the minimum NCUSIF coverage from \$100,000 to \$250,000 on member share accounts. This includes all account types, such as regular share, share draft, money market, and certificates of deposit. Individual Retirement Account and Keogh account coverage remains unchanged at up to \$250,00 separate from other types of accounts owned.

The aggregate amounts of members' term share accounts over \$250,000 were \$160,340,000 at December 31, 2008.

In December 2008 and 2007, the Board of Directors declared a supplemental dividend of \$15,000,000 and \$15,000,000 respectively, which is payable in January 2009 and 2008. This amount is included in Dividends Payable in the Statement of Financial Condition.

NOTE 7 | EMPLOYEE BENEFIT PLANS

The Credit Union's defined contribution employee benefit pension plan covers all full-time employees with one or more years of service and is fully funded on a current basis. Employer contribution amounts are based on a percentage of an employee's salary depending upon the employee's number of years of employment. Participants may contribute, at their option, an amount not to exceed \$20,500. Participants vest in employer contributions based on their total years of vesting service and are fully vested after five years. Participants are at all times fully vested in their own contributions. Pension expense was \$1,602,521 in 2008 and \$1,456,118 in 2007.

The Credit Union has a defined-benefit health care plan that provides postretirement medical benefits to full-time staff that have a combination of age and years of service of at least 75 with a minimum of 15 years of service with the Credit Union. The plan is contributory, with retiree contributions subject to adjustment annually, and it contains other cost-sharing features such as deductibles and coinsurance.

ADOPTION OF FASB STATEMENT NO. 158—

The Credit Union adopted the recognition and disclosure provisions of SFAS 158 on

December 31, 2006. SFAS 158 required the Credit Union to recognize the funding status of its defined benefit health care plan in the December 31, 2006 statement of financial condition, with a corresponding adjustment to accumulated other comprehensive income. The adjustment to accumulated other comprehensive income at adoption represents the net unrecognized actuarial losses and unrecognized prior services costs remaining from the initial adoption of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (SFAS 106), all of which were previously netted against that plan's funded status in the Credit Union's statement of financial condition pursuant to the provisions of SFAS 106. These amounts will be subsequently recognized as net periodic health care plan cost pursuant to the Credit Union's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic health care plan cost in the same periods will be recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic health care plan cost on the same basis as the amounts recognized in accumulated other comprehensive income at adoption of SFAS 158.

(In Thousands, US\$) At December 31	2008	2007
Accounts Recognized on Balance Sheet as:		
Noncurrent assets	\$—	\$—
Current Liabilities	(25)	(27)
Noncurrent Liabilities	(6,122)	(4,172)
	<u>(\$6,147)</u>	<u>(\$4,199)</u>

Amounts Recognized in Accumulated Other Comprehensive Income Consist of:		
Net loss (gain)	\$1,271	\$41
Prior Service Cost	1,591	1,745
	<u>\$2,862</u>	<u>\$1,786</u>

RECONCILIATION OF FUNDED STATUS AND ACCUMULATED BENEFIT OBLIGATION—The reconciliation of the beginning and ending balances of the projected benefit obligation and the fair value of the plans assets for the year ended December 31, 2008 and the accumulated benefit obligation at December 31, 2008 are as follows:

(In Thousands, US\$)	December 31, 2008
FUNDED STATUS	
Projected Benefit Obligation	
Beginning of Year—January 1, 2008	(\$4,199)
Change	(1,948)
End of Year—December 31, 2008	<u>(6,147)</u>
Fair Value of Plan Assets	
Beginning of Year—January 1, 2008	—
Change	—
End of Year—December 31, 2008	—
Funded Status—December 31, 2008	<u>(6,147)</u>
Accumulated Benefit Obligation—	
December 31, 2008	<u>(6,147)</u>
Balance at December 31, 2008	<u>\$6,147</u>

The underfunded status of the plan of \$6,147,000 at December 31, 2008 is recognized in the accompanying statement of financial position as retiree health-care liabilities included in accrued expenses and other liabilities.

