



Purdue Employees
Federal Credit Union

We've turned a
new page in our history.

Welcome



PURDUE FEDERAL
CREDIT UNION

2010 was an extremely successful year for **your credit union**. There are many ways to categorize the success of a financial institution. Yet, a financial cooperative like Purdue Federal Credit Union (Purdue Federal) evaluates success not only by year-end financial results, but also by member usage of products or services, and perhaps the most important—member satisfaction. We're proud to report that 2010 had incredible results in all of these categories.

1. Financial results: Purdue Federal had impressive financial results that are outlined in detail in the attached Treasurer's Report. Bottom line: We are financially solid and grew our assets and our net worth significantly in 2010.

2. Member Usage: Our organization can only be successful if our members take advantage of our products and services, and more than ever your credit union is the best choice for products and services that meet your needs. We try to provide the right combination of financial products and services to our members at value-based prices with minimal fees. In 2010 we continued to see more members utilize these valuable products and services. Many members took advantage of the record-low mortgage rates, other members accessed their accounts via our online and mobile services, and others deposited their savings at the credit union to benefit from higher-than-standard insured limits. This member usage growth makes

your credit union a more efficient organization overall and will help us to continue offering valuable products and services in the future.

3. Member Satisfaction: Our goal is to exceed your expectations, which is why we frequently ask how our organization is taking care of you. You responded very favorably with excellent transaction survey results showing that our timeliness, professionalism and accuracy greatly exceeded your expectations. We also achieved a record-high score in the percentage of members who reported they were highly likely to recommend Purdue Federal to family or friends. Thank you for that very positive feedback. And finally, with more than 12,000 ballots cast in the 2010 Journal and Courier Reader's Choice awards, we were thrilled to be voted best again in nearly all the financial service categories.

It is probably no coincidence that satisfied members tend to use more products and services, which creates a financially strong, trusted financial cooperative that can focus on member satisfaction. It is a wonderful business model that worked perfectly in 2010.

This past year your credit union also managed to grow in a different way. In late July, we were approached with an opportunity to merge with Members United Federal Credit Union, which is located in LaPorte, Ind. We spent several months bringing these two credit unions together and on December 1, we opened the doors at our first full-service branch serving

LaPorte County and the Purdue North Central campus. We are eager to be closer to the campus already in our field of membership. We look forward to serving the members of Members United FCU and growing new members in LaPorte County.

Because we have been more than just a credit union for the employees of Purdue University, we decided to change our name to Purdue Federal Credit Union at the time of our merger. No acronym, just a simple name that demonstrates our strong tie to the entire Purdue community. Throughout 2011 we will gradually update our name and branding in the Greater Lafayette community.

We are very proud of the success our credit union achieved in 2010 and this success would not have been possible without satisfied members taking full advantage of our products and services. Thank you for being a large part of our success.



Bob Falk
President/CEO



Steve Brewer
Board Chair

2010 ANNUAL REPORT

**2010
Milestones**

Implemented VTO

Hosted Big Ten Credit Union Conference

Launched High School Debit Cards

Launched New Website

Merged with
MUFCU

Launched Drew Brees Visa®

Raised \$50,000 for PALS

Won Readers' Choice Awards

**EMPLOYEES VOLUNTEERED
336 HOURS**



Excellent member service is a daily mission for Purdue Federal's employees, but in 2010 staff pledged to serve the community through an innovative employee benefit called Volunteer Time Off (VTO). Through VTO, each employee received four paid hours to volunteer in the community.

**EXCLUSIVE
DREW BREES VISA®**

Beginning in May, Purdue University alumni and fans had a new way to show their Boilermaker spirit: an exclusive, limited-edition Drew Brees credit card design that features former Purdue Quarterback and Purdue Federal spokesperson Drew Brees in his Purdue football uniform. Current cardholder and new account requests were impressive with 1,777 cards issued from May-December.



