

TELHIO CREDIT UNION
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007

TELHIO CREDIT UNION
Columbus, Ohio

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007

CONTENTS

REPORT OF INDEPENDENT AUDITORS.....	1
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED BALANCE SHEETS	2
CONSOLIDATED STATEMENTS OF INCOME.....	3
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME.....	4
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY	5
CONSOLIDATED STATEMENTS OF CASH FLOWS.....	6
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.....	7



Crowe Horwath LLP
Member 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, 2008 and 2007, 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, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Crowe Horwath LLP

Columbus, Ohio
March 21, 2009

TELHIO CREDIT UNION
CONSOLIDATED BALANCE SHEETS
December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and due from financial institutions	\$ 14,787,971	\$ 15,208,998
Federal funds sold	--	11,098,000
Overnight deposits with financial institutions	<u>29,111,495</u>	<u>11,675,000</u>
Total cash and cash equivalents	43,899,466	37,981,998
Interest-bearing time deposits with financial institutions	3,000,000	6,000,000
Securities available for sale	43,553,676	41,174,033
Federal Home Loan Bank (FHLB) stock	1,221,300	1,173,800
Mortgage loans held for sale	302,300	1,747,600
Loans to members	308,943,353	299,755,842
Allowance for loan losses	<u>(2,401,160)</u>	<u>(2,780,601)</u>
Loans, net	306,542,193	296,975,241
Premises and equipment, net	6,808,568	7,779,419
Capital participation certificates	900,005	900,000
NCUSIF deposit	3,520,989	3,215,321
Accrued interest receivable	1,571,792	1,751,902
Other assets	<u>1,590,163</u>	<u>1,518,353</u>
 Total assets	 <u>\$ 412,910,452</u>	 <u>\$ 400,217,667</u>
 LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Share accounts	\$ 358,177,323	\$ 334,951,761
FHLB advances	5,000,000	6,875,000
Accrued dividends	1,047,070	1,049,120
Other borrowings	--	10,000,000
Other liabilities	<u>2,063,551</u>	<u>1,984,966</u>
Total liabilities	366,287,944	354,860,847
 Members' equity		
Appropriated statutory reserve	9,228,409	9,228,409
Retained earnings	36,809,852	35,693,188
Accumulated other comprehensive income	<u>584,247</u>	<u>435,223</u>
Total members' equity	<u>46,622,508</u>	<u>45,356,820</u>
 Total liabilities and members' equity	 <u>\$ 412,910,452</u>	 <u>\$ 400,217,667</u>

See accompanying notes to consolidated financial statements.

TELHIO CREDIT UNION
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Interest and dividend income		
Loans, including fees	\$ 20,841,175	\$ 20,290,067
Securities	2,180,184	2,236,710
Federal funds sold and other interest bearing deposits	<u>854,709</u>	<u>1,321,316</u>
	23,876,069	23,848,093
Interest expense		
Share accounts	9,757,055	9,777,879
Borrowings	<u>331,961</u>	<u>527,874</u>
	<u>10,089,016</u>	<u>10,305,753</u>
Net interest income	13,787,053	13,542,340
Provision for loan losses	<u>2,257,405</u>	<u>165,578</u>
Net interest income after provision for loan losses	11,529,648	13,376,762
Noninterest income		
VISA and ATM income	325,280	300,168
Check card income	1,310,406	1,487,416
Service center investment income	6,594	23,598
Fees on loans originated for others	62,753	500,900
Gain on redemption of Visa stock	611,478	--
Service charges and other	<u>3,072,124</u>	<u>2,766,985</u>
	5,388,635	5,079,067
Noninterest expense		
Salaries and wages	6,079,612	5,953,331
Employee benefits and payroll taxes	1,405,405	1,580,969
ATM and credit card processing	1,062,634	1,147,801
Office supplies	229,917	219,052
Occupancy and equipment	2,040,561	2,024,684
Advertising and marketing	596,879	645,574
Data processing	763,734	716,460
Postage	336,218	328,888
Other	<u>3,286,659</u>	<u>3,904,264</u>
	<u>15,801,619</u>	<u>16,521,023</u>
Net income	<u>\$ 1,116,664</u>	<u>\$ 1,934,806</u>

See accompanying notes to consolidated financial statements.

TELHIO CREDIT UNION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Net income	\$ 1,116,664	\$ 1,934,806
Other comprehensive income:		
Unrealized gains on securities available for sale	<u>149,024</u>	<u>535,295</u>
Comprehensive income	<u>\$ 1,265,688</u>	<u>\$ 2,470,101</u>

See accompanying notes to consolidated financial statements.