The benefit obligation and plan asset activity, as well as the components of the periodic benefit cost, are summarized as follows:

(In Thousands, US\$)

CHANGE IN BENEFIT OBLIGATION:	2008	2007
Balance at Beginning of Year	\$4,199	\$4,458
Service cost	455	480
Interest cost	262	256
Contributions by plan participants	6	7
Plan amendments	—	—
Actuarial loss (gain)	1,231	(992)
Benefit payments	(6)	(10)
Balance at End of Year	\$6,147	\$4,199
Unfunded status at December 31	(\$6,147)	(\$4,199)
Unrecognized prior service cost	—	—
Unrecognized loss	—	—
ACCRUED POSTRETIREMENT BENEFIT COSTS	(\$6,147)	(\$4,199)

YEAR ENDED DECEMBER 31

Service cost	\$455	\$480
Interest cost	262	256
Amortization of prior service cost	155	155
Amortization of Net (Gain) Loss	—	30
Net periodic benefit cost	\$872	\$921

The discount rate used in determining the accumulated postretirement benefit obligations was 5.75%. The average assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost-trend rate) is 9.00% for 2008 and the ultimate cost-trend by 2017 and later years is estimated to be 5.00%. The following table represents the effect of a one-percent change in the assumed health care cost-trend rate:

(In Thousands, US\$)	2008	2007
ONE-PERCENT INCREASE		
Effect on benefit obligation	\$1,854	\$1,226
Effect on service and interest cost components	\$350	\$264
ONE-PERCENT DECREASE		
Effect on benefit obligation	(\$1,368)	(\$908)
Effect on service and interest cost components	(\$250)	(\$188)

NOTE 8 | RELATED-PARTY TRANSACTIONS

Loans to Credit Union employees are made at preferred interest rates, but with all other terms and collateral requirements comparable to those required of other members. The aggregate amount of these loans, as reflected in the Statements of Financial Condition, was approximately \$34,863,000 and \$19,372,000 as of December 31, 2008 and 2007, respectively.

Loans to Directors and Committee Members, as reflected in the Statements of Financial Condition, made on the same terms and conditions as loans made to other members, amounted to \$3,195,000 and \$3,664,000 as of December 31, 2008 and 2007, respectively.

The World Bank and the IMF charged the Credit Union \$1,278,505 and \$1,206,323 for office space in 2008 and 2007, respectively.

NOTE 9 | COMMITMENTS

As of December 31, 2008, the Credit Union had commitments outstanding to sell real-estate mortgage loans totaling \$4,109,000.

The Credit Union offers interest-bearing checking accounts, credit cards and home equity loans to its members. In conjunction with those services, the Credit Union has approved lines of credit, generally at variable interest rates, to members totaling \$813,581,000 and \$749,921,000 as of December 31, 2008 and 2007, respectively. As of those respective dates, \$264,281,000 and \$227,621,000 were outstanding under these lines of credit. The Credit Union does not expect the full amount of the commitments for lines of credit to be drawn upon.

As of December 31, 2008, the Credit Union was obligated under non-cancelable operating leases for office space. Certain leases contain escalation clauses providing for increased rentals based primarily on increases in operating expenses and the consumer price index. Rent expense under operating leases included in office occupancy expense was \$5,678,973 and \$4,243,905 for the years ended December 31, 2008 and 2007, respectively.

The required minimum rental payments under the terms of the leases at December 31, 2008 were as follows:

(In Thousands, US\$)	YEARS ENDING DECEMBER 31	AMOUNT
	2009	\$4,948
	2010	5,065
	2011	5,015
	2012	5,015
	2013	4,995
	Thereafter	10,734
		\$35,807

NOTE 10 | MORTGAGE SERVICING PORTFOLIO

Mortgage loans serviced for others are not included in the accompanying Statements of Financial Condition. As of December 31, the unpaid principal balances of these loans consisted of the following:

(In Thousands, US\$)	2008	2007
Mortgage Loan Portfolios Serviced for:		
Fannie Mae	\$487,548	\$444,345
Charlie MAC	63,719	71,379
Residential Funding Corporation	33,712	38,087
	\$584,979	\$553,811

NOTE 11 | MORTGAGE SERVICING RIGHTS

The components of capitalized mortgage servicing rights as of December 31 were as follows:

(In Thousands, US\$)	2008	2007
MORTGAGE SERVICING RIGHTS		
Balance, Beginning of Year	\$3,512	\$3,320
Additions	1,038	772
Amortization	(721)	(580)
Balance, End of Year	<u>\$3,829</u>	<u>\$3,512</u>
RESERVE FOR IMPAIRMENT OF MORTGAGE SERVICING RIGHTS		
Balance, Beginning of Year	(\$9)	\$—
Reductions	(381)	(9)
Balance, End of Year	<u>(390)</u>	<u>(9)</u>
Net Book Value	<u>\$3,439</u>	<u>\$3,503</u>

The estimated fair value of the Credit Union's mortgage servicing rights was \$4,391,000 and \$5,957,000, as of December 31, 2008 and 2007, respectively. Fair value is determined by discounting estimated net future cash flows from mortgage servicing activities using discount rates that approximate current market rates and estimated prepayment rates.

NOTE 12 | FAIR VALUE OF FINANCIAL INSTRUMENTS

Effective January 1, 2008, the Credit Union adopted SFAS No. 157 ("SFAS 157"), Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies only to fair value measurements already required or permitted by other accounting standards and does not impose requirements for additional fair value measures. SFAS 157 was issued to increase consistency and comparability in reporting fair values. In February 2008, the Financial Accounting Standards Board issued Staff Position No. FAS 157-2 ("FSP 157-2"), which delays the effective date of SFAS 157 for certain nonfinancial assets (such as other real estate owned and other foreclosed assets) and nonfinancial liabilities to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The purpose of the delay is to allow additional time to consider the effect of various implementation issues that have arisen, or that may arise, from the application of SFAS 157. The Credit Union has elected to apply the deferral provisions in FSP 157-2 and therefore

has only partially applied the provisions of SFAS 157. The Credit Union's adoption of SFAS 157 did not have a material impact on the Credit Union's financial condition or results of operations but did require the Credit Union to include additional disclosures in the footnotes to the financial statements as further described below.

As defined in SFAS 157, 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 determining fair value, the Credit Union uses various methods including market, income and cost approaches. Based on these approaches, the Credit Union often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Credit Union utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Credit Union is

required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

LEVEL 1—Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

LEVEL 2—Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

LEVEL 3—Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The Credit Union uses fair value accounting to report Trading Account Securities in the statements of financial condition. Additional fair value disclosures are required by SFAS 107, as amended by SFAS 157, and are included in the notes to the financial statements. The following is a description of the valuation methodologies used for instruments measured and/or disclosed at fair value:

INVESTMENT SECURITIES—The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is

based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

OTHER INVESTMENTS, INCLUDING FEDERAL FUNDS SOLD—The fair value of other investments is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based, as appropriate, upon externally developed models that use unobservable inputs due to the limited market activity of the instrument or estimated cash flows adjusted for credit risk which are discounted using an interest rate appropriate for the maturity of the applicable investment.

LOANS TO MEMBERS, INCLUDING LOANS HELD FOR SALE—When quoted market prices are not available, the fair value of loans receivable is generally based upon observable market prices of similar

instruments, including bonds, credit derivatives and loans with similar characteristics. If observable market prices are not available, fair value is based upon estimated cash flows adjusted for credit risk which are discounted using an interest rate appropriate for the maturity of the applicable loans or the unfunded commitments.

The inputs for the determination of the fair value of loans are generally classified within Level 2 of the valuation hierarchy.

DERIVATIVE INSTRUMENTS (INTEREST RATE LOCK COMMITMENTS OR OTHER HEDGING INSTRUMENTS)—The fair value of the derivative instruments is provided by valuation experts. Certain derivatives with limited market activity are valued using externally developed models that consider unobservable market parameters. These instruments are generally classified within Level 2 or Level 3 of the valuation hierarchy.

MORTGAGE SERVICING RIGHTS—

Mortgage servicing rights (MSRs) do not trade in an active, open market with readily observable prices. While sales of MSRs do occur, the precise terms and conditions typically are not readily available. Accordingly, the Credit Union estimates the fair value of MSRs and certain other retained interests in securitizations using discounted cash flow models incorporating numerous assumptions from the perspective of market participants including servicing income, servicing costs, market discount rates, prepayment speeds, and default rates. Due to the nature of the valuation inputs, MSRs are classified within Level 3 of the valuation hierarchy.

MEMBERS' SHARES—The fair value of shares payable upon demand (regular shares, share draft and money market accounts) is the amount payable at the date of the statement of condition. The fair value of fixed maturity accounts (share certificates and IRA share accounts) is estimated

by discounting the estimated cash flows using interest rates for comparable instruments and terms and are classified within Level 2 or Level 3.

In determining the appropriate application of the levels of the valuation hierarchy, the Credit Union performs a detailed analysis of the assets and liabilities that are subject to SFAS 157. At each reporting period, all assets and liabilities for which the fair value is based on significant unobservable inputs are classified as Level 3.

FAIR VALUE ON A RECURRING BASIS

The table below presents the balances of assets measured and presented in the statements of condition at fair value on a recurring basis:

(In Thousands, US \$)	DECEMBER 31, 2008			
	TOTAL	LEVEL1	LEVEL2	LEVEL3
Trading securities	\$227,840	\$137,181	\$90,659	\$—
Federal Funds Sold & Short Term Investments	\$457,293	\$336,957	\$120,336	\$—

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value represents management's best estimates based on a range of methodologies and assumptions. The carrying value of short-term financial instruments (such as cash and cash equivalents) as well as receivables and payables arising in the ordinary course of business (such as accrued interest) approximates fair value because of the relatively short period of time between the origination and expected realization. The fair value of the Credit Union's off balance sheet commitments are estimated using fees charged to others to enter into similar agreements taking into account the remaining terms of the agreements and credit standing of the members. The estimated fair value of these commitments is not significant. The Credit Union's policies for the determination of fair value of all other financial instruments are described in the preceding paragraphs.

The table below presents the carrying value and fair value of Credit Union's financial instruments. The disclosure excludes leases, affiliate investments, and pension and benefit obligations.

(In Thousands, US \$)	2008		2007	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
FINANCIAL ASSETS				
Cash	\$17,213	\$17,213	\$10,693	\$10,693
Trading Account securities	227,840	227,840	150,275	150,275
Short-Term Investments & Federal Funds Sold	457,293	457,293	329,881	329,881
Held to maturity securities	176,698	177,841	222,640	222,592
Loans to members	1,640,406	1,629,643	1,617,378	1,605,001
Mortgage servicing rights	3,439	4,391	3,503	5,957
Other financial assets (including accrued interest receivable)	27,346	27,346	26,947	26,947
FINANCIAL LIABILITIES				
Members' shares	\$2,190,337	\$2,194,195	\$1,991,927	\$1,972,941
Accrued dividends payable	16,020	16,020	17,229	17,299

The Credit Union had certain forward delivery contracts, which were designated as fair value hedges of loans held for sale. The net unrealized loss in value of these contracts was approximately \$90,274 at December 31, 2008, and the net unrealized loss was \$18,456 at December 31, 2007.

At December 31, 2008 and 2007, the Credit Union had commitments to make fixed-rate mortgages (Interest Rate Locks or IRLs) with notional amounts of approximately \$24,681,967 and \$3,270,500, respectively. Additionally, the Credit Union had similar amounts in forward delivery contracts related to the IRLs. The net unrealized gain related to these forward delivery contracts was approximately \$73,275 at December 31, 2008 and the net unrealized gain was \$15,538 at December 31, 2007, which approximated the net unrealized gain or loss in the value of the IRLs.

NOTE 13 | REGULATORY CAPITAL REQUIREMENTS

The NCUA has established minimum net worth levels for all federally-insured credit unions and because the Credit Union’s ratio of Reserve and Undivided Earnings to Total Assets exceeds NCUA’s standard, it is considered “Well Capitalized” by the NCUA.

(In Thousands, US\$)	2008		2007	
	Amount of Total Equity	Minimum Capital/Asset Ratio Requirement	Amount of Total Equity	Minimum Capital/Asset Ratio Requirement
Amount Needed to be Classified as “Adequately Capitalized”	\$154,569	6.00%	\$142,629	6.00%
Amount Needed to be Classified as “Well Capitalized”	\$180,260	7.00%	\$166,400	7.00%
Actual Net Worth	\$350,940	13.62%	\$347,336	14.61%

Because the risk based net worth requirement is less than the actual net worth ratio, the Credit Union retains its original category of “Well Capitalized”. Further, in performing its calculation of total assets, the Credit Union used the quarter-end balance option as of December 31, 2008 and 2007 respectively, as permitted by regulation.

The Credit Union is not classified as “complex” by the NCUA. The Credit Union’s actual risk-based net worth requirements as of December 31 were as follows.

(In Thousands, US\$)	2008	2007
Required Risk-Based Ratio	5.01%	5.19%
Required Risk-Based Capital	\$129,065	\$123,374

NOTE 14 | SUBSEQUENT EVENT

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

In March 2009, the NCUA announced that both U.S. Central and WesCorp were taken into

conservatorship and the original loss reserve estimate had increased by \$1.2 billion since the January 2009 estimate was made. Based on this adjustment of the loss reserve estimate, the impairment of the NCUSIF deposit was revised to .69% of the insured deposits as of December 31, 2008. The additional assessment of .3% of insured deposits as of December 31, 2008 remained unchanged.

On March 27, 2009, the NCUA introduced an amendment to the Federal Credit Union Act to Congress that, if enacted, could substantially impact the amount of impairment currently estimated. The proposed legislation would create the Corporate Credit Union Stabilization Fund to absorb losses associated with the corporate credit union stabilization actions and assess federally insured credit unions for associated costs over as much as a 7-year period.

Without the benefit of the current proposed legislation, the credit union could record a charge of approximately \$13,600,000 in its financial statement for the year ending December 31, 2009. As of the date of this report, the impact of the legislation on the financial statements cannot yet be estimated.