\$50,000 RAISED FOR PALS



Nearly 300 golfers from five states participated in the 4th Annual Brees Dream Foundation Golf Outing presented by Purdue Federal on Wednesday, June 23, at the Birck Boilermaker Golf Complex in West Lafayette for the benefit of the Purdue Athletes Life Success (PALS) program. The annual fundraiser supports a special commitment made between the Brees Dream Foundation and Purdue Federal to provide annual funding to PALS.

**VOTED BEST
TWO YEARS IN A ROW!**

**VOTED BEST
Financial Institution
2009 ★ 2010**

2010 was a big year for the credit union. Even with all the changes we experienced, we continued to provide members with the highest quality products and services available. For all the hard work, Purdue Federal earned the honor of Best Financial Institution, Best Checking Account, Best Savings Account and Best Mortgage Lender in the 2010 Journal & Courier Readers' Choice Awards.

**RE-DESIGNED WEBSITE
GOES LIVE**

Providing members with a safe, satisfying online experience is our priority. In September, the credit union launched a re-designed site with enhanced functionality and a clean look including:

- Easy-to-find online banking login box
- Accurate keyword search results powered by Google
- Tabs with drop-down menus that make it easy to find what you're looking for
- Enhanced branch and ATM locator with a search box on the home page
- Routing number at the top of the home page
- And much more!

OUR BIGGEST YEAR YET!

In 2010, we worked hard to bring you excellent service and products. And what a year it was!

Membership Satisfaction	97%
Hours Volunteered by Employees (VTO)	336
938 New Youth Accounts	UP 36% from 2009
Members Attending Financial Literacy Sessions	2,679
41% of members are likely to recommend Purdue Federal	UP 12% from 2009

**PURDUE FEDERAL
HOSTED CONFERENCE**

**BIG TEN of CREDIT
CONFERENCE UNIONS**

Nearly 80 credit union staff and board members came to Purdue University's campus for the 18th Annual Big Ten Credit Union Conference on June 23-25. Purdue Federal hosted the conference for credit union executives, senior managers and board members from the Credit Union of Ohio, FIRST Northern Credit Union, Indiana University Credit Union, Michigan State University Credit Union, Notre Dame Federal Credit Union, Penn State Federal Credit Union, University of Illinois Employees Credit Union, University of Iowa Community Credit Union, University of Michigan Credit Union, Michigan State University Federal Credit Union and University of Wisconsin Credit Union. The conference included educational presentations, roundtable discussions and networking opportunities. Attendees also had the opportunity to participate in the Brees Dream Foundation Golf Outing, local winery tours and a campus tour led by Director Bob Bain.

**STUDENT-DESIGNED
DEBIT CARDS**



Harrison High School and Jefferson High School students, parents and fans had a new way to show their school spirit: custom, student-designed debit card designs. The new cards are original designs created by Harrison High School student Santiago Grandlienard and Jefferson High School graduate Mark Felix as part of a high school debit card design contest hosted by Purdue Federal. Their designs were chosen by Purdue Federal marketing staff based on creativity, school pride and originality. For creating the winning designs, each won a \$500 Purdue Federal Visa® gift card. The cards have been very popular and members should watch for more high-school debit cards in the future.

MEMBERS UNITED MERGER



In December, Purdue Employees Federal Credit Union merged with Members United Federal Credit Union and changed its name to Purdue Federal Credit Union to better reflect its membership base, which includes students, faculty and staff, and communities where Purdue University and its regional campuses operate.

2010 Purdue Federal Volunteer Committees

Asset and Liability Committee

P. Gregory Williams, Chair
 Matthew G. Lertzak
 Thomas E. Moore
 James Schackmuth
 John A. Schneider
 A. Charlene Sullivan

Supervisory Committee

Christiane Keck, Chair
 Lucia Anderson, Vice Chair/Secretary
 Rick Davis
 Jayne L. Feathers
 Marcus Rogers

Membership Services Committee

Mark M. Moriarty, Chair
 Susan K. Aufderheide
 Susan M. Smith
 Judith Austin
 Bharat Binani
 Rick Bradley
 Darren Cooper
 Jayne L. Feathers
 Dan Heman
 Ted Hingst
 Sharon Kraebber
 Jesse Moore