TELHIO CREDIT UNION
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
Years ended December 31, 2008 and 2007

	Appropriated Statutory <u>Reserve</u>	Retained Earnings	Accumulated Other Comprehensive <u>Income (Loss)</u>	Total Members' <u>Equity</u>
Balance, January 1, 2007	\$ 9,228,409	\$ 33,758,382	\$ (100,072)	\$ 42,886,719
Net income		1,934,806		1,934,806
Change in net unrealized gain on securities available for sale	<u> </u>	<u> </u>	<u>535,295</u>	<u>535,295</u>
Balance, December 31, 2007	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	<u>\$ 9,228,409</u>	<u>\$ 36,809,852</u>	<u>\$ 584,247</u>	<u>\$ 46,622,508</u>

See accompanying notes to consolidated financial statements.

TELHIO CREDIT UNION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Net income	\$ 1,116,664	\$ 1,934,806
Adjustments to reconcile net income to cash from operating activities		
Depreciation	1,177,844	1,191,351
Provision for loan losses	2,257,405	165,578
Net amortization (accretion) of securities	(46,006)	(23,430)
FHLB stock dividends	(47,500)	--
Gain on sale of premises and equipment	(6,736)	--
Change in:		
Net deferred loan costs	(483,808)	487,935
Mortgage loans held for sale	1,445,300	630,936
Accrued interest receivable	180,110	(38,363)
Accrued dividends	(2,050)	190,828
Other assets and other liabilities	<u>6,765</u>	<u>(325,952)</u>
Net cash from operating activities	5,690,000	4,213,689
Cash flows from investing activities		
Change in:		
Interest-bearing time deposits with financial institutions	3,000,000	7,498,000
NCUSIF deposit	(305,668)	81,725
Loans originations net of repayments	(11,340,549)	(8,666,162)
Purchase of:		
Securities available for sale	(22,101,217)	(20,837,471)
Premises and equipment, net	(261,721)	(336,746)
Proceeds from sale of premises and equipment	61,464	--
Capital participation certificates	5	--
Proceeds from maturities of securities available for sale	<u>19,916,604</u>	<u>12,565,972</u>
Net cash from investing activities	(11,123,094)	(9,694,682)
Cash flows from financing activities		
Net change in member share accounts	\$ 23,225,562	\$ 3,671,503
Proceeds from FHLB advances	--	--
Repayment of FHLB advances	(1,875,000)	(2,500,000)
Proceeds from other long term borrowings	--	10,000,000
Repayment of other long term borrowings	<u>(10,000,000)</u>	<u>--</u>
Net cash from financing activities	<u>11,350,562</u>	<u>11,171,503</u>
Net change in cash and cash equivalents	5,917,468	5,690,510
Cash and cash equivalents at beginning of year	<u>37,981,998</u>	<u>32,291,488</u>
Cash and cash equivalents at end of year	<u>\$ 43,899,466</u>	<u>\$ 37,981,998</u>
Supplemental cash flow information		
Interest paid on share accounts and other borrowings	<u>\$ 10,089,016</u>	<u>\$ 10,114,926</u>

See accompanying notes to consolidated financial statements.

TELHIO CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007

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 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.

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 Flows: 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.

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.

(Continued)

TELHIO CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest income includes the amortization of purchase premiums and discounts. Gains and losses on sales are recorded on the trade date and determined based on the amortized cost of the security sold.

Declines in the fair value of securities below their cost that are other than temporary are reflected as realized losses. In estimating other-than-temporary losses, management considers the length of time and extent that fair value has been less than cost, the financial condition and near term prospects of the issuer, and the Credit Union's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value.

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. 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.

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.

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.

(Continued)

TELHIO CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Loan impairment is reported when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential mortgage, consumer and credit card loans, and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. 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, 2008, 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.

(Continued)

TELHIO CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2008 and 2007.

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 \$174,000 and \$1,023,000 was required to meet regulatory reserve and clearing requirements at year-end 2008 and 2007. 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.

Reclassifications: Some items in the 2007 financial statements have been reclassified to conform to the 2008 presentation.

(Continued)

TELHIO CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

NOTE 2 - CONCENTRATION OF ASSETS

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

	<u>2008</u>	<u>2007</u>
Correspondent account	\$ 4,594,488	\$ 3,876,952
Money market deposit	23,223,900	11,675,000
Interest-bearing time deposits	3,000,000	6,000,000
Capital participation certificates	<u>900,000</u>	<u>900,000</u>
	<u>\$ 31,718,388</u>	<u>\$ 22,451,952</u>

At December 31, 2008 Telhio had \$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 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>Fair Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>
<u>2008</u>			
U.S. government sponsored entities	\$ 23,284,105	\$ 281,541	\$ --
Mortgage backed securities	<u>20,269,571</u>	<u>313,109</u>	<u>(10,403)</u>
	<u>\$ 43,553,676</u>	<u>\$ 594,650</u>	<u>\$ (10,403)</u>
<u>2007</u>			
U.S. government sponsored entities	\$ 24,221,800	\$ 242,956	\$ (6,100)
Mortgage backed securities	<u>16,952,233</u>	<u>198,367</u>	<u>-</u>
	<u>\$ 41,174,033</u>	<u>\$ 441,323</u>	<u>\$ (6,100)</u>

(Continued)

TELHIO CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 3 - SECURITIES AVAILABLE FOR SALE (Continued)

The fair value of securities at year-end 2008 by contractual maturity were as follows. Securities not due at a single maturity date, primarily mortgage-based securities, are shown separately.

Due in one year or less	\$ 4,045,287
Due after one year to five years	19,238,818
Mortgage-backed securities	<u>20,269,571</u>
	<u>\$ 43,553,676</u>

Securities with unrealized losses at year-end 2008 and 2007, 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>2008</u>						
U.S. government sponsored entities	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Mortgage backed securities	<u>2,661,538</u>	<u>(10,403)</u>	<u>--</u>	<u>--</u>	<u>2,661,538</u>	<u>(10,403)</u>
	<u>\$ 2,661,538</u>	<u>\$ (10,403)</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 2,661,538</u>	<u>\$ (10,403)</u>
<u>2007</u>						
U.S. government sponsored entities	\$ --	\$ --	\$ 993,900	\$ (6,100)	\$ 993,900	\$ (6,100)
Mortgage backed securities	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 993,900</u>	<u>\$ (6,100)</u>	<u>\$ 993,900</u>	<u>\$ (6,100)</u>

Unrealized loss on mortgage-backed and U.S. government sponsored entities debt securities have not been recognized into income because management has the intent and ability to hold for the foreseeable future, 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.

(Continued)

TELHIO CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans at year-end were as follows:

	<u>2008</u>	<u>2007</u>
First mortgage real estate	\$ 92,968,092	\$ 95,756,984
Second mortgage and home equity loans	56,638,008	49,253,816
Business loans	125,559	131,810
Automobiles	106,496,501	97,874,031
Automobile leases	31,749,811	36,385,308
Unsecured consumer	10,177,216	9,884,858
Other secured consumer	<u>9,286,725</u>	<u>9,451,402</u>
	307,441,912	298,738,209
Net deferred loan costs	<u>1,501,441</u>	<u>1,017,633</u>
	<u>\$ 308,943,353</u>	<u>\$ 299,755,842</u>

Loans serviced for others are not included in the accompanying consolidated balance sheet. The unpaid principal balance of the auto loans and leases serviced for others was approximately \$305,738 and \$2,489,647 at December 31, 2008 and 2007. Servicing rights related to those loans were not material.

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 \$575,332 relating to leases totaling \$575,350 at December 31, 2008 and \$674,156 relating to leases totaling \$674,250 at December 31, 2007. The guaranteed residual balance is not included in the automobile leases balance at December 31, 2008 and 2007. Telhio recognizes income on leases using the interest method. Leases originated by Telhio are simple interest leases. The residual value balance of the collateral underlying these leases was \$18,930,024 at December 31, 2008 and \$21,596,971 at December 31, 2007.

Loans to certain employees, directors and committee members of Telhio totaled approximately \$753,984 and \$1,708,372 at year-end 2008 and 2007.

(Continued)

TELHIO CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007

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

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

	<u>2008</u>	<u>2007</u>
Balance, beginning of year	\$ 2,780,601	\$ 4,704,514
Provision for loan losses	2,257,405	165,578
Loans charged-off	(3,623,133)	(3,415,738)
Recoveries	<u>986,287</u>	<u>1,326,247</u>
Balance, end of year	<u>\$ 2,401,160</u>	<u>\$ 2,780,601</u>

Due to the nature of the loan portfolio, no loans were required to be evaluated individually for impairment. At year-end 2008 and 2007, there were approximately \$2,572,453 and \$1,030,494 in loans on nonaccrual status. There were no loans 90 days past due and still accruing interest at year-end 2008 and 2007.

NOTE 5 - PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows:

	<u>2008</u>	<u>2007</u>
Land and land improvements	\$ 956,343	\$ 956,343
Buildings	7,322,751	7,269,712
Furniture and equipment	8,266,320	8,095,913
Leasehold improvements	873,754	829,790
Construction in progress	<u>--</u>	<u>25,785</u>
	17,419,168	17,177,543
Accumulated depreciation	<u>(10,610,600)</u>	<u>(9,398,124)</u>
	<u>\$ 6,808,568</u>	<u>\$ 7,779,419</u>

(Continued)

TELHIO CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 5 - PREMISES AND EQUIPMENT (Continued)

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

2009	\$ 110,347
2010	115,941
2011	55,940
2012	55,940
2013	55,940
Thereafter	<u>55,940</u>
	<u>\$ 560,395</u>

Aggregate lease rental expense was \$113,872 and \$115,646 for 2008 and 2007.

NOTE 6 - SHARE ACCOUNTS

Year-end share accounts were as follows:

	<u>2008</u>	<u>2007</u>
Share drafts	\$ 50,050,975	\$ 48,494,035
Regular shares	65,379,915	65,334,325
Money market shares	56,421,885	45,413,482
Club shares	647,275	479,174
IRA shares	8,917,629	9,361,422
Share certificate accounts	168,680,630	158,486,309
Nonmember certificate accounts	<u>8,079,014</u>	<u>7,383,014</u>
	<u>\$ 358,177,323</u>	<u>\$ 334,951,761</u>

At December 31, 2008, scheduled maturities of share certificate and nonmember certificate accounts were as follows:

2009	\$ 102,800,255
2010	40,020,700
2011	9,309,876
2012	16,741,966
2013	<u>7,886,847</u>
	<u>\$ 176,759,644</u>

(Continued)

TELHIO CREDIT UNION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2008 and 2007

NOTE 6 - SHARE ACCOUNTS (Continued)

Certificate accounts in denominations greater than \$100,000 at December 31, 2008 and 2007 totaled approximately \$37,482,213 and \$26,096,144. Total Telhio employee, director and committee member accounts at year-end 2008 and 2007 totaled \$656,774 and \$764,469.

NOTE 7 – FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

Year-end borrowings were as follows:

	<u>2008</u>	<u>2007</u>
<u>Corporate One Federal Credit Union Line of Credit</u>		
Cash management advance, 4.80% fixed rate, matures on June 30, 2008; \$23 million available.	\$ --	\$ 10,000,000
<u>Federal Home Loan Bank Advances</u>		
5.50% fixed-rate, two-year advance, monthly principal payments of \$208,333 plus interest. Final maturity September 2008.	--	1,875,000
5.25% fixed-rate, three-year interest only advance, principal due at maturity August 2009.	<u>5,000,000</u>	<u>5,000,000</u>
	<u>\$ 5,000,000</u>	<u>\$ 16,875,000</u>

Required payments of Federal Home Loan Bank (FHLB) advances are \$5,000,000 in August 2009.

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. FHLB advances were collateralized by all shares of FHLB stock owned by the Credit Union (totaling \$1,221,300) and \$90,328,000 and \$94,880,000 of eligible first mortgage loans under a blanket lien arrangement at year-end 2008 and 2007.

At December 31, 2008 and 2007, the Credit Union had a line of credit balance available of \$23,000,000 at Corporate One Credit Union. \$0 had been drawn on this line of credit at year-end 2008. \$10,000,000 funds had been drawn at year-end 2007. Borrowings on this line of credit were collateralized by available for sale securities in the amount of \$41,174,033 at December 31, 2007.

(Continued)

TELHIO CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007

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 2008 and 2007 was approximately \$11,154 and \$15,000.

Employee 401(k) and Profit Sharing Plan: Telhio offers a 401(k) and profit sharing plan for all eligible employees. To be eligible, an individual must be 18 or more years old. Eligible employees may contribute a percentage of their compensation subject to a maximum statutory limitation. Telhio provides a matching contribution equal to or greater than 100% on the first 6% of employee deferrals on behalf of participants who make elective compensation deferrals. Employee and employer contributions are always 100% vested. Expense for 2008 and 2007 was \$349,000 and \$307,000.

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>2008</u>	<u>2007</u>
Open end 1-4 family lines of credit	\$ 41,246,366	\$ 42,603,069
Share draft unfunded lines of credit	<u>14,381,198</u>	<u>15,236,494</u>
Total	<u>\$ 55,627,564</u>	<u>\$ 57,839,563</u>

(Continued)

TELHIO CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 10 - FAIR VALUES OF FINANCIAL INSTRUMENTS

Statement 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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.

The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

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, 2008, using

	Quoted Pricing in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Available for sale securities	\$ --	\$ 43,553,676	\$ --

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

Carrying amounts and estimated fair values of financial instruments, not previously presented were as follows at year-end:

(Continued)

TELHIO CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 10 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

	<u>2008</u>		<u>2007</u>	
	<u>Carrying</u>	<u>Fair</u>	<u>Carrying</u>	<u>Fair</u>
	<u>Value</u>	<u>Value</u>	<u>Value</u>	<u>Value</u>
	(In thousands)			
Financial assets:				
Cash and cash equivalents	\$ 43,899	\$ 43,899	\$ 37,982	\$ 37,982
Interest-bearing time deposits	3,000	3,000	6,000	6,000
Securities available for sale	43,554	43,554	41,174	41,174
Federal Home Loan Bank stock	1,221	N/A	1,174	N/A
Mortgage loans held for sale	302	302	1,748	1,748
Net loans	274,793	274,645	261,818	260,928
Capital participation certificates	900	900	900	900
NCUSIF deposit	3,521	3,521	3,215	3,215
Accrued interest receivable	1,572	1,572	1,752	1,752
Financial liabilities:				
Share accounts	(358,177)	(361,559)	(334,952)	(335,440)
Federal Home Loan Bank borrowings	(5,000)	(5,157)	(6,875)	(7,121)
Other borrowings	--	--	(10,000,000)	(10,000,000)
Accrued dividends payable	(1,047)	(1,047)	(1,049)	(1,049)

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.

(Continued)

TELHIO CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 11- CAPITAL REQUIREMENTS (Continued)

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, 2008 and 2007 were 5.01% and 5.31%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes, as of December 31, 2008 and 2007, that Telhio meets all capital adequacy requirements to which it is subject.

As of December 31, 2008, the most recent reporting period, and December 31, 2007, 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.

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>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
<u>2007</u>						
Net worth	\$ 45,110	11.2%	\$ 24,038	6.0%	\$ 28,044	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.

(Continued)

TELHIO CREDIT UNION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 12- SUBSEQUENT EVENTS

On January 28, 2009, the National Credit Union Administration (NCUA) announced certain actions it was taking to stabilize the corporate credit union system. On March 19, 2009, the NCUA took additional actions, including placing U.S. Central Federal Credit Union and Western Corporate (WesCorp) Federal Credit Union into conservatorship, to further stabilize the corporate credit union system and bring the credit union community closer to resolution of the issues facing the system. The NCUA indicated that the expense of the actions would be passed on proportionately to all federally-insured credit unions through the partial (estimated by NCUA to be 69%) write-off of such credit unions' existing deposits with the National Credit Union Share Insurance Fund (NCUSIF), as well as the assessment of an insurance premium sufficient to return the NCUSIF's equity to insured shares ratio to 1.30 percent.

Telhio, as well as other federally insured credit unions are required to maintain a refundable deposit with the NCUSIF in an amount equal to one percent of the credit union's total insured shares. The amount on deposit in the insurance fund is periodically adjusted for changes in the balance of a credit union's insured shares. In addition, a credit union is required to pay an additional annual insurance premium equal to one-twelfth of one percent of its insured shares. At December 31, 2008, Telhio's NCUSIF deposit totaled \$3,520,989.

Based on the NCUA's disclosures that it had no obligation to undertake the actions approved on January 28, 2009, and that the NCUSIF deposits were refundable under the circumstances described in the American Institute of Certified Public Accountants' Statement of Position 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*, Telhio's NCUSIF deposit became impaired on January 28, 2009. The combined impairment related to the actions on January 28, 2009 and March 19, 2009, is estimated to be approximately \$2.5 million or 69% of the Credit Union's deposit. The assessment will be based on insured share accounts as of December 31, 2008; the assessment is estimated at \$1.1 million.

At December 31, 2008, Telhio has not recognized any impairment of the deposit, which occurred on January 28, 2009, and does not have any liability accrued for the potential special assessment of deposit insurance premium that is anticipated to occur during the year ended December 31, 2009.