

**LANGLEY FEDERAL CREDIT UNION
AND SUBSIDIARY
Newport News, Virginia**

**CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009**

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	2
Consolidated Statements of Financial Condition	3
Consolidated Statements of Income.....	4
Consolidated Statements of Comprehensive Income	5
Consolidated Statements of Members' Equity.....	6
Consolidated Statements of Cash Flows.....	7
Notes to Consolidated Financial Statements.....	9



Independent Auditor's Report

Board of Directors and
Supervisory Committee
Langley Federal Credit Union and Subsidiary
Newport News, Virginia

We have audited the accompanying consolidated statement of financial condition of Langley Federal Credit Union and Subsidiary (Credit Union) as of December 31, 2010, and the related consolidated statements of income, comprehensive income, members' equity, and cash flows for the year then ended. These 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. The consolidated financial statements of the Credit Union as of December 31, 2009 were audited by other auditors whose report dated April 29, 2010, expressed an unqualified opinion on those consolidated financial statements.

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 consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2010 consolidated financial statements referred to above present fairly, in all material respects, the financial condition of Langley Federal Credit Union and Subsidiary as of December 31, 2010, and the 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.

Clifton Gunderson LLP

Baltimore, Maryland
March 28, 2011

FINANCIAL STATEMENTS

LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2010 and 2009

ASSETS	2010	2009
Cash and cash equivalents	\$ 86,006,346	\$ 87,484,473
Investments:		
Available-for-sale	818,644,340	683,552,496
Other	2,165,633	163,595,564
Trading	-	9,767,969
Loans held-for-sale	1,135,200	1,391,950
Loans, net	611,111,849	657,763,646
Accrued interest receivable	5,208,923	6,665,752
Property and equipment, net	46,621,237	46,632,115
National Credit Union Share Insurance Fund deposit	13,082,192	11,957,594
Assets held-for-sale	1,761,189	835,745
Other assets	3,867,634	3,742,129
TOTAL ASSETS	\$ 1,589,604,543	1,673,389,433
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' shares	\$ 1,386,864,304	\$ 1,316,370,095
Notes payable	-	161,468,599
Accrued expenses and other liabilities	9,533,243	9,940,046
Total liabilities	1,396,397,547	1,487,778,740
MEMBERS' EQUITY		
Retained earnings, substantially restricted	203,336,064	190,468,913
Accumulated other comprehensive loss	(10,129,068)	(4,858,220)
Total members' equity	193,206,996	185,610,693
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 1,589,604,543	\$ 1,673,389,433

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

LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2010 and 2009

	2010	2009
INTEREST INCOME		
Loans	\$ 44,584,504	\$ 45,341,384
Investments and cash equivalents	15,681,190	20,336,415
Trading investments	30,036	39,379
Total interest income	60,295,730	65,717,178
 INTEREST EXPENSE		
Members' shares	17,591,484	23,813,865
Borrowed funds	108,555	963,223
Total interest expense	17,700,039	24,777,088
Net interest income	42,595,691	40,940,090
 PROVISION FOR LOAN LOSSES	8,342,281	11,280,898
Net interest income after provision for loan losses	34,253,410	29,659,192
 NON-INTEREST INCOME		
Service charges and other fees	17,190,240	17,074,348
Net gains on sales of loans	1,130,091	1,848,019
Net gains on sales of available-for-sale investments	6,850,743	1,911,366
Net gains on trading assets	226,345	44,661
Net gain (loss) on assets held-for-sale	(25,962)	135,282
Recapitalization gain on NCUSIF deposit	-	6,680,561
Total non-interest income	25,371,457	27,694,237
Total income	59,624,867	57,353,429
 NON-INTEREST EXPENSE		
Salaries and benefits	23,024,963	22,178,977
Operations	15,933,705	15,932,094
Occupancy	5,391,545	5,087,563
NCUSIF assessments	2,407,503	(162,953)
Total non-interest expense	46,757,716	43,035,681
 NET INCOME	\$ 12,867,151	\$ 14,317,748

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

LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2010 and 2009

	2010	2009
NET INCOME	\$ 12,867,151	\$ 14,317,748
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized holding gains (losses) on investments classified as available-for-sale	1,579,895	(1,119,790)
Reclassification adjustment for net realized gains on investments included in net income	(6,850,743)	(1,911,366)
Total other comprehensive loss	(5,270,848)	(3,031,156)
TOTAL COMPREHENSIVE INCOME	\$ 7,596,303	\$ 11,286,592

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

**LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
Years Ended December 31, 2010 and 2009**

	Retained Earnings				Accumulated Other Comprehensive Loss
	Regular Reserve	Other Appropriated	Unappropriated	Total	
BALANCE, DECEMBER 31, 2008	\$ 24,767,479	\$ 10,000,000	\$ 141,383,686	\$ 176,151,165	\$ (1,827,064)
COMPREHENSIVE INCOME					
Net income	-	-	14,317,748	14,317,748	-
Other comprehensive loss:					
Net change in unrealized losses on securities available-for-sale	-	-	-	-	(3,031,156)
Total comprehensive income (loss)	-	-	14,317,748	14,317,748	(3,031,156)
BALANCE, DECEMBER 31, 2009	24,767,479	10,000,000	155,701,434	190,468,913	(4,858,220)
COMPREHENSIVE INCOME					
Net Income	-	-	12,867,151	12,867,151	-
Other comprehensive loss:					
Net change in unrealized losses on securities available-for-sale	-	-	-	-	(5,270,848)
Total comprehensive income (loss)	-	-	12,867,151	12,867,151	(5,270,848)
BALANCE, DECEMBER 31, 2010	<u>\$ 24,767,479</u>	<u>\$ 10,000,000</u>	<u>\$ 168,568,585</u>	<u>\$ 203,336,064</u>	<u>\$ (10,129,068)</u>

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

LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 12,867,151	\$ 14,317,748
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of mortgage servicing rights, net	197,345	190,058
Capitalization of mortgage servicing rights	(330,938)	(828,209)
Change in valuation allowance for mortgage servicing rights	7,540	(28,065)
Accretion of discount on investment securities, net	(148,324)	(70,755)
Provision for loan losses	8,342,281	11,280,898
Depreciation and amortization	4,108,249	4,462,895
Net gains on sale of available-for-sale investments	(6,850,743)	(1,911,366)
Recapitalization gain on NCUSIF deposit	-	(6,680,561)
(Gain) loss on disposal of equipment	(7,926)	106,676
Gain on sale of loans	(1,130,091)	(1,848,019)
Net change in:		
Trading investments	9,767,969	(9,767,969)
Loans held for sale	1,386,841	1,036,069
Accrued interest receivable	1,456,829	1,348,048
Assets held-for-sale	(925,444)	(232,696)
Other assets	548	1,412,250
Accrued expenses and other liabilities	(406,803)	(3,707,500)
Net cash provided by operating activities	28,334,484	9,079,502
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale investments	(1,855,290,625)	(1,185,484,408)
Proceeds from maturities/calls of available-for-sale investments	891,561,555	333,955,125
Proceeds from sale of available-for-sale investments	830,365,445	650,166,623
Net change in other investments	161,429,931	(161,002,010)
Net change in loans to members	41,738,520	(38,021,327)
Purchases of participation loans	(3,429,004)	(24,722,146)
Sale of participation loans	-	12,225,166
Net change in the NCUSIF deposit	(1,124,598)	(2,550,775)
Proceeds from disposal of property and equipment	10,305	2,980
Purchases of property and equipment	(4,099,750)	(3,315,474)
Net cash provided by (used in) investing activities	61,161,779	(418,746,246)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowed funds	-	164,155,130
Repayment of borrowed funds	(161,468,599)	(2,686,531)
Net change in members' shares and deposit accounts	70,494,209	254,509,643
Net cash provided by (used in) financing activities	(90,974,390)	415,978,242

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

LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2010 and 2009
(Continued)

	<u>2010</u>	<u>2009</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (1,478,127)	\$ 6,311,498
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>87,484,473</u>	<u>81,172,975</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 86,006,346</u>	<u>\$ 87,484,473</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Dividends paid on members' shares and interest paid on borrowed funds	<u>\$ 18,108,364</u>	<u>\$ 24,355,931</u>

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

**LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Langley Federal Credit Union (the 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. The field of membership is defined in the Credit Union's Charter and Bylaws.

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 issued by 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 consolidated 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 like 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. For example, citations of the accounting requirements for contingencies would include a reference similar to "as required by the Contingencies Topic of the Codification."

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Credit Union and its wholly owned subsidiary, Langley Financial Services, LLC, a credit union service organization (the CUSO). The CUSO is engaged primarily in providing investment and insurance products and services to Credit Union members. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates in Preparing 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, 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. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the determination of fair value of accounts evaluated for impairment and disclosure.

LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk

Most of the Credit Union's business activity is with its members who are part of the over 500 Select Employee Groups including Langley Air Force Base and NASA-Langley. The Credit Union may be exposed to credit risk from a regional economic standpoint because a significant concentration of its borrowers work or reside on the Virginia Peninsula. During the year ended December 31, 2009 and continuing into 2010, the financial deterioration resulting from the general economic conditions in this region have resulted in significant loan losses and declines in fair value of investments for the Credit Union and those with whom it does business, including corporate credit unions. The Credit Union continually monitors the Credit Union's operations, including the loan and investment portfolios, for potential impairment.

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.

Cash and Cash Equivalents

For the purpose of the consolidated statements of financial position and the consolidated 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

Trading investments, consisting of U.S. treasury notes, were carried at fair value. Realized and unrealized gains and losses on trading investments were recognized in the consolidated statements of income as they occurred. Quoted market prices were used to determine the fair value of trading investments.

Securities not classified as 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 allocated to either (1) credit losses (that are reflected in earnings as realized losses) or (2) noncredit losses (that are recorded in other comprehensive income). In determining whether other-than-temporary

LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

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, (3) the current liquidity and volatility of the market for each of the individual security categories, (4) the projected cash flows from the specific security type, (5) the financial guarantee and financial rating of the issuer, and (6) 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. If such investments are deemed to be impaired, the recorded cost is reduced by the amount of the impairment.

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 pay-off 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.

LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Specific allowances for loan losses are established for impaired loans on an individual basis as required. 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. 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 other relevant data.

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.

LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loan Servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Credit Union later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

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

Other Real Estate Owned and Assets Held-for-Sale

Assets acquired through, or in lieu of, loan foreclosure are assets 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. Revenue and expenses from operations and changes in the valuation allowance are included in operating expenses.

Property and Equipment

Land and construction in progress are carried at cost. Land includes amounts for grounds improvements depreciated using the straight-line method over an estimated useful life of 20 years. Building, leasehold improvements, and furniture and equipment are carried at cost, less accumulated depreciation and amortization. Buildings are depreciated using the straight-line method over the estimated useful lives of the assets ranging from 20 to 40 years. The cost of leasehold improvements is amortized using the straight-line method over lesser of the useful life of the assets or the expected terms of the related leases. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured. Furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the

**LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (continued)

assets ranging from 2 to 5 years. Management reviews premises and equipment for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

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 in prior years required 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 was terminated, if it converted its insurance coverage to another source, or if management of the fund was transferred from the NCUA Board. In January 2009, the financial condition resulting from the ongoing economic decline caused the NCUA to announce the impairment of the deposits of natural person credit unions in the NCUSIF.

In May 2009, an amendment to the Federal Credit Union Act to Congress was passed to create the Corporate Credit Union Stabilization Fund (the Fund) that enables credit unions to spread impairment costs over a period of years. In June 2009, the NCUA issued guidance instructing federally insured credit unions to record other noninterest income for the previously impaired amounts, as well as reducing the insurance assessment estimate to 0.15 percent of insured deposits as of June 30, 2009. As a result of this guidance, the Credit Union recorded a recapitalization gain of \$6,680,561 and a net premium assessment expense of (\$162,953) for the year ended December 31, 2009.

During 2010, the total NCUSIF assessments were \$2,407,503. In June 2010, the NCUA Board voted to assess each federally-insured credit union a premium of 0.1340% of its insured shares as of March 31, 2010 to repay a portion of the Temporary Corporate Credit Union Stabilization Fund borrowings from the U. S. Treasury. For the Credit Union, this premium amounted to \$1,100,248. In September 2010, the NCUA Board voted to assess each federally-insured credit union a premium of 0.1242% of its insured shares as of June 30, 2010 in order to return the NCUSIF's equity ratio to within its normal operating range. For the Credit Union, this premium amounted to \$1,307,255.

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.

LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Union's wholly owned subsidiary is a limited liability corporation; its tax liability passes to the owner, Langley Federal Credit Union.

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 consolidated statements of financial condition.

Reclassifications

Certain account reclassifications have been made to the 2009 financial statements in order to conform to classifications used in the current year.

NOTE 2 – TRADING ACTIVITIES

At December 31, 2010 and 2009, the Credit Union held trading investments of \$0 and \$9,767,969, respectively.

Gross realized gains on trading investments of \$237,423 and \$299,060 and gross realized losses of \$11,078 and \$254,399, respectively, were included in the net gains on trading assets during 2010 and 2009.

NOTE 3 – INVESTMENTS

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

	December 31, 2010			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Government obligations and federal agencies securities	<u>\$828,773,408</u>	<u>\$ 420,852</u>	<u>\$(10,549,920)</u>	<u>\$818,644,340</u>

**LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009**

NOTE 3 – INVESTMENTS (CONTINUED)

	December 31, 2009			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Government obligations and federal agencies securities	<u>\$688,410,716</u>	<u>\$ 663,468</u>	<u>\$ (5,521,688)</u>	<u>\$683,552,496</u>

Gross realized gains and losses on sales of investments available-for-sale were \$7,125,054 and \$274,311, respectively, in 2010 and \$2,846,938 and \$935,572, respectively, in 2009.

Other investments consist of the following:

	2010	2009
Deposit in other institutions	\$ 100,000	\$ 100,000
Credit Union System Investment Program	-	161,468,599
Member capital account in a corporate credit union	545,580	545,580
Equity securities of other credit union associations	<u>1,520,053</u>	<u>1,481,385</u>
	<u>\$ 2,165,633</u>	<u>\$163,595,564</u>

The Credit Union views its investments in the capital account in corporate credit unions as long-term investments. Accordingly, when evaluating for impairment, the value is determined based on the ultimate recoverability of the par value rather than recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability is influenced by factors such as (1) the significance of the decline in net assets of the institution as compared to the investment amount and length of time a decline has persisted, (2) impact of legislative and regulatory changes on the institution, and (3) the liquidity position of the institution.

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

**LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009**

NOTE 3 – INVESTMENTS (CONTINUED)

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. In 2009 the Credit Union approved advances from the CLF totaling \$161,468,599. One advance in January 2009, for \$100,000,000 matured in January 2010. The second advance in March 2009, for \$61,468,599 matured in March 2010.

Investments by maturity as of December 31, 2010, are summarized as follows:

	Available-for-Sale	
	Amortized Cost	Fair Value
Less than 1 year maturity	\$ 40,000,000	\$ 40,011,600
1 – 5 years maturity	529,535,096	525,444,920
6 – 10 years maturity	259,238,312	253,187,820
	\$ 828,773,408	\$ 818,644,340

Other investments have no contractual maturity.

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2010 and 2009, are as follows:

<u>December 31, 2010</u>	Fair Value Associated With Unrealized Losses Existing for:		Continuous Unrealized Losses Existing for:		Total Unrealized Losses
	Less Than 12 Months	More Than 12 Months	Less Than 12 Months	More Than 12 Months	
Available-for-Sale					
U.S. Government obligations and federal agencies securities	\$ 698,547,070	\$ -	\$ (10,549,920)	\$ -	\$ (10,549,920)
<u>December 31, 2009</u>					
Available-for-Sale					
U.S. Government obligations and federal agencies securities	\$ 522,967,995	\$ -	\$ (5,521,688)	\$ -	\$ (5,521,688)

Based upon an evaluation of the available evidence, including recent changes in market rates, credit rating information and information obtained from regulatory filings, management believes the decline in fair value for these securities is temporary. In addition, the Credit Union does not intend to sell and will not be required to sell these investment securities prior to recovery of the amortized cost basis.

Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period in which the other-than-temporary impairment is identified.

LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 4 – LOANS, NET

Loans, net consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>
Mortgage loans:		
Fixed rate	\$ 50,804,041	\$ 61,756,341
Home equity line of credit, variable rate	49,723,902	49,142,555
Hybrid/balloon	22,076,888	23,609,368
Variable rate	20,089,454	21,802,793
High loan to value	<u>3,654,831</u>	<u>3,913,920</u>
	146,349,116	160,224,977
Vehicle loans	253,579,660	282,526,392
Commercial participation loans	84,107,207	105,289,065
Credit card loans, unsecured	65,539,221	62,633,320
Other consumer loans, primarily unsecured	57,244,151	42,949,178
Share pledge loans	5,053,266	4,939,508
Small Business loans	<u>7,121,580</u>	<u>5,276,542</u>
	618,994,201	663,838,982
Deferred net loan origination costs	3,924,379	4,125,821
Allowance for loan losses	<u>(11,806,731)</u>	<u>(10,201,157)</u>
	<u>\$611,111,849</u>	<u>\$657,763,646</u>

Hybrid/balloon loans consist of loans that are fixed for an initial period of five or 10 years. After this period, the mortgages are converted to variable rate using the fully indexed rate, which can result in a significant payment adjustment to the borrower. The high loan-to-value (LTV) loans consist of first mortgages with LTVs over 80 percent.

The Credit Union has purchased commercial loan participations originated by various other credit unions. All loan participations were purchased without recourse and all but one are secured by real property. The originating credit unions or credit union service organizations perform all servicing functions on these loans.

The following is an analysis of the allowance for loan losses at December 31:

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 10,201,157	\$ 5,559,876
Provision for loan losses	8,342,281	11,280,898
Recoveries	1,192,253	764,232
Loans charged off	<u>(7,928,960)</u>	<u>(7,403,849)</u>
	<u>\$ 11,806,731</u>	<u>\$ 10,201,157</u>

**LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009**

NOTE 4 – LOANS, NET (CONTINUED)

Loans on which accrual of interest has been discontinued or reduced amounted to \$4,501,740 and \$5,855,160, respectively, at December 31, 2010 and 2009. If interest on those loans had been accrued, such income would have approximated \$222,966 and \$309,000 for the years ended December 31, 2010 and 2009, respectively.

The following is a summary of information pertaining to impaired including nonaccrual loans at December 31:

	<u>2010</u>		<u>2009</u>	
	<u>Loan Balance</u>	<u>Valuation Allowance</u>	<u>Loan Balance</u>	<u>Valuation Allowance</u>
Impaired with valuation allowance	\$11,608,114	\$3,856,791	\$7,962,378	\$1,303,341
Impaired without valuation allowance	<u>2,982,574</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$14,590,688</u>	<u>\$3,856,791</u>	<u>\$7,962,378</u>	<u>\$1,303,341</u>

The allocated valuation allowance for impaired loans at December 31, 2010 and 2009, and the related activity for the years then ended, is included in the allowance for loan losses summary.

NOTE 5 – LOAN SERVICING

The Credit Union services mortgage loans for others that are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of these loans at December 31, 2010 and 2009, are summarized as follows:

	<u>2010</u>	<u>2009</u>
Mortgage loan portfolios serviced for FNMA	<u>\$130,636,046</u>	<u>\$101,973,881</u>

Custodial escrow balances maintained in connection with the loan servicing, and included in members' shares, were approximately \$565,000 and \$421,000 at December 31, 2010 and 2009, respectively.

LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 5 – LOAN SERVICING (CONTINUED)

A summary of the changes in the balance of mortgage servicing rights in 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 711,676	\$ 45,460
Servicing assets recognized during the year	330,938	828,209
Amortization of servicing assets	(197,344)	(190,058)
Change in valuation allowance	<u>7,540</u>	<u>28,065</u>
Balance, end of year, included in other assets in the consolidated statements of financial condition	<u>\$ 852,810</u>	<u>\$ 711,676</u>
Fair value of mortgage servicing rights	<u>\$ 1,040,873</u>	<u>\$ 810,787</u>

The aggregate changes in the valuation allowance for mortgage servicing rights in 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 7,540	\$ 35,605
Net increase (decrease)	<u>(7,540)</u>	<u>(28,065)</u>
Balance, end of year	<u>\$ -</u>	<u>\$ 7,540</u>

The key economic assumptions used in determining the fair value of mortgage servicing rights at December 31 are as follows:

	<u>2010</u>	<u>2009</u>
Prepayment speed	15.59%	17.05%
Weighted-average life (years)	4.46	4.38
Yield-to-maturity discount rate	7.750%	8.125%

LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	2010	2009
Land	\$ 15,314,119	\$ 14,939,635
Buildings	39,630,403	38,008,763
Leasehold improvements	3,346,022	3,346,022
Construction in progress	3,201,742	2,288,714
Furniture and equipment	22,427,992	21,491,521
	83,920,278	80,074,655
Accumulated depreciation and amortization	(37,299,041)	(33,442,540)
	\$ 46,621,237	\$ 46,632,115

The Credit Union entered into operating leases for office space and sites for automatic teller machines. The operating leases contain renewal options and provisions requiring the Credit Union to pay property taxes and operating expenses over base period amounts.

During 2010 and 2009, the Credit Union entered into commitments totaling \$2,552,478 and \$2,900,000, respectively, for building and land purchases, improvements, and furniture and equipment. The remaining commitments on these construction and equipment contracts at December 31, 2010 and 2009, are approximately \$334,000 and \$490,000, respectively.

Minimum lease payments under operating leases with initial or remaining terms of one year or more at December 31, are as follows:

2011	\$ 293,418
2012	178,787
2013	175,608
2014	136,141
2015	71,052
Subsequent years	173,433
	\$ 1,028,439

The Credit Union receives services and use of facilities from its sponsoring agency at two of its branch office locations free of cost. Utilization of these services and facilities is not recognized as revenue. The Credit Union views this relationship with the sponsor organization as a reciprocal transfer; that is, in return for the use of services and facilities, the sponsoring employer receives the fringe benefit of on-site financial services for its employees who elect to join the Credit Union.

Rental expense for the years ended December 31, 2010 and 2009, for all facilities leased under operating leases totaled \$372,075 and \$320,787, respectively.

**LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009**

NOTE 6 – PROPERTY AND EQUIPMENT (CONTINUED)

The Credit Union leases office space to third parties. Rental income from these operating leases totaled \$1,437,994 and \$1,415,033 for the years ended December 31, 2010 and 2009, respectively, and is included in noninterest income.

Future minimum rental income under operating leases with initial or remaining terms of one year or more at December 31 are as follows:

2011	\$ 1,151,176
2012	743,271
2013	472,503
2014	145,703
2015	<u>51,094</u>
	<u>\$ 2,563,747</u>

NOTE 7 – MEMBERS' SHARES

Members' shares are summarized as follows:

	<u>Rates at 12/31/10</u>	<u>2010</u>	<u>2009</u>
Prime shares	0.54%	\$ 248,654,632	\$ 231,236,261
Checking accounts	0.40%	163,975,300	161,134,172
Money market accounts	0.73%	460,389,486	419,461,487
Individual retirement accounts	0.75%	<u>30,964,853</u>	<u>31,623,546</u>
		<u>903,984,271</u>	<u>843,455,466</u>
Share and IRA certificates:			
	0.00% to 1.00%	8,355,209	660,124
	1.01% to 2.00%	280,698,240	119,282,580
	2.01% to 3.00%	67,956,853	125,013,392
	3.01% to 4.00%	43,558,038	118,062,816
	4.01% to 5.00%	53,070,790	78,383,905
	5.01% to 6.00%	29,240,903	11,157,806
	6.01% to 7.00%	<u>-</u>	<u>20,354,006</u>
		<u>482,880,033</u>	<u>472,914,629</u>
		<u>\$ 1,386,864,304</u>	<u>\$ 1,316,370,095</u>

**LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009**

NOTE 7 – MEMBERS’ SHARES (CONTINUED)

Share and IRA certificates by maturity as of December 31, 2010, are summarized as follows:

	<u>2010</u>	<u>2009</u>
0 – 1 year maturity	\$ 308,375,044	\$291,307,137
1 – 2 years maturity	66,653,972	82,929,019
2 – 3 years maturity	31,841,981	26,569,721
3 – 4 years maturity	45,566,600	26,577,965
4 – 5 years maturity	<u>30,442,436</u>	<u>45,530,787</u>
	<u>\$ 482,880,033</u>	<u>\$472,914,629</u>

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 up to \$250,000.

The aggregate amount of certificates in denominations of \$100,000 or more at December 31, 2010 and 2009, is approximately \$150,663,000 and \$133,644,000, respectively.

NOTE 8 – BORROWED FUNDS

The Credit Union utilizes demand loan agreements with two corporate credit unions. The terms of the first agreement call for the pledging of all assets as security for any and all obligations taken by the Credit Union under this agreement. The agreement provides for a credit limit of \$25,000,000 with interest charged at a rate determined by the lender on a periodic basis. The second demand loan agreement is a settlement overdraft line of credit securitized by certificates of deposit on account at that corporate credit union. The agreement provides for a credit limit of \$5,000,000, but limited to the total value of certificates pledged as security. No specific reserve requirement is required; however, funds in the certificate account or in securities may not be withdrawn to the extent that amounts remain owing under the agreement. The demand loan rate is disclosed at the time of a loan advance and subject to change from time to time by the lender. At December 31, 2010 and 2009, there were no borrowings under either agreement. Both agreements are reviewed for continuation by the lenders and the Credit Union periodically.

The Credit Union also has available a guidance line of credit with a bank for short-term borrowings of Federal Funds. The terms of the facility agreement provide for borrowings up to \$10,000,000 with interest payable at the bank's Federal Fund rate plus 0.25 percent. The bank reviews this uncommitted line of credit annually and reserves the right to cancel at any time at its sole discretion. At December 31, 2010 and 2009, there were no borrowings under this agreement.

**LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009**

NOTE 9 – 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 include 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.

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 creditworthiness 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.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized, 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.

Outstanding business loan commitments at December 31, 2010 and 2009, total approximately \$3,304,000 and \$6,726,000, respectively.

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

	2010	2009
Credit card	\$144,165,000	\$147,893,000
Home equity	46,852,000	46,135,000
Other consumer	27,420,000	27,305,000
	\$218,437,000	\$221,333,000

NOTE 10 – 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.

LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 10 – COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

The Credit Union has entered into an agreement with SunTrust Mortgage Corporation for the sale of mortgage loans. The Credit Union is contingently liable to repurchase loans sold under the agreement where a loan is originated in violation of the agreement and where prepayment or default occurs within specified periods. The Credit Union was not required to repurchase any loans during 2010 and 2009. At December 31, 2010, the Credit Union was contingently liable on loans totaling \$2,317,274. It is management's belief that any repurchase obligation would not be significant to the Credit Union.

NOTE 11 – EMPLOYEE BENEFITS

The Credit Union has a 401(k) savings 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 reductions. Plan costs are accrued and funded on a current basis. The Credit Union contributed \$662,930 and \$645,322, respectively, to the plan for the years ended December 31, 2010 and 2009.

The Credit Union entered into a deferred compensation agreement with a member of the executive management team that provides retirement benefits payable to the employee if they remain employed by the Credit Union until retirement. The benefits are subject to forfeiture if employment is terminated for cause, as defined by the agreement. If the employee becomes fully disabled, as defined in the agreement, accrued benefits remain in full force and effect with the requirements of the agreements and clauses being reduced depending on the severity of the disability. For the years ended December 31, 2010 and 2009, the Credit Union incurred no expense under this agreement. As of December 31, 2010 and 2009, the accrued liability amounted to approximately \$1,547,240 and \$1,621,696, respectively.

The deferred compensation agreement does not require mandatory funding. However, the Credit Union elected to fund the agreement with the purchase of a \$2.5 million dollar universal life insurance policy on the executive where the Credit Union is beneficiary and policy owner. The policy's cash surrender value was \$666,331 and \$617,086 at December 31, 2010 and 2009, respectively and recorded in other assets on the consolidated statements of financial condition. There are no outstanding loans against the policy at December 31, 2010.

NOTE 12 – MEMBERS' EQUITY

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's 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.

LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 12 – MEMBERS’ EQUITY (CONTINUED)

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 December 31, 2010 and 2009 were 7.14 percent and 6.97 percent, respectively. The minimum requirement to be considered "complex" under the regulatory framework is 6 percent. Management believes, as of December 31, 2010 and 2009, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2010 and 2009, 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.

Key aspects of the Credit Union's minimum capital amounts and ratios are summarized as follows:

<u>Asset Category</u>	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Amount</u>	<u>Ratio/ Requirement</u>	<u>Amount</u>	<u>Ratio/ Requirement</u>
Amount needed to be classified as "adequately capitalized"	\$ 95,376,273	6.00%	\$ 100,403,366	6.00%
Amount needed to be classified as "well-capitalized"	\$ 111,272,318	7.00%	\$ 117,137,260	7.00%
Actual net worth	\$ 203,336,604	12.79%	\$ 190,468,913	11.38%

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

NOTE 13 – RELATED-PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends credit to directors, Supervisory Committee members and executive officers. The aggregate loans to related parties at December 31, 2010 and 2009, are \$2,286,143 and \$2,002,257, respectively. The rates charged on related-party loans are the same rates available to members of the Credit Union. Deposits from related parties at December 31, 2010 and 2009, amounted to \$3,823,584 and \$4,134,223, respectively.

LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 14 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value

The Codification defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement. Fair value is a market-based measurement, not an entity-specific measurement, and the hierarchy gives the highest priority to quoted prices in active markets. Fair value measurements are disclosed by level within the fair value hierarchy.

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. Valuation techniques are to be 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 fair value hierarchy establishes valuation inputs that give 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 use in pricing an asset or liability.

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.

Available-for-Sale Investments: 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: The carrying value approximates fair value based on the redemption provisions of the underlying investments.

LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 14 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Investments, Trading: The fair value is the market value based on quoted market prices.

Loans Held-for-Sale: The carrying amount of loans held-for-sale approximates fair value.

Loans, Net: For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (for example, one-to-four family residential), credit card loans, and other consumer loans are estimated using a discounted cash flow calculation that applies interest rates currently being offered similar loans to a schedule of aggregated expected monthly maturities of these loans. Fair values for business real estate and business loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

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

Mortgage Servicing Rights: Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses.

Members' Shares: The fair values disclosed for share draft and money market accounts are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term share certificates approximate their fair values at the reporting date. Fair values for fixed-rate shares and share certificates are estimated using a discounted cash flow calculation that applies interest rates currently being offered on shares and certificates to a schedule of aggregated expected monthly maturities on shares and certificates.

Borrowed Funds: Fair values for borrowed funds are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The fair values approximate the carrying value because the borrowed funds are short-term.

Accrued Interest Payable: Accrued interest payable represents interest on notes payable. The carrying amount of accrued interest payable approximates fair value.

Off-Balance Sheet Credit-Related Financial 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.

LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 14 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	December 31, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 86,006,000	\$ 86,006,000	\$ 87,484,000	\$ 87,484,000
Investments available-for-sale	818,644,000	818,644,000	683,552,000	683,552,000
Other investments	2,166,000	2,166,000	163,596,000	163,562,000
Investments, trading	-	-	9,768,000	9,768,000
Loans held-for-sale	1,135,000	1,132,000	1,392,000	1,397,000
Loans, net	611,112,000	615,669,000	657,764,000	672,157,000
Accrued interest receivable	5,209,000	5,209,000	6,666,000	6,666,000
Mortgage servicing rights	853,000	1,041,000	712,000	811,000
Financial liabilities:				
Members' shares	\$1,386,864,000	\$1,403,849,000	\$1,316,370,000	\$1,333,492,000
Borrowed funds	-	-	161,469,000	161,469,000
Accrued interest payable	-	-	426,000	426,000

Fair Value on a Recurring Basis: The following table presents the assets measured at fair value on a recurring basis on the consolidated statements of financial condition and by level within the valuation hierarchy:

	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2010				
Investments available-for-sale	\$ 818,644,000	\$ 97,136,000	\$ 721,508,000	\$ -
December 31, 2009				
Investments available-for-sale	\$ 683,552,000	\$ 57,829,000	\$ 625,723,000	\$ -
Trading securities	9,768,000	9,768,000	-	-

Fair Value on a Nonrecurring Basis: Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets and liabilities carried on the consolidated statements of financial condition by caption and by level within the valuation hierarchy (as described above) for which a nonrecurring change in fair value has been recorded.

**LANGLEY FEDERAL CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009**

NOTE 14 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

	<u>Total</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
December 31, 2010				
Impaired Loans	\$ 7,751,323	\$ -	\$ -	\$ 7,751,323
December 31, 2009				
Impaired Loans	\$ 6,659,037	\$ -	\$ -	\$ 6,659,037

NOTE 15 – SUBSEQUENT EVENTS

Management evaluated subsequent events through March 28, 2011, the date the consolidated financial statements were available to be issued. Events or transactions occurring after December 31, 2010, but prior to March 28, 2011 that provided additional evidence about conditions that existed at December 31, 2010, have been recognized in the consolidated financial statements for the year ended December 31, 2010. Events or transactions that provided evidence about conditions that did not exist at December 31, 2010 but arose before the consolidated financial statements were available to be issued, have not been recognized in the consolidated financial statements for the year ended December 31, 2010.