



2009 Annual Report *Celebrating Fifty Years*





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Celebrating Fifty Years

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CHARTWAY[®]
 FEDERAL CREDIT UNION 
 For every dream, a way.



Chairman's Message

As America's credit unions marked 100 years of service to our nation in 2009, Chartway had the similar pleasure of celebrating our *50th anniversary!* These commemorations are far more than just a tribute to many flourishing years; they exemplify our loyalty, trustworthiness and stability.

Although 2009 has been one of the more arduous for all of us, it was also a year of opportunity for your credit union. Chartway rose above each challenge with consistency, nimbleness and unmatched leadership. We emerged a solid, robust financial institution no matter the operational, financial or legislative hurdle.

For example, this past year, the National Credit Union Administration was forced to stabilize the corporate credit union structure to ensure the system maintained its enduring strength. While this did not directly impact individual members of "natural person" or "retail" credit unions like Chartway, all credit unions faced a special assessment to replenish the 28 corporate credit unions serving the industry. Because of our capital cushion, we were able to adeptly respond to this premium assessment, and I can assure you that Chartway's Board of Directors and Management Team will work hard to preserve our position.

Moreover, in 2009, we served as legislative leaders for our industry—providing insight, feedback and recommendations for proposed federal regulations. Chartway's Vice President of Operations even testified before the House Judiciary Committee on The Credit Card Fair Fee Act. Because we are committed to protecting your best interests *from the teller line to Capitol Hill*, we will continue to serve as an advocate on your behalf.

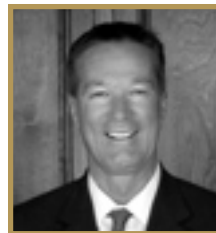
I am also proud to announce that for the second year in a row, Chartway's charitable arm, the We Promise Foundation, received 1st Place National Honors in the Dora Maxwell Social Responsibility Recognition Award Program. While we celebrate this notable accomplishment, it goes without saying that the best reward of all is the difference we've been able to make in the lives of children fighting for their futures. We were grateful to accept this award in their honor, and look forward to making *many more dreams come true!*

Altogether, in the aftermath of Wall Street's volatility, the struggling housing market and soaring unemployment, concepts like "safe" and "sound" are in short supply. But rest assured that we remain well-resourced to meet any challenges we may face in the future. Our message throughout this crisis has remained consistent: We're safe. We're sound. We're here to help. We have money to lend, and we're willing to lend it. For more than 50 years, we've strived to make 'safety and soundness' qualities synonymous with Chartway Federal Credit Union and we will keep working to do so for another 50 plus. Simply stated, our member-owners will always have solid financial ground on which to weather any storm.

On behalf of Chartway's Board, I want to thank you for the trust and support you have bestowed upon us for the past 50 years. I am especially grateful for the five years I've been able to lead the organization as your Chairman; I feel truly blessed to have had the opportunity to work closely with an exceptionally-talented and professional team of volunteers and staff.

Thank you for permitting *all of us* to serve you.

E. L. Gull, Jr.
Chairman, Board of Directors



President's Message

I'll never forget the morning I first walked through the front doors of Chartway Federal Credit Union. The date was November 12, 1984, and the winds were whipping. As I hurried inside, holding tight to my hat so the gusts wouldn't send it spinning down the street, I remember thinking *I should have been nervous*. After all, I had just moved from Massachusetts and was about to become the credit union's first Chief Financial Officer.

Maybe it was those sharp winds that numbed my nerves, or, maybe it was the fact that as I entered the building, *I felt right at home*. The people were friendly, the work was rewarding and the mission—well—*it inspired me*. "To bring people together to enhance their quality of life" sounded like the ideal guiding compass. *I was intrigued* and couldn't wait to get started.

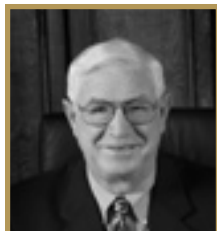
Never forgetting the prescient vision of our founders or the excitement I felt as I dreamt of enriching our members' lives, I have had the true honor and privilege of serving our organization for over 25 years. Throughout this time, there have certainly been changes. Many changes, in fact. Name changes. Building changes. Operational changes. Technological changes. It's hard to believe, but during my first year, we became the first financial institution to offer access to financial accounts using a touch-tone telephone. At the time, we thought that was *truly something!* Since then, we've introduced online banking, online mortgages and virtual teller kiosks. *We've certainly come a long way!*

Yet, through times of expansion and transformation, one thing has never changed . . . *our unwavering devotion to fulfilling our mission* of enhancing the quality of life for our friends, neighbors and business partners. Whether needing help to purchase a car or a home, finance a college education or simply needing solid financial guidance—today, as we have since I first joined our Chartway family on that chilly November day—we have upheld our time-honored tradition of making a difference.

It was in this spirit that our founders served, and it is in this spirit that in 2009, Chartway was able to celebrate a true milestone – *our 50th year of being in business!* Amidst dismal headlines reporting on bonuses, bailouts and bank failures, Chartway was a beacon of hope. With a healthy capital position and exceptional liquidity, we were able to decrease our credit card rates in order to make borrowing more affordable, and to work one-on-one with members struggling to stay afloat during the tumultuous economic period. Coupled with our decision not to decrease member credit lines or to impose any balance-transfer or cash-advance fees, which are in excess of 5% at some financial institutions, it's no wonder our member satisfaction ratings exceeded 95%!

While like the rest of you, we'll be glad to see the economic tide turn, Chartway was able to protect and secure your financial future in 2009 because we stuck to the core business model that was established by our seven founders, James E. Johnson, Jr., Herbert S. Ross, Frank Sandstrom, Myron C. Kern, Albert L. Parker, Harry E. Turner and Edward F. Keeter, in 1959. In good times and in bad, we are simply "People Helping People"—*finding a way* to make every dream come true. It's what we did in 1959, what we did 25 years ago when I first stepped through Chartway's doors and what we'll be doing 50 years from now.

Ronald L. Burniske
President and CEO



Treasurer's Report

Chartway has a remarkable history of long-standing financial safety and soundness, achievement, service excellence and progressive development. Since we first began collecting deposits in a cigar box, we have determinedly pursued financial strength and steady growth in all facets of operations.

2009 was certainly no exception. Despite the pace of activity and market mayhem, we once again piloted fiscal wellbeing for our 155,000 members. As a result of this commitment, in our 50th year of service, we maintained high ratings for safety and soundness, and are pleased to report the following results:

Our assets, as of September 30, 2009, were \$1,310,034,564. This represents growth in assets of \$62,395,020, or 5.4%. Share deposits grew a total of \$64,754,503 for a growth of 6.3% during the year. Additionally, we made loans to members' in the amount of \$ 88,650,572.

In keeping with our long-standing tradition of serving as a trusted source for financial services, gross income for the 12-month period as reported by the independent accounting firm of McGladrey & Pullen, LLP, Certified Public Accountants, totaled \$69,271,192 and was distributed as follows: \$21,972,680 or 31.7% of gross income in dividends to our members; \$2,829,066 or 4.1% in reserves and retained earnings, \$5,917,022 or 8.6% in regulatory financial industry stabilization assessments and \$38,552,424 or 55.6% to offset credit union operating expenses in providing products and services to our members.

Reserves and undivided earnings are the backbone of financial stability and ensure our enduring success. As of September 30, 2009, the retained earnings of the credit union totaled \$101,476,940, representing a capital ratio of 7.75%.

Overall, our results are a testament to our rock-solid financial foundation. With an impressive history behind us, and with fiscal conservatism and solid underwriting practices in place, we are eminently prepared to meet whatever challenges this new decade may bring!

M. S. Mizelle

Treasurer, Board of Directors

Independent Auditor's Report

We have audited the accompanying consolidated statement of financial condition of Chartway Federal Credit Union (a federally chartered credit union) and Subsidiaries as of September 30, 2009, and the related consolidated statements of income, comprehensive income, members' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

The Credit Union has reported shares as members' equity in the accompanying consolidated statements of financial condition that, in our opinion, should be reported as liabilities in order to conform to accounting principles generally accepted in the United States of America. If these shares were properly reported, liabilities would increase and members' equity would decrease by \$1,098,240,691, as of September 30, 2009.

In our opinion, except for the effect of the accounting practice described in the preceding paragraph, the financial consolidated statements referred to above present fairly, in all material respects, the consolidated financial position of Chartway Federal Credit Union and Subsidiaries as of September 30, 2009, and the consolidated results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Burlington, Massachusetts

January 29, 2010

Supervisory Committee's Report

The Federal Credit Union Act requires the Supervisory Committee to evaluate the adequacy and effectiveness of the internal security controls put in place by Chartway Federal Credit Union management.

Our primary goal is to protect the interest of our members; therefore, we contracted an independent certified public auditing firm to examine the year-ending September 30, 2009. Following the examination and audit, we received an opinion letter confirming that Chartway's financial statements conform to generally accepted accounting principles.

The members of the Committee, Gary Royse, Eleanor Willhoite, Bobbie Ivan, Richard Ahlborn, Scott Sumpter, Sandy Lancaster, Gerald Hensley, Tiffany Harrison and Cindy Nyberg extend their appreciation to the credit union staff, management, Board of Directors and especially our members for their cooperation during the past year. Thanks to your support, we were able to perform our tasks more efficiently and effectively. We look forward to continued cooperative efforts in the future.

Gary E. Royse, Sr.

Supervisory Committee Chair

Consolidated Statement of Financial Condition

| Assets | 2009 |
|---|------------------|
| Cash and cash equivalents | \$ 93,011,583 |
| Investments | |
| Available-for-sale | 4,665,149 |
| Held-to-maturity | 331,682,592 |
| Other | 179,280,686 |
| Loans held for sale | 892,792 |
| Loans to members, net | 661,239,393 |
| Accrued interest receivable | 6,522,944 |
| Property and equipment | 7,759,461 |
| National Credit Union | |
| Share Insurance Fund deposit | 10,055,535 |
| Other assets | 14,924,429 |
| | \$ 1,310,034,564 |
| Liabilities and Members' Equity | |
| Liabilities | |
| Borrowed funds | \$ 100,000,000 |
| Accrued expenses and other liabilities | 10,280,360 |
| Total liabilities | 110,280,360 |
| Commitments and contingent liabilities | |
| Members' Equity | |
| Members' shares | 1,098,240,691 |
| Retained earnings, substantially restricted | 101,476,940 |
| Accumulated other comprehensive income | 36,573 |
| Total members' equity | 1,199,754,204 |
| | \$ 1,310,034,564 |

Consolidated Statement of Income

| Interest Income | 2009 |
|--|----------------|
| Interest on loans to members | \$ 42,676,909 |
| Interest on investments and cash equivalents | 11,158,185 |
| | \$ 53,835,094 |
| Interest Expense | |
| Dividends on members' shares | 21,972,680 |
| | 31,862,414 |
| Net Interest Income | 31,862,414 |
| Provision for Loan Losses | 8,140,000 |
| | 23,722,414 |
| Net Interest Income after Provision for Loan Losses | 23,722,414 |
| Non-Interest Income | |
| Net loss on sales of OREO | (69,394) |
| Service charges and other fees | 13,874,785 |
| Recapitalization gain on NCUSIF deposit | 4,285,714 |
| Impairment loss corporate credit union capital | (2,527,085) |
| Other non-interest expense | (127,922) |
| | 15,436,098 |
| | 39,158,512 |
| General and Administrative Expenses | |
| Salaries and benefits | 20,084,358 |
| Operations | 14,261,847 |
| NCUSIF deposit impairment and insurance premium | 5,917,022 |
| Occupancy | 4,206,219 |
| | 44,469,446 |
| Net Loss | (5,310,934) |
| Other Comprehensive Income | |
| Unrealized holding gains on investments classified as available-for-sale | 25,737 |
| Comprehensive Loss | \$ (5,285,197) |

Consolidated Statement of Cash Flow

| Operating Activities | 2009 |
|---|----------------|
| Net Loss | \$ (5,310,934) |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Accretion of securities, net | (860,618) |
| Provision for loan losses | 8,140,000 |
| Impairment loss on NCUSIF deposit | 4,285,714 |
| Recapitalization gain on NCUSIF deposit | (4,285,714) |
| Impairment loss on corporate credit union capital | 2,527,085 |
| Depreciation and amortization | 2,663,454 |
| Net change in: | |
| Loans held for sale | (338,566) |
| Accrued interest receivable | (796,847) |
| Other assets | (3,338,152) |
| Accrued expenses and other liabilities | 2,925,714 |
| Net cash provided by operating activities | 5,611,136 |
| Investing Activities | |
| Purchases of available-for-sale investments | (613,782) |
| Proceeds from sales of available-for-sale investments | 730,816 |
| Purchases of held-to-maturity investments | (308,600,000) |
| Proceeds from maturities of held-to-maturity investments | 188,941,176 |
| Net change in other investments | (132,078,280) |
| Net change in loans to members | (96,790,572) |
| Increase in the National Credit Union Share Insurance Fund deposit | (309,281) |
| Purchases of property and equipment | (1,606,677) |
| Net cash provided by investing activities | (350,326,600) |
| Financing Activities | |
| Proceeds from borrowed funds | 100,000,000 |
| Net decrease in members' shares | 64,754,503 |
| Net cash provided by financing activities | 164,754,503 |
| Decrease in cash and cash equivalents | (179,960,961) |
| Cash and cash equivalents at beginning of year | 272,972,544 |
| Cash and cash equivalents at end of year | \$ 93,011,583 |
| Supplemental cash flow information | |
| Dividends paid on members' shares and interest paid on borrowed funds | \$ 21,875,313 |

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Chartway Federal Credit Union is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act. Participation in the Credit Union is limited to those individuals who qualify for membership, of which a significant number reside or work in Virginia. The field of membership is defined in the Credit Union's Charter and Bylaws.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of Chartway Federal Credit Union (the Credit Union) and its wholly owned subsidiaries, CFS, Inc., and Newtown Associates, Inc. These subsidiaries are engaged in related financial service activities, including selling insurance, and investment products. All significant intercompany balances and transactions have been eliminated in consolidation.

Significant Accounting Policies: The Credit Union follows the accounting standards set by the Financial Accounting Standards Board (FASB). The FASB establishes generally accepted accounting principles (GAAP) that are followed to ensure consistent reporting of the financial condition, results of operations and cash flows of the Credit Union. References to GAAP in the FASB in these footnotes are to the *FASB Accounting Standards Codification*™ commonly referred to as the Codification or ASC. The FASB finalized the Codification effective for periods ended on or after September 15, 2009. As such, the Credit Union has adopted the Codification in these financial statements; the Codification does not change how the Credit Union accounts for its transactions nor does it change the nature of the associated disclosures. Prior FASB standards, such as FASB Statement No. 5, *Accounting for Contingencies*, are no longer being issued by the FASB. Because the FASB encourages the use of plain English to describe broad topical references, these financial statements will generally no longer include references to specific technical guidance.

Use of Estimates in the Preparation of Financial Statements: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses and the fair value of financial instruments.

Concentrations of Credit Risk: Most of the Credit Union's business activity is with its members who reside in or are employed in the state of Virginia. The Credit Union may be exposed to credit risk from a regional economic standpoint, since a significant concentration of its borrowers work or reside in Virginia. However, the loan portfolio is well-diversified and the Credit Union does not have any significant concentrations of credit risk except unsecured loans, which by their nature increase the risk of loss compared to those loans that are collateralized. The Credit Union's policy for repossessing collateral is that when all other collection efforts have been exhausted, the Credit Union enforces its first lien holder status and repossesses the collateral. The Credit Union has full and complete access to repossessed collateral. Repossessed collateral normally consists of vehicles and residential real estate.

In addition, the ongoing financial deterioration resulting from the general economic conditions of the Credit Union's market area have yielded loan losses for the Credit Union and those with whom it does business, including other financial institutions and corporate credit unions. Management continues to monitor the Credit Union's operations, including the loan and investment portfolios, for potential impairment and other accounting consequences.

Fair Value: The Codification included guidance issued in September 2006 that defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement. The Codification 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 the Codification, fair value measurements are disclosed by level within that hierarchy. The Credit Union adopted the Codification for the fiscal period beginning October 1, 2008, 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 the fiscal year beginning April 1, 2009.

The Codification defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The Codification requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

In that regard, the Codification establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would be used in pricing an asset or liability

A summary of the Credit Union's financial instruments, including methodologies and resulting values, is discussed in Note 13 to these financial statements.

Cash and Cash Equivalents: For the purpose of the statements of financial condition and the statements of cash flow, cash and cash equivalents includes cash on hand, amounts due from financial institutions, and highly liquid debt instruments classified as cash that were purchased with maturities of three months or less. Amounts due from financial institutions may, at times, exceed federally insured limits.

Investments: Debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of individual available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost,

(2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Credit Union to retain its investment in the issue for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Other investments are classified separately and are stated at cost.

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated market value. All sales are made without recourse. In 2009, the Credit Union held for sale the outstanding portfolio of mid-prime loans and first mortgages. Book value approximates market value.

Loans to Members, Net: The Credit Union grants mortgage, commercial and consumer loans to members. The ability of the members to honor their contracts is dependent upon the real estate and general economic conditions of the area.

Loans that the Credit Union has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, less an allowance for loan losses and net deferred origination fees and costs. Interest income on loans is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding.

The accrual of interest income on loans is discontinued at the time the loan is 90 days past due, unless the credit is well-secured and in the process of collection. Other personal loans are typically charged off no later than 180 days past due. Past-due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if the collection of principal and interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all of the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans, adjusted for estimated prepayments based on the Credit Union's historical prepayment experience.

Allowance for Loan Losses: The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is likely. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of the underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Credit Union's allowance for loan losses, and may require the Credit Union to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

The Credit Union's allowance for loan losses is that amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. Such evaluations consider

prior loss experience, the risk rating and the levels of nonperforming loans. Specific allowances for loan losses are established for impaired loans on an individual basis as required by the Codification. The specific allowances established for these loans are based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flow, the loan's estimated market value, or the estimated fair value of the underlying collateral. General allowances are established for loans that can be grouped into pools based on similar characteristics as required by the Codification. In this process, general allowance factors are based on an analysis of historical charge-off experience and expected losses given default derived from the Credit Union's internal risk rating process. These factors are developed and applied to the portfolio by loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment. These factors include the credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging data.

Other Real Estate Owned: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value 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. Revenue and expenses from operations and changes in the valuation allowance are included in operating expenses.

Property and Equipment, Net: Land is carried at cost. Land improvements, buildings, furniture and equipment, and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Land improvements, buildings and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases. Construction in progress is carried at cost and will be depreciated using the straight line method over the estimated useful lives of the assets once placed into service.

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.

National Credit Union Share Insurance Fund (NCUSIF) Deposit and Insurance Premium: The deposit in the 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 percent of its insured members' shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, if it converts its insurance coverage to another source or if management of the fund is transferred from the NCUA Board. The Credit Union is also required to pay an annual insurance premium equal to one-twelfth of 1 percent of total insured members' shares, unless the payment is waived or reduced by the NCUA Board. The NCUA Board waived the 2008 insurance premiums; however, the NCUA Board voted on January 28, 2009, to assess insurance premiums in response to the economic strains on the corporate credit union system.

In January 2009, U.S. Central 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

Notes to Consolidated Financial Statements

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 percent NCUSIF deposit and future assessments of additional premiums to return the NCUSIF to the normal operating level of 1.3 percent of insured deposits. The impairment of the deposit was estimated at 51 percent of the December 31, 2008, insured deposits with an additional premium assessment of 0.3 percent 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 0.69 percent of the insured deposits as of December 31, 2008. The additional premium assessment of 0.30 percent of insured deposits as of December 31, 2008, remained unchanged. The Credit Union recognized a charge of \$4,285,714 for the impairment of the NCUSIF deposit and a premium assessment of \$3,016,660 as of March 31, 2009.

On May 20, 2009, the Helping Families Save Their Home Act was passed into law. This legislation amended the Federal Credit Union Act. The legislation created a Temporary Corporate Credit Union Stabilization Fund that enables the NCUA Board to mitigate near term corporate stabilization costs by assessing premiums to credit unions over seven years. These actions resulted in an adjustment of \$4,285,714 to fully restore the refundable NCUSIF capitalization deposit. The additional estimated premium assessment of 0.30 percent of insured deposits as of December 31, 2008, has been adjusted to 0.15 percent of insured deposits as of June 30, 2009, which resulted in a net premium assessment in the amount of \$1,508,330.

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.

Members' shares are classified as members' equity in the consolidated statements of financial condition. It is the Credit Union's position that members' shares represent an ownership interest and are properly classified as equity. Such classification is not in accordance with GAAP. GAAP require members' shares be classified as liabilities. This change has no effect on the consolidated statements of income.

Subsequent Events: The Credit Union has evaluated the effects of subsequent events that have occurred subsequent to period end September 30, 2009, and through the date on the independent auditor's report. During this period, there have been no material events that would require recognition in our consolidated financial statements or disclosure other than discussed in Note 14, in the notes to the consolidated financial statements.

Advertising Costs: Advertising costs are expensed as incurred.

Income Taxes: The Credit Union is exempt, by statute, from federal and state income taxes. The Credit Unions wholly owned subsidiaries, however, are subject to federal and state income taxes.

Comprehensive Income: Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes

in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the members' equity section of the statements of financial condition. For 2009, other comprehensive income includes no reclassification adjustments.

Recent Accounting Standards: The Codification issued guidance in December 2007, regarding *Business Combinations*. The Codification, among other things, establishes principles and requirements for how the acquirer in a business combination (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquired business, (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This new guidance significantly changes the accounting for business combination transactions as the pooling-of-interests accounting method will no longer be an acceptable accounting method. This change is effective for annual reporting periods beginning on or after December 15, 2008, with early adoption prohibited. Management is evaluating the impact of the requirements on the Credit Union's financial position and results of operations.

The Codification includes guidance issued in April 2009 to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities. The Codification provides guidelines for making fair value measurements more consistent and provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. The requirements are effective for interim and annual periods ending after June 15, 2009, but entities may early adopt the requirements for the interim and annual periods ending after March 15, 2009. The Codification is not expected to have a material impact on the Credit Union's financial position, results of operations or cash flows.

The Codification includes guidance issued in June 2009 for accounting for transfers of and servicing of financial assets. These requirements will be effective in the first annual period beginning after November 15, 2009, with the following impact on the accounting for loan sales:

- Many types of transfers previously derecognized will no longer be eligible for derecognition
- Additional fair value measurements and disclosures will be required

The Codification is not expected to have a material impact on the Credit Union's financial position, results of operations or cash flows.

2. INVESTMENTS

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

| September 30, 2009 | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|--|----------------|------------------|-------------------|--------------|
| Guaranteed loans made to the U.S. Agency for International Development | \$ 374,512 | \$ 12,374 | \$ 0 | \$ 386,886 |
| U.S. government obligations and federal agencies securities | 3,287,660 | 0 | (12,960) | 3,274,700 |
| Mutual funds of U.S. government obligations | 962,451 | 36,945 | 0 | 999,396 |
| Mortgage-backed securities | 3,952 | 215 | 0 | 4,167 |
| | \$ 4,628,575 | \$ 49,534 | \$ (12,960) | \$ 4,665,149 |

Investments classified as held-to-maturity consist of the following:

| September 30, 2009 | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|----------------|------------------|-------------------|----------------|
| U.S. government obligations and federal agencies securities | \$ 331,682,592 | \$ 2,494,997 | \$ 0 | \$ 334,177,589 |

Investments by maturity as of September 30, 2009 are summarized as follows:

| | Available-for-sale | | Held-to-maturity | | Other |
|----------------------------|--------------------|--------------|------------------|----------------|----------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value | |
| No contractual maturity | \$ 962,451 | \$ 999,396 | \$ 0 | \$ 0 | \$ 2,280,686 |
| Less than 1 year maturity | 3,130,369 | 3,118,520 | 289,299,329 | 291,542,919 | 172,000,000 |
| 1 – 5 years maturity | 531,803 | 543,066 | 42,383,263 | 42,634,670 | 5,000,000 |
| Mortgage-backed securities | 3,952 | 4,167 | 0 | 0 | 0 |
| | \$ 4,628,575 | \$ 4,665,149 | \$ 331,682,592 | \$ 334,177,589 | \$ 179,280,686 |

Expected maturities of mortgage-backed securities may differ from contractual maturities because borrowers may have the right to call or prepay the obligations and are, therefore, classified separately with no specific maturity date. Member and permanent capital accounts have been classified with no contractual maturity date. Mutual funds of U.S. government obligations and federal agency securities, member capital accounts in corporate credit unions, Credit Union Service Corp of Virginia, Card Service for Credit Unions, and CU 24 Stock have been classified with no contractual maturity.

Other investments consist of the following:

| | |
|--|----------------|
| SIP Investment (Note 7) | \$ 100,000,000 |
| Corporate Credit Union certificates | 77,000,000 |
| Member capital account in a corporate credit union | 1,689,739 |
| Credit Union Service Corporation of Virginia | 457,244 |
| CU24 Stock | 71,432 |
| Card Service for Credit Unions | 62,271 |
| | \$ 179,280,686 |

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

The Credit Union wrote-off \$2,527,085 of its member capital investments in corporate credit unions as of September 30, 2009. The Credit Union based these adjustments on the losses related to the individual corporate credit union's investments in U.S. Central and additional losses related to the asset quality of the asset-backed securities held at certain corporate credit unions. The corporate credit unions have informed the Credit Union that a portion of its member capital investments will be depleted, per regulatory guidance. Member capital accounts are uninsured equity capital accounts that may be redeemed with a three-year notice.

The fair value of other investments approximates book value.

Notes to Consolidated Financial Statements

3. LOANS TO MEMBERS

Loans to members consist of the following:

September 30, 2009

| | |
|---|--------------------|
| Mortgage loans: | |
| Fixed rate | \$ 34,985,410 |
| Hybrid/Balloon | 2,143,160 |
| High loan to value | 1,125,260 |
| Home equity line of credit, variable rate | <u>179,696,980</u> |
| | \$ 217,950,810 |
| Participation loans | \$ 73,997,554 |
| Vehicle loans | 269,147,185 |
| Government guaranteed student loans | 788,340 |
| Credit card loans, unsecured | 76,939,571 |
| Other consumer loans, primarily unsecured | <u>25,704,178</u> |
| | \$ 664,527,638 |
| Deferred net loan origination costs | \$ 4,268,613 |
| Allowance for loan losses | <u>(7,556,858)</u> |
| | \$ 661,239,393 |

The Credit Union offers nontraditional mortgage loans to its members. These loans include hybrid/balloon and high loan to value (LTV) mortgages. Hybrid/balloon loans consist of loans that are fixed for an initial period of three, five or seven years. After this period, the mortgages are converted to variable rate using the fully indexed rate, which can result in significant payment shock to the borrower. The high LTV loans consist of first mortgages with LTVs over 80 percent and home equity loans with LTVs greater than 100 percent.

Nontraditional mortgage loans may have significantly different credit risk characteristics than traditional fixed and variable rate mortgages. However, the Credit Union believes it has established prudent underwriting standards as well as adequate risk management functions to monitor these additional risks.

The following is an analysis of the allowance for loan losses:

September 30, 2009

| | |
|----------------------------|--------------------|
| Balance, beginning of year | \$ 8,148,180 |
| Provision for loan losses | 8,140,000 |
| Recoveries | 734,764 |
| Loans charged off | <u>(9,466,086)</u> |
| Balance, end of year | \$ 7,556,858 |

Loans on which accrual of interest has been discontinued or reduced amounted to \$4,360,279 at September 30, 2009.

4. PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

September 30, 2009

| | |
|---|---------------------|
| Land | \$ 1,255,178 |
| Buildings | 13,996,803 |
| Construction in process | 285,539 |
| Leasehold improvements | 5,731,469 |
| Furniture and equipment | <u>30,056,506</u> |
| | \$ 51,325,495 |
| Accumulated depreciation and amortization | <u>(43,566,034)</u> |
| | \$ 7,759,461 |

The Credit Union leases several offices. The operating leases contain renewal options and provisions requiring the Credit Union to pay property taxes and operating expenses over base period amounts. All rental payments are dependent only upon the lapse of time. Minimum rental payments under operating leases with initial or remaining terms of one year or more at September 30, 2009, are as follows:

Year Ending September 30

| | |
|------------------|-------------------|
| 2010 | \$ 1,488,491 |
| 2011 | 1,543,693 |
| 2012 | 1,602,622 |
| 2013 | 1,665,703 |
| 2014 | 1,733,423 |
| Subsequent years | <u>11,070,009</u> |
| | \$ 19,103,941 |

Rental expense for the year ended September 30, 2009, for all facilities leased under operating leases totaled \$1,599,411.

5. OTHER ASSETS

Included in other assets are several life insurance policies. The Credit Union is the owner and beneficiary of these policies. The policies provide for investments in various unit investment trusts administered by various life insurance companies.

6. MEMBERS' SHARES

Members' shares are summarized as follows:

September 30, 2009

| | |
|--------------------------------|--------------------|
| Regular shares | \$ 305,757,058 |
| Share draft accounts | 180,836,957 |
| Money market accounts | 141,892,031 |
| Individual retirement accounts | 28,665,810 |
| Certificates | <u>441,088,835</u> |
| | \$ 1,098,240,691 |

Shares by maturity as of September 30, 2009, are summarized as follows:

| | |
|-------------------------|------------------|
| No contractual maturity | \$ 657,151,856 |
| 0 – 1 year maturity | 364,924,501 |
| 1 – 2 years maturity | 35,715,659 |
| 2 – 3 years maturity | 16,494,817 |
| 3 – 4 years maturity | 14,023,665 |
| 4 – 5 years maturity | <u>9,930,193</u> |
| | \$ 1,098,240,691 |

Regular shares, share draft accounts, money market accounts, and individual retirement account shares have no contractual maturity. Certificate accounts have maturities of five years or less.

The NCUSIF insures members' shares and certain individual retirement and Keogh accounts. Effective October 3, 2008, and continuing through December 31, 2013, legislation provides for 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 at up to \$250,000 separate from other types of accounts owned.

The aggregate amount of certificates in denominations of \$100,000 or more at September 30, 2009, is \$112,267,513.

7. BORROWED FUNDS

The Credit Union utilizes demand loan agreements with several corporate credit unions. The terms of these agreements call for the pledging of all assets as security for any and all obligations taken by the Credit Union under these agreements. The agreements provide for a credit limit of \$55,200,000 with interest charged at a rate determined by the lender on a periodic basis. At September 30, 2009, there were no borrowings under this agreement. The agreement is reviewed for continuation by the lender and the Credit Union annually.

The Credit Union maintains a "Lending Agreement" with the Federal Reserve Bank of Richmond (Federal Reserve). Under the terms of this agreement, the Credit Union may make applications to the Federal Reserve for advances of funds. The interest rate is determined by the lender. Advances under the agreement are collateralized by a pledge of Credit Union assets. There were no outstanding borrowings at September 30, 2009.

In January 2009, the Credit Union applied to participate in the National Credit Union Central Liquidity Facility's (CLF) Credit Union System Investment Program (CU SIP), a voluntary program designed to increase liquidity in the corporate credit union system. Under CU SIP, the CLF advances funds to natural person credit unions for a period of one year. The proceeds of the advanced funds must be invested in a senior one-year term note at a participating corporate credit union. The investment is guaranteed by the NCUSIF under the Temporary Corporate Credit Union Liquidity Guarantee Program. To secure the advance, collateral must be provided by the natural person credit union at twice the amount of the advance amount. Approval to participate in the CU SIP is under the sole discretion of the CLF and participation is required by the Credit Union if and when approved. On January 9, 2009, the Credit Union received approved advances totaling \$100,000,000 from the CLF, which matures on January 8, 2010.

8. OFF-BALANCE SHEET ACTIVITIES

The Credit Union is party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit that includes lines of credit, credit cards and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the consolidated financial statements.

The Credit Union's exposure to credit loss is represented by the contractual amount of these commitments. The Credit Union follows the same credit policies in making commitments as it does for those loans recorded in the consolidated financial statements.

Outstanding loan commitments at September 30, 2009, total approximately \$6,105,000.

Unfunded loan commitments under lines of credit are summarized as follows:

September 30, 2009

| | |
|----------------|------------------|
| Home equity | \$ 51,859,000 |
| Credit card | 139,832,000 |
| Other consumer | <u>6,162,000</u> |
| | \$ 197,853,000 |

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's credit worthiness on a case-by-case basis. The amount of collateral obtained to secure borrowing on the lines of credit is based on management's credit evaluation of the member.

Notes to Consolidated Financial Statements

Unfunded commitments under revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized and usually do not contain a specified maturity date and ultimately may not be drawn upon to the total extent to which the Credit Union is committed.

9. COMMITMENTS AND CONTINGENT LIABILITIES

The Credit Union is a party to various legal actions normally associated with collections of loans and other business activities of financial institutions, the aggregate effect of which, in management's opinion, would not have a material adverse effect on the financial condition or results of operations of the Credit Union.

10. EMPLOYEE BENEFITS

The Credit Union has a 401(k) pension plan that allows employees to defer a portion of their salary into the 401(k) plan. The Credit Union matches a portion of employees' wage deductions. Pension costs are accrued and funded on a current basis. The Credit Union contributed \$449,755 to the plan for the year ended September 30, 2009.

The Credit Union entered into deferred compensation agreements with members of the executive management team that provides benefits payable to these employees based on years of service with the Credit Union as defined in the agreement. The estimated liability under the agreements is being accrued on a straight-line basis over the remaining years until the eligible employees attain age 65. The Credit Union has accrued approximately \$3,735,000 under these agreements for the year ended September 30, 2009.

11. 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 consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance sheet items as calculated under GAAP. The Credit Union's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth to total assets. Further, credit unions over \$10,000,000 in assets are also required to calculate a Risk-Based Net worth (RBNW) requirement that 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, 2009, were 4.15 percent. The minimum requirement to be considered "complex" under the regulatory framework is 6 percent. Management believes, as of September 30, 2009, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of September 30, 2009, the most recent call reporting period, the NCUA categorized the Credit Union as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Credit Union must maintain a minimum net worth ratio of 7 percent of assets. There are no conditions or events since that notification that management believes have changed the institution's category.

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

| September 30, 2009 | Amount | Ratio/Requirement |
|--|----------------|-------------------|
| Amount needed to be classified as "adequately capitalized" | \$ 88,427,333 | 6.00% |
| Amount needed to be classified as "well capitalized" | \$ 91,702,419 | 7.00% |
| Actual net worth | \$ 101,476,940 | 7.75% |

12. RELATED PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends credit to directors, Supervisory Committee members and executive officers. The aggregate loans to related parties at September 30, 2009, are approximately \$111,000. Deposits from related parties at September 30, 2009, amounted to approximately \$2,306,000.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

As described in Note 1 to the financial statements, the Credit Union adopted the Codification on fair value measurements effective October 1, 2008. 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.

Investments: The Credit Union utilizes a third-party pricing service (pricing service) to estimate fair value measurements for available-for-sale and held-to-maturity securities. The pricing service evaluates each asset class based on relevant market information considering observable data. The fair value 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. The fair value prices on such securities are reviewed for reasonableness by management. Also, management assessed the valuation techniques used by the pricing service based on a review of their pricing methodology to ensure proper hierarchy classifications. The carrying amounts of other investments approximate their fair value.

Loans to Members: When quoted market prices are not available, the fair value of loans to members 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 that 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. However, certain of the Credit Union's loans to members are classified within Level 3 due to the lack of observable pricing data. The fair value of these Level 3 loans is calculated with a discounted cash flows model using market-based credit spreads of comparable debt instruments or credit derivatives of the specific borrower or comparable borrowers. Results of discounted cash flow calculations may be adjusted, as appropriate, to reflect other market conditions or the perceived credit risk of the borrower.

Accrued Interest Receivable: Accrued interest receivable represents interest on loans and investments. The carrying amount of accrued interest receivable approximates fair value.

Other Real Estate Owned: Other real estate owned represents property acquired through foreclosure and by deed in lieu of foreclosure. The carrying amount of other real estate owned approximates the lower of the carrying amount or fair value less cost to sell and to cease depreciation.

Members' Shares: The fair value of members' shares upon demand (regular shares, escrow shares, share draft, money market) is the amount payable at the date of the statement of condition. The fair value of fixed maturity accounts (certificates) are estimated by discounting the estimated cash flows using interest rates for comparable instruments and terms and are classified within Level 2 or Level 3.

Borrowed Funds: The fair value of borrowed funds is estimated by discounting the estimated cash flows using the appropriate market rates for the associated

maturities. Where the inputs into the valuation are primarily based upon readily observable pricing information, borrowed funds are classified within Level 2 of the valuation hierarchy. Where significant inputs are unobservable, borrowed funds are classified within Level 3 of the valuation hierarchy.

Off-Balance Sheet Credit-Related Instruments: Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value for such financial instruments is nominal.

Impaired Loans: Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans and is classified at a Level 3 in the fair value hierarchy. Collateral may be real estate and vehicles, and the value is determined based on appraisals by qualified licensed appraisers or estimated auction recovery values. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the member. 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 The Codification requirements. At each reporting period, all assets and liabilities for which the fair value is based on significant unobservable inputs are classified as Level 3.

The following table summarizes the available-for-sale securities measured at fair value on a recurring basis as of September 30, 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

| | Total | Quoted Prices in | Significant | Significant |
|--------------------------------|--------------|-------------------------------------|-------------------------|---------------------|
| | | Active Markets for Identical Assets | Other Observable Inputs | Unobservable Inputs |
| | | (Level 1) | (Level 2) | (Level 3) |
| Investments available-for-sale | \$ 4,665,149 | \$ 0 | \$ 4,665,149 | \$ 0 |

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

| September 30, 2009 | Carrying Amount | Fair Value |
|--------------------------------|-----------------|----------------|
| Financial Assets: | | |
| Cash and cash equivalents | \$ 93,012,000 | \$ 93,012,000 |
| Investments available-for-sale | 4,665,000 | 4,665,000 |
| Investments held-to-maturity | 331,683,000 | 333,780,000 |
| Other investments | 179,281,000 | 179,281,000 |
| Loans held-for-sale | 893,000 | 893,000 |
| Loans to members, net | 661,239,000 | 669,550,000 |
| Accrued interest receivable | 6,523,000 | 6,523,000 |
| Financial Liabilities: | | |
| Borrowed funds | \$ 100,000,000 | \$ 100,000,000 |
| Members' shares | 1,098,241,000 | 1,104,218,000 |

14. SUBSEQUENT EVENT

Subsequent to September 30, 2009, the Credit Union's Board of Directors approved the acquisition of Heritagewest Federal Credit Union (Heritagewest). Heritagewest is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act. Participation in Heritagewest is limited to those individuals who qualify for membership. The field of membership is defined in Heritagewest's Charter and Bylaws.

The Credit Union will account for this acquisition as a business combination. The codification requires the Credit Union to recognize and measure in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquired credit union at fair market value. The codification also requires that the measurement of goodwill or a gain from a bargain purchase be recognized in the business combination.

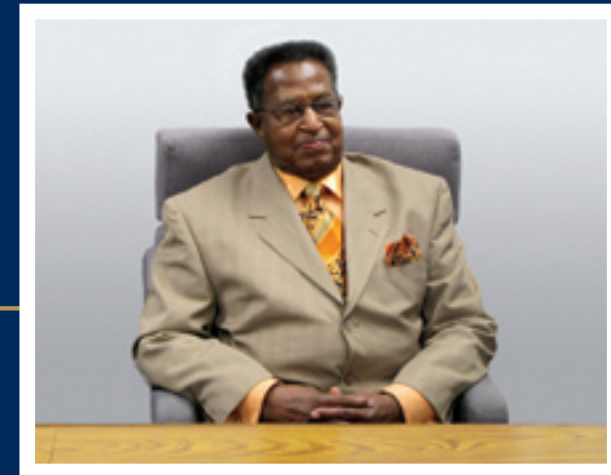
Board of Directors



TOP ROW (L TO R): Dallas L. England, *Director*; Wayne E. Foshay, *2nd Vice Chairman*; Robert O. Holmes, *Director*; George E. Sauer, *Director*; Albert C. Merritt, *Director*; Melvin S. Mizelle, *Treasurer*
BOTTOM ROW (L TO R): Judith P. Sparrow, *1st Vice Chairman*; E. L. Gull, Jr., *Chairman*; John L. McGrath, *Secretary*

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