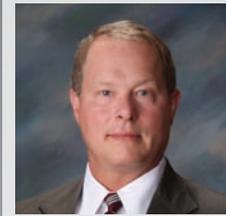
BOARD OF DIRECTORS



Stephen E. Brewer
Chair



Robert W. Bain
Vice Chair



P. Gregory Williams
Treasurer



Mark M. Moriarty
Secretary



Jayne L. Feathers
Director



Stephen W. Johnson
Director (1/1/11 to present)



Matthew G. Lertzak
Director



Thomas E. Moore
Director



Susan M. Smith
Director (retired 12/31/10)



John O. Trott
Director



PURDUE FEDERAL
CREDIT UNION

© 2011 PURDUE FEDERAL CREDIT UNION

PO BOX 1950
 WEST LAFAYETTE, IN 47996
 765.497.3328 // 800.627.3328
 WWW.PURDUEFED.COM



This credit union is federally insured by the National Credit Union Administration.

EXECUTIVE LEADERSHIP



Bob Falk
President/CEO



Gail Koehler
Executive Vice President



Brian Musser
Vice President Finance/CFO



Evelyn Royer
Vice President Risk Management & Support Services



Jackie Hofman
Vice President Human Resources & Marketing



Nikki Gaylord
Vice President Lending



Phillip Thoben
Vice President Member Business Services



Heather Nally
Vice President Retail Sales & Service



Monte Bates
Vice President Information Technology

Purdue Federal Credit Union

TREASURER'S REPORT

SUPERVISORY COMMITTEE'S REPORT

**ACCOUNTANTS' REPORT
and CONSOLIDATED
FINANCIAL STATEMENTS**

December 31, 2010 and 2009



2010 Treasurer's Report

On behalf of your volunteer board of directors, I am pleased to report that, despite the fact that 2010 was another challenging year for the financial services industry, Purdue Federal Credit Union met those challenges and continued to provide the exceptional service our members deserve and expect from their "trusted financial partner for life." Your cooperative organization continues to be financially strong and remains a pillar of strength.

The worst economic decline since the Great Depression of the 1930s gave way to a gradual economic recovery in 2010. The housing market found a bottom and a refinance boom presented opportunities to many throughout the year. The stock market regained some of its lost value, and unemployment abated slightly. The liquidity crunch and credit crisis that had affected the financial system and many businesses has given way to a fragile recovery, with each day providing more optimism and a more solid foundation for a stabilizing economy.

Purdue Federal remains financially stable. We had another strong year of responsible lending to members and the membership's demand for loans was met. The board, management and staff take pride in helping members with prudent lending decisions. This provides a strong foundation for financial success for both the membership and Purdue Federal. The board and management stand ready to serve members' financial needs into 2011 and beyond. A secure foundation of capital remains to navigate through any additional uncertainties that may arise in the unlikely event of a recessionary dip or the potential of an inflationary economic cycle.

Net loans outstanding declined by -3.0% or \$14.2 million (M) in 2010. This is a bit deceiving since positive growth occurred in a couple of loan categories as discussed below. The refinance boom created the overall net decline as \$31.4M of first mortgage portfolio balances were not replaced on the balance sheet. Strong member demand for first mortgage loan originations did exist with \$171.9M of loan closings. \$30.5M of this replaced balance lost to the refinance boom on the balance sheet, but still left the mortgage portfolio lower for the year. Member demand for home equity loans remained strong in 2010, with \$2.9M of portfolio growth. The credit card program had another growth year offering the Purdue Alumni Association Visa affinity credit card program. The popularity of the program continues as credit card balances grew another \$6.1M (13.8%) in 2010. Commercial loan relationships also grew this past year. Loans outstanding increased \$3.7M (6%).

Purdue Federal has a well-diversified loan portfolio with strong credit quality. Credit granting policies and practices remain strong with loan delinquency increasing slightly to 0.62%, holding well below peer industry average of 1.66%. Lower loan losses contributed to the bottom line and benefited your credit union. Charge-offs of .28% of average loans, as in past years, compared favorably to the 2010 peer industry average of 1.09%.

On the deposit side, membership grew 4.17% with net membership growth of 2,379 members. This includes 1,400 new members from the merger of Members United Federal Credit Union located in LaPorte, Ind. Member deposit growth remained strong at \$45.8M (8.6%) in 2010. Your credit union stands ready with \$500,000 of insurance for each account relationship, ample capital and competitive



returns for deposited funds. Overall member product usage showed continued strength. Money market accounts provided the strongest percentage growth at \$29.2M (19.7%).

Purdue Federal earnings remained strong, providing a return on average assets (ROA) of .99% for 2010. Net income of \$6.1M demonstrated strong earnings generated from the refinance boom, maintenance of a stable interest margin, and the continued expansion of the credit card program with higher loan balances and a greater number of transactions contributing to revenue. After considering the impact of the \$1.4M premium expense assessed by the National Credit Union Share Insurance Fund to support failing credit unions, the board and management believe Purdue Federal's core business model remains strong and your credit union will continue to prosper even in the face of future negative impacts to the economy.

Capital, as measured by Purdue Federal's regulatory net worth, ended the year at \$53.1M or 8.5% of assets. Stable earnings and a strong capital position enable Purdue Federal to make enhancements to products and services while also providing a cushion for future economic and marketplace uncertainties. The board of directors and management appreciate the opportunity to build a strong credit union at the same time as we strive to meet our goal of exceeding your service expectations for years to come. Your member-owned credit union is ready to serve your family with a "collective" financial service value exceeding that of any other local financial services provider. We look forward to being your **trusted financial partner for life!**

A handwritten signature in black ink, appearing to be "G. Williams", with a long horizontal line extending to the right.

Gregg Williams
Treasurer



Supervisory Committee's Report

The Supervisory Committee is a volunteer group of Purdue Federal members, which is appointed by the Board of Directors to ensure the financial condition of the credit union is accurately and fairly presented in the organization's financial statements, and that the credit union's management practices and procedures are in accordance with federal regulation and are sufficient to safeguard member assets and sensitive member information.

Under the direction of the Supervisory Committee, an annual audit is performed by an independent, outside accounting firm with proven knowledge of credit union regulations and operations. This year that firm is BKD. The committee then works with the board and the credit union's management team to address any areas of concern raised in the audit.

After completion of this year's external audit, BKD met with the Supervisory Committee on March 10, 2011. The discussion items included a complete review of the financial statement and audit reports. BKD has issued an unqualified opinion of Purdue Federal's financial statements and did not note any material weaknesses or significant deficiencies relating to internal controls at Purdue Federal. All financial and required letters were reviewed with no major exceptions found. So once again this year the result of the audit is very positive news.

The Internal Audit staff also reports to the Supervisory Committee. They carefully examine and monitor all procedures and financial statements. The internal audit and information technology security audit programs assure the protection of your information and your assets that you have entrusted to the credit union. The Internal Audit staff is also responsible for compliance and meeting the industry's ever greater demands of procedures and exams.

The audit opinion from BKD reflects the good leadership and careful work of the Purdue Federal Internal Audit staff.

The Supervisory Committee would like to acknowledge the outstanding support and professionalism exhibited by the credit union staff. We thank the management team for the exceptional care and high ethical standards during these challenging financial times.

I would also like to acknowledge and thank all the members of the Supervisory Committee for volunteering their time and expertise.

It is a pleasure to serve you, the members.

A handwritten signature in cursive script that reads "Christiane E. Keck".

Christiane E. Keck
Supervisory Committee Chair
April 5, 2011

Purdue Federal Credit Union

Accountants' Report and Consolidated Financial Statements

December 31, 2010 and 2009

Purdue Federal Credit Union

December 31, 2010 and 2009

Contents

Independent Accountants' Report.....	1
---	----------

Consolidated Financial Statements

Balance Sheets.....	2
Statements of Income	3
Statements of Changes in Members' Equity	4
Statements of Cash Flows	5
Notes to Financial Statements	6

Independent Accountants' Report

Board of Directors and Supervisory Committee
Purdue Federal Credit Union
West Lafayette, Indiana

We have audited the accompanying consolