

**TELHIO CREDIT UNION**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2009 and 2008

TELHIO CREDIT UNION  
Columbus, Ohio

CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008 and 2007

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Crowe Horwath LLP  
Independent Member Crowe Horwath International

## REPORT OF INDEPENDENT AUDITORS

Board of Directors  
Telhio Credit Union  
Columbus, Ohio

We have audited the accompanying consolidated balance sheets of Telhio Credit Union as of December 31, 2009 and 2008, and the related consolidated statements of income, comprehensive income, changes in members' equity and cash flows for the years then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Telhio Credit Union as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Crowe Horwath LLP".

Crowe Horwath LLP

Cleveland, Ohio  
March 22, 2010

TELHIO CREDIT UNION  
CONSOLIDATED BALANCE SHEETS  
December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Cash and due from financial institutions	\$ 13,063,613	\$ 14,787,971
Overnight deposits with financial institutions	<u>34,543,779</u>	<u>29,111,495</u>
Total cash and cash equivalents	47,607,392	43,899,466
Interest-bearing time deposits with financial institutions	4,337,000	3,000,000
Securities available for sale	57,383,807	43,553,676
Federal Home Loan Bank (FHLB) stock	1,241,800	1,221,300
Mortgage loans held for sale	803,417	302,300
Loans to members	298,492,971	308,943,353
Allowance for loan losses	<u>(2,700,560)</u>	<u>(2,401,160)</u>
Loans, net	295,792,411	306,542,193
Premises and equipment, net	7,557,719	6,808,568
Capital participation certificates	900,005	900,005
Member share insurance deposit	3,891,937	3,710,989
Accrued interest receivable	1,518,401	1,571,792
Other real estate owned	203,625	187,569
Other assets	<u>946,406</u>	<u>1,212,594</u>
 Total assets	 <u>\$ 422,183,920</u>	 <u>\$ 412,910,452</u>
 <b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>Liabilities</b>		
Share accounts	\$ 371,061,906	\$ 358,177,323
FHLB advances	--	5,000,000
Accrued dividends	727,255	1,047,070
Advances by borrowers for taxes and insurance	1,189,955	1,112,438
Other liabilities	<u>1,483,988</u>	<u>951,113</u>
Total liabilities	374,463,104	366,287,944
 <b>Members' equity</b>		
Appropriated statutory reserve	9,228,409	9,228,409
Retained earnings	37,754,136	36,809,852
Accumulated other comprehensive income	<u>738,271</u>	<u>584,247</u>
Total members' equity	<u>47,720,816</u>	<u>46,622,508</u>
 Total liabilities and members' equity	 <u>\$ 422,183,920</u>	 <u>\$ 412,910,452</u>

See accompanying notes to consolidated financial statements.

TELHIO CREDIT UNION  
CONSOLIDATED STATEMENTS OF INCOME  
Years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Interest and dividend income		
Loans, including fees	\$ 19,884,231	\$ 19,920,982
Securities	1,840,580	2,180,184
Federal funds sold and other interest bearing deposits	<u>199,346</u>	<u>854,709</u>
	21,924,157	22,955,875
Interest expense		
Share accounts	7,798,439	9,757,055
Borrowings	<u>167,568</u>	<u>331,961</u>
	7,966,007	10,089,016
Net interest income	13,958,150	12,866,859
Provision for loan losses	<u>2,109,668</u>	<u>2,257,405</u>
Net interest income after provision for loan losses	11,848,482	10,609,454
Noninterest income		
VISA and ATM income	342,647	325,280
Check card income	1,287,526	1,310,406
Service center investment income	21,747	6,594
Fees on loans originated for others	99,903	62,753
Gain on redemption of Visa stock	--	611,478
Gain on sale of loans	662,801	400,436
Credit card interchange income	661,042	519,758
Recovery of NCUSIF deposit impairment	2,461,173	--
Service charges and other	<u>3,041,621</u>	<u>3,072,124</u>
	8,578,460	6,308,829
Noninterest expense		
Salaries and wages	6,289,460	6,079,612
Employee benefits and payroll taxes	1,242,724	1,405,405
ATM and credit card processing	1,041,487	1,062,634
Office supplies	240,430	229,917
Occupancy and equipment	1,898,015	2,040,561
Advertising and marketing	593,794	596,879
Data processing	831,139	763,734
Postage	323,398	336,218
Member insurance	555,291	--
Impairment of NCUSIF deposit	2,461,173	--
Other	<u>4,005,747</u>	<u>3,286,659</u>
	19,482,658	15,801,619
Net income	<u>\$ 944,284</u>	<u>\$ 1,116,664</u>

See accompanying notes to consolidated financial statements.

TELHIO CREDIT UNION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
Years ended December 31, 2009 and 2008

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	<u>2009</u>	<u>2008</u>
Net income	\$ 944,284	\$ 1,116,664
Other comprehensive income:		
Unrealized gains on securities available for sale	<u>154,024</u>	<u>149,024</u>
Comprehensive income	<u>\$ 1,098,308</u>	<u>\$ 1,265,688</u>

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See accompanying notes to consolidated financial statements.

TELHIO CREDIT UNION  
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY  
Years ended December 31, 2009 and 2008

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	Appropriated Statutory <u>Reserve</u>	Retained <u>Earnings</u>	Accumulated Other Comprehensive <u>Income (Loss)</u>	Total Members' <u>Equity</u>
Balance, January 1, 2008	\$ 9,228,409	\$ 35,693,188	\$ 435,223	\$ 45,356,820
Net income	--	1,116,664	--	1,116,664
Change in net unrealized gain on securities available for sale	<u>--</u>	<u>--</u>	<u>149,024</u>	<u>149,024</u>
Balance, December 31, 2008	9,228,409	36,809,852	584,247	46,622,508
Net income	--	944,284	--	944,284
Change in net unrealized gain on securities available for sale	<u>--</u>	<u>--</u>	<u>154,024</u>	<u>154,024</u>
Balance, December 31, 2009	<u>\$ 9,228,409</u>	<u>\$ 37,754,136</u>	<u>\$ 738,271</u>	<u>\$ 47,720,816</u>

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See accompanying notes to consolidated financial statements.

TELHIO CREDIT UNION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Net income	\$ 944,284	\$ 1,116,664
Adjustments to reconcile net income to cash from operating activities		
Depreciation	1,029,550	1,177,844
Provision for loan losses	2,109,668	2,257,405
Net (gain) loss on sales of other real estate owned	217,303	17,995
Net amortization (accretion) of securities	110,101	(46,006)
FHLB stock dividends	--	(47,500)
Net (gain) loss on sale of loans	(662,801)	(400,436)
Gain on sale of premises and equipment	--	(6,736)
Loans originated for sale	(43,944,468)	(16,791,165)
Proceeds from sales of loans	44,106,152	18,636,901
Change in:		
Net deferred loan costs	(493,966)	(483,808)
Accrued interest receivable	53,391	180,110
Accrued dividends	(319,815)	(2,050)
Other assets and other liabilities	799,063	233,157
Net cash from operating activities	<u>3,948,462</u>	<u>5,842,375</u>
Cash flows from investing activities		
Change in:		
Interest-bearing time deposits with financial institutions	(1,337,000)	3,000,000
Member share insurance deposit	(180,948)	(495,668)
Loans originations net of repayments	8,220,083	(11,406,259)
Purchase of:		
Securities available for sale	(46,830,883)	(22,101,217)
Premises and equipment, net	(1,778,701)	(261,721)
Capital participation certificates	--	(5)
Purchase of FHLB stock	(20,500)	--
Proceeds from maturities of securities available for sale	33,044,675	19,916,604
Proceeds from sales of premises and equipment	--	61,464
Proceeds from sales of OREO	680,638	45,366
Net cash from investing activities	<u>(8,202,636)</u>	<u>(11,241,436)</u>
Cash flows from financing activities		
Net change in member share accounts	12,884,583	23,225,562
Net change in advances by borrowers for taxes and insurance	77,517	(34,033)
Repayment of FHLB advances	(5,000,000)	(1,875,000)
Repayment of other long term borrowings	--	(10,000,000)
Net cash from financing activities	<u>7,962,100</u>	<u>11,316,529</u>
Net change in cash and cash equivalents	3,707,926	5,917,468
Cash and cash equivalents at beginning of year	<u>43,899,466</u>	<u>37,981,998</u>
Cash and cash equivalents at end of year	<u>\$ 47,607,392</u>	<u>\$ 43,899,466</u>
Supplemental cash flow information		
Interest paid on share accounts and other borrowings	<u>\$ 8,285,822</u>	<u>\$ 10,091,066</u>
Non cash activities		
Transfer of loans to other real estate owned	<u>\$ 913,997</u>	<u>\$ 65,709</u>

See accompanying notes to consolidated financial statements.

TELHIO CREDIT UNION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2009 and 2008

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of Telhio Credit Union conform to accounting principles generally accepted in the United States of America and general practice within the credit union industry. The more significant policies are described below.

Nature of Operations and Principles of Consolidation: The consolidated financial statements include the accounts of Telhio Credit Union and its wholly-owned credit union service organization, E-Choice Solutions, LLC (together referred to as "Telhio" or the "Credit Union"). Intercompany balances and transactions have been eliminated in consolidation.

Telhio generates consumer loans and leases and mortgage loans, and receives deposits from members located primarily in Franklin County, Ohio and contiguous counties. The members' ability to repay their loans is dependent on the real estate and general conditions in the area. The majority of loans and leases are secured by specific items of collateral including new and used automobiles and real property. E-Choice Solutions, LLC originates loans and provides marketing services for other credit unions. Other financial instruments which potentially represent concentrations of credit risk include deposit accounts in other financial institutions and federal funds sold.

Telhio also maintains an investment in a credit card servicing center, which is accounted for under the cost method. Dividends are classified as noninterest income in the accompanying consolidated financial statements.

Subsequent Events: The Company has evaluated subsequent events for recognition or disclosure through March 22, 2010, which is the date that the Credit Union's financial statements were issued.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The allowance for loan losses, the fair values of financial instruments and lease residual values are particularly subject to change.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand, demand deposits in other financial institutions and federal funds sold, as well as time deposits and investments with original maturities under 90 days. Cash flows are reported net for member loan and share account transactions, certificates of deposit with other financial institutions and short-term borrowings with maturities of 90 days or less.

Interest-bearing Deposits in Other Financial Institutions: Interest-bearing deposits in other financial institutions are carried at cost.

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(Continued)

TELHIO CREDIT UNION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2009 and 2008

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Securities: Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income.

Interest income includes the amortization of purchase premiums and discounts. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined based on the amortized cost of the security sold.

Management evaluates securities for other-than-temporary impairment (“OTTI”) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation.

Federal Home Loan Bank (FHLB) stock: Telhio is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Because this stock is viewed as a long term investment, impairment is based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Mortgage Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Mortgage loans held for sale are generally sold servicing released. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans to Members: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs. Leases originated by Telhio are simple interest leases. The balance shown in the footnote includes the remaining principal balance plus the residual value. The term loan used throughout this report is intended to include leases unless specifically noted.

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(Continued)

TELHIO CREDIT UNION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2009 and 2008

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Discounts on automobile leases are recognized over the term of the lease using the interest method. Accrual of interest is discontinued when full loan repayment is in doubt, typically when payments are contractually delinquent 90 days or more, unless the credit is well secured and in the process of collection. Past due status is based upon the contractual terms of the loan. Uncollectible interest previously accrued is charged-off or an allowance is established by means of a charge to interest income. Interest received is recognized on the cash basis or cost recovery method until qualifying for return to accrual status. Accrual is resumed when all contractually due payments are current and future payments are reasonably assured. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Foreclosed Assets: Assets acquired through or instead of loan foreclosure are initially recorded at lower of cost or fair value less costs to sell when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense.

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(Continued)

TELHIO CREDIT UNION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2009 and 2008

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Leasehold improvements are depreciated over the lesser of the lease term or the useful life of the asset. Depreciation is recorded on the straight-line method based on the estimated useful lives of the assets. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable. Maintenance and repairs are expensed and major improvements are capitalized. Gains and losses on disposals are included in other income.

Capital Participation Certificates: As a member of Corporate One Federal Credit Union, Telhio is required to maintain an investment in capital participation certificates for the lesser of 1% of Telhio's assets or \$900,000. During 2008, Telhio became a member of Southwest Corporate Federal Credit Union. At December 31, 2009, Telhio has \$5 invested in capital participation certificates of Southwest Federal Credit Union. The investments are interest bearing with an annual renewal.

NCUSIF Deposit: The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with NCUA regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured shares. The deposits would be refunded to Telhio if its insurance coverage is terminated, it converts to insurance from another source, or the operations of the fund are transferred from the NCUA Board. The deposit is evaluated for impairment by assessing the financial condition of the NCUSIF to the extent that the deposit is not refundable, impairment is recognized as expense in the period in which the deposits become nonrefundable.

Members' Share Accounts: Members' share accounts are subordinated to all other liabilities of Telhio. Members' shares are insured by the NCUA up to \$250,000 and by Excess Share Insurance for an additional \$250,000. Interest on members' share and savings accounts is based on available earnings at the end of an interest period. Interest rates on members' share accounts are set by the Board of Directors based on an evaluation of market conditions.

Members' Equity: Telhio is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of interest.

Income Taxes: Telhio is exempt from federal and state income taxes. Accordingly, no income tax expense is reflected in the statements of income. E-Choice Solutions, LLC, however is subject to federal and state income taxes. Operations of E-Choice Solutions, LLC resulted in no income taxes for the years ended 2009 and 2008.

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TELHIO CREDIT UNION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2009 and 2008

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans and lines of credit, issued to meet member financing needs. The face amount for these items represents the exposure to loss, before considering collateral or ability to repay. Such financial instruments are recorded when they are funded.

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank of \$25,000 and \$174,000 was required to meet regulatory reserve and clearing requirements at year-end 2009 and 2008. These balances do not earn interest.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Fair Values of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 10. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, which are also recognized as a separate component of members' equity.

Gain on Redemption of Visa Stock: Telhio Credit Union is a principal member of Visa. In the first quarter of 2008 Visa successfully completed an initial public offering. As a principal member, Telhio received class B shares in an amount proportionate to their ownership interest. Visa subsequently redeemed a portion of the Credit Union's class B shares of stock. Proceeds were recognized as a gain in the financial statements.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation.

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(Continued)

TELHIO CREDIT UNION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2009 and 2008

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Adoption of New Accounting Standards: In September 2006, the FASB issued guidance that defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This guidance also establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The guidance was effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued guidance that delayed the effective date of this fair value guidance for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The effect of adopting this new guidance was not material.

In May 2009, the FASB issued guidance which requires the effects of events that occur subsequent to the balance-sheet date be evaluated through the date the financial statements are either issued or available to be issued. Entities should disclose the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. Entities are required to reflect in their financial statements the effects of subsequent events that provide additional evidence about conditions at the balance-sheet date (recognized subsequent events). Entities are also prohibited from reflecting in their financial statements the effects of subsequent events that provide evidence about conditions that arose after the balance-sheet date (nonrecognized subsequent events), but requires information about those events to be disclosed if the financial statements would otherwise be misleading. This guidance was effective for interim and annual financial periods ending after June 15, 2009 with prospective application. The effect of adopting this new guidance was not material.

In June 2009, the FASB replaced *The Hierarchy of Generally Accepted Accounting Principles*, with the *FASB Accounting Standards Codification*™ (The Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification was effective for financial statements issued for periods ending after September 15, 2009.

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(Continued)

TELHIO CREDIT UNION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2009 and 2008

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In April 2009, the FASB amended existing guidance for determining whether impairment is other-than-temporary for debt securities. The guidance requires an entity to assess whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) other-than-temporary impairment (OTTI) related to other factors, which is recognized in other comprehensive income and 2) OTTI related to credit loss, which must be recognized in the income statement. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. Additionally, disclosures about other-than-temporary impairments for debt and equity securities were expanded. This guidance was effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The effect of adopting this new guidance was not material.

In April 2009, the FASB issued guidance that emphasizes that the objective of a fair value measurement does not change even when market activity for the asset or liability has decreased significantly. Fair value is the price that would be received for an asset sold or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. When observable transactions or quoted prices are not considered orderly, then little, if any, weight should be assigned to the indication of the asset or liability's fair value. Adjustments to those transactions or prices should be applied to determine the appropriate fair value. The guidance, which was applied prospectively, was effective for interim and annual reporting periods ending after June 15, 2009 early adoption for periods ending after March 15, 2009. The effect of adopting this new guidance was not material.

In August 2009, the FASB amended existing guidance for the fair value measurement of liabilities by clarifying that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using a valuation technique that uses the quoted price of the identical liability when traded as an asset, quoted prices for similar liabilities or similar liabilities when traded as assets, or that is consistent with existing fair value guidance. The amendments in this guidance also clarify that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. The guidance was effective for the first reporting period beginning after issuance. The effect of adopting this new guidance was not material.

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TELHIO CREDIT UNION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2009 and 2008

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**NOTE 2 - CONCENTRATION OF ASSETS**

At year-end, Telhio had the following accounts with Corporate One Credit Union:

	<u>2009</u>	<u>2008</u>
Correspondent account	\$ 3,182,340	\$ 4,594,488
Money market deposit	17,603,438	23,223,900
Interest-bearing time deposits	4,337,000	3,000,000
Capital participation certificates	<u>900,000</u>	<u>900,000</u>
	<u>\$ 26,022,778</u>	<u>\$ 31,718,388</u>

At December 31, 2009 and 2008, Telhio had \$17.6 million and \$5.6 million at Huntington National Bank.

**NOTE 3 - SECURITIES AVAILABLE FOR SALE**

All of the Credit Union's securities available for sale are debt securities. The amortized cost and fair value of available for sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<u>2009</u>				
U.S. government sponsored entities	\$ 42,735,436	\$ 229,079	\$ (5,138)	\$ 42,959,377
Mortgage backed securities - residential	<u>13,910,099</u>	<u>514,331</u>	<u>--</u>	<u>14,424,430</u>
	<u>\$ 56,645,535</u>	<u>\$ 743,410</u>	<u>\$ (5,138)</u>	<u>\$ 57,383,807</u>
 <u>2008</u>				
U.S. government sponsored entities	23,002,564	\$ 281,541	\$ --	\$ 23,284,105
Mortgage backed securities - residential	<u>19,966,865</u>	<u>313,109</u>	<u>(10,403)</u>	<u>20,269,571</u>
	<u>\$ 42,969,429</u>	<u>\$ 594,650</u>	<u>\$ (10,403)</u>	<u>\$ 43,553,676</u>

Telhio had no sales of available for sale securities during 2009 or 2008.

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(Continued)

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**NOTE 3 - SECURITIES AVAILABLE FOR SALE (Continued)**

The amortized cost and fair value of securities at year-end 2009 by contractual maturity were as follows. Securities not due at a single maturity date, primarily mortgage-based securities, are shown separately.

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 8,510,249	\$ 8,621,252
Due after one year to five years	34,738,436	34,338,125
Mortgage backed securities - residential	<u>13,910,099</u>	<u>14,424,430</u>
	<u>\$ 56,645,535</u>	<u>\$ 57,383,807</u>

At year-end 2009 and 2008, there were no holdings of securities of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10% of members' equity.

Securities with unrealized losses at year-end 2009 and 2008, and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

<u>Description of Securities</u>	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
<u>2009</u>						
U.S. government sponsored entities	\$ 2,494,862	\$ (5,138)	\$ --	\$ --	\$ 2,494,862	\$ (5,138)
<u>2008</u>						
Mortgage backed Securities - residential	\$ 2,661,538	\$ (10,403)	\$ --	\$ --	\$ 2,661,538	\$ (10,403)

Unrealized loss on mortgage-backed and U.S. government sponsored entities debt securities have not been recognized into income because the bonds are of high credit quality, management does not intend to sell and it is not more likely than not that management would be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in market interest rates. The fair value is expected to recover as the bonds approach their maturity date.

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**NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES**

Loans at year-end were as follows:

	<u>2009</u>	<u>2008</u>
First mortgage real estate	\$ 72,495,682	\$ 92,968,092
Second mortgage and home equity loans	58,434,895	56,638,008
Business loans	513,428	125,559
Automobiles	117,955,845	106,496,501
Automobile leases	24,275,526	31,749,811
Unsecured consumer	13,958,939	10,177,216
Other secured consumer	<u>8,863,249</u>	<u>9,286,725</u>
	296,497,564	307,441,912
Net deferred loan costs	<u>1,995,407</u>	<u>1,501,441</u>
	<u>\$ 298,492,971</u>	<u>\$ 308,943,353</u>

Telhio leases automobiles to members through an arrangement with the Credit Union Leasing of America (CULA). Telhio approves the leases and CULA holds title to the vehicles. A security interest in the vehicle is granted to Telhio at the time the member lease is approved. CULA guarantees the residual value at expiration or early termination of the contract, unless Telhio repossesses the vehicle due to default at which time they may incur a loss. The residual value balance guaranteed by CULA was \$14,416,565 relating to leases totaling \$24,275,526 at December 31, 2009 and \$18,930,024 relating to leases totaling \$31,749,811 at December 31, 2008. Telhio recognizes income on leases using the interest method. Leases originated by Telhio are simple interest leases.

Loans to certain employees, directors and committee members of Telhio totaled approximately \$1,297,981 and \$753,984 at year-end 2009 and 2008.

Activity in the allowance for loan losses for the year was as follows:

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 2,401,160	\$ 2,780,601
Provision for loan losses	2,109,668	2,257,405
Loans charged-off	(3,078,503)	(3,623,133)
Recoveries	<u>1,268,235</u>	<u>986,287</u>
Balance, end of year	<u>\$ 2,700,560</u>	<u>\$ 2,401,160</u>

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(Continued)

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**NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)**

Due to the nature of the loan portfolio, no loans were required to be evaluated individually for impairment. At year-end 2009 and 2008, there were approximately \$2,609,638 and \$2,572,453 in loans on nonaccrual status. There were no loans 90 days past due and still accruing interest at year-end 2009 and 2008. Loans to members whose terms have been modified in troubled debt restructurings totaled \$429,000 at December 31, 2009.

**NOTE 5 - PREMISES AND EQUIPMENT**

Year-end premises and equipment were as follows:

	<u>2009</u>	<u>2008</u>
Land and land improvements	\$ 956,343	\$ 956,343
Buildings	8,257,165	7,322,751
Furniture and equipment	8,852,030	8,266,320
Leasehold improvements	873,754	873,754
Construction in progress	<u>36,920</u>	<u>--</u>
	18,976,212	17,419,168
Accumulated depreciation	<u>(11,418,493)</u>	<u>(10,610,600)</u>
	<u>\$ 7,557,719</u>	<u>\$ 6,808,568</u>

Telhio leases certain branch properties. Rent commitments under noncancelable leases, excluding common area maintenance amounts, were as follows for the years ending December 31:

2010	\$ 110,347
2011	105,347
2012	50,346
2013	50,346
2014	50,346
Thereafter	<u>50,346</u>
	<u>\$ 417,078</u>

Aggregate lease rental expense was \$114,539 and \$113,872 for 2009 and 2008.

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**NOTE 6 - SHARE ACCOUNTS**

Year-end share accounts were as follows:

	<u>2009</u>	<u>2008</u>
Share drafts	\$ 59,980,657	\$ 50,050,975
Regular shares	69,864,537	65,379,915
Money market shares	64,458,876	56,421,885
Club shares	631,769	647,275
IRA shares	9,138,178	8,917,629
Share certificate accounts	161,764,876	168,680,630
Nonmember certificate accounts	<u>5,223,013</u>	<u>8,079,014</u>
	<u>\$ 371,061,906</u>	<u>\$ 358,177,323</u>

At December 31, 2009, scheduled maturities of share certificate and nonmember certificate accounts were as follows:

2010	\$ 91,585,832
2011	30,360,617
2012	20,382,766
2013	9,773,207
2014	14,589,339
Thereafter	<u>296,128</u>
	<u>\$ 166,987,889</u>

Certificate accounts in denominations greater than \$100,000 at December 31, 2009 and 2008 totaled approximately \$37,015,198 and \$37,482,213. Total Telhio employee, director and committee member accounts at year-end 2009 and 2008 totaled \$900,629 and \$656,774.

**NOTE 7 – FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS**

There were no Federal Home Loan Bank (FHLB) advances at December 31, 2009. A required payment of \$5,000,000 on a 5.25% fixed rate FHLB advance was made in August 2009 repaying the outstanding balance at December 31, 2008. FHLB advances are collateralized by all shares of FHLB stock owned by Telhio and \$70,669,000 and \$90,328,000 of eligible first mortgage loans under a blanket arrangement at year end 2009 and 2008.

At December 31, 2009 and 2008, the Credit Union had a line of credit balance available of \$23,000,000 at Corporate One Credit Union. No amounts had been drawn on this line of credit at year-end 2009 and 2008.

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(Continued)

TELHIO CREDIT UNION  
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**NOTE 8 - EMPLOYEE BENEFIT PLANS**

Postretirement Benefit Plan: Prior to 1999, Telhio sponsored a defined benefit postretirement plan that covered substantially all employees. The plan provided medical benefits to retire employees with more than 25 years of service who retired under the normal or early retirement provisions of the Credit Union Retirement Plan.

In 1999, this plan was terminated. Those participants currently receiving benefits will continue to receive benefits. The remaining benefit obligation at year-end 2009 and 2008 was approximately \$5,356 and \$11,154.

Employee 401(k) and Profit Sharing Plan: Telhio offers a 401(k) and profit sharing plan for all eligible employees. Eligible employees may contribute a percentage of their compensation subject to a maximum statutory limitation. Telhio provides a matching contribution on behalf of participants who make elective compensation deferrals. Employee and employer contributions are always 100% vested. Expense for 2009 and 2008 was \$175,000 and \$349,000.

**NOTE 9 - LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES**

Some financial instruments, such as loan commitments, credit lines, and overdraft protection, are issued to meet member financing needs. These are agreements to provide credit or support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amount of financial instruments with off-balance-sheet risk was as follows at year-end:

	<u>2009</u>	<u>2008</u>
Open end 1-4 family lines of credit	\$ 34,935,445	\$ 41,246,366
Share draft unfunded lines of credit	<u>17,414,829</u>	<u>14,381,198</u>
Total	<u>\$ 52,350,274</u>	<u>\$ 55,627,564</u>

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(Continued)

TELHIO CREDIT UNION  
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**NOTE 10 - FAIR VALUE**

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

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 use in pricing an asset or liability.

Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at December 31, 2009, using:					
	Quoted Pricing in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)	
Assets:						
U.S. government sponsored entities	\$	--	\$	42,959,377	\$	--
Mortgage backed securities - residential		--		14,424,430		--

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(Continued)

TELHIO CREDIT UNION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 10 - FAIR VALUE (Continued)**

Fair Value Measurements at December 31, 2008, using:  
Quoted Pricing in  
Active Markets for  
Identical Assets  
(Level 1)

Significant Other  
Observable Inputs  
(Level 2)

Significant  
Unobservable Inputs  
(Level 3)

Assets:				
U.S. government sponsored entities	\$	--	\$	23,284,105
Mortgage backed securities - residential		--		20,269,571

There are no assets or liabilities measured on a non-recurring basis.

Carrying amounts and estimated fair values of financial instruments were as follows at year-end:

	<u>2009</u>		<u>2008</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
	(In thousands)			
Financial assets:				
Cash and cash equivalents	\$ 47,607	\$ 47,607	\$ 43,899	\$ 43,899
Interest-bearing time deposits	4,337	4,341	3,000	3,000
Securities available for sale	57,384	57,384	43,554	43,554
Federal Home Loan Bank stock	1,242	N/A	1,221	N/A
Mortgage loans held for sale	803	803	302	302
Net loans	272,181	277,065	274,645	275,645
Capital participation certificates	900	900	900	900
Member share insurance	3,892	3,892	3,711	3,711
Accrued interest receivable	1,518	1,518	1,572	1,572
Financial liabilities:				
Share accounts	(371,062)	(368,789)	(358,177)	(361,559)
Federal Home Loan Bank borrowings	--	--	(5,000)	(5,157)
Accrued dividends payable	(727)	(727)	(1,047)	(1,047)
Advances by borrowers for taxes and insurance	(1,190)	(1,190)	(1,112)	(1,112)

(Continued)

TELHIO CREDIT UNION  
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**NOTE 10 - FAIR VALUE (Continued)**

The estimated fair value approximates carrying amount for all items except those described below. Estimated fair value for loans is based on the rates charged at year-end for new loans with similar maturities, applied until the loan is assumed to reprice or be paid. Estimated fair value for fixed-maturity share certificates is based on the rates paid at year-end, applied until maturity. Fair value of off-balance sheet items is based on the current fee or cost that would be charged to enter into or terminate such arrangements and is considered to be nominal. It is not practical to determine the fair value of FHLB stock due to the restrictions placed on transferability. Loans held for sale are carried at fair value when fair value is less than cost. The fair value is based upon binding quotes from 3rd party investors.

**NOTE 11- CAPITAL REQUIREMENTS**

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

Quantitative measures established by regulation to ensure capital adequacy require Telhio to maintain minimum amounts and ratios (set forth in the table below) of net worth (as defined) to total assets (as defined). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR), which establishes whether or not Telhio will be considered "complex" under the regulatory framework. Telhio's RBNW ratios as of December 31, 2009 and 2008 were 4.91% and 5.01%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes, as of December 31, 2009 and 2008, that Telhio meets all capital adequacy requirements to which it is subject.

As of December 31, 2009, the most recent reporting period, and December 31, 2008, the NCUA categorized Telhio as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized" Telhio must maintain a minimum net worth ratio of 7% of assets. There are no conditions or events since that notification that management believes have changed the institution's category.

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(Continued)

TELHIO CREDIT UNION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 11- CAPITAL REQUIREMENTS (Continued)**

Telhio's actual capital amounts and ratios were as follows:

	<u>Actual</u>		<u>To Be Adequately Capitalized Under Prompt Corrective Action Provisions</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
	(Dollars in thousands)					
<u>2009</u>						
Net worth	\$ 46,983	11.1%	\$ 25,302	6.0%	\$ 29,519	7.0%
Risk-based net worth requirement	N/A	N/A	N/A	N/A	N/A	N/A
<u>2008</u>						
Net worth	\$ 46,038	11.2%	\$ 24,752	6.0%	\$ 28,877	7.0%
Risk-based net worth requirement	N/A	N/A	N/A	N/A	N/A	N/A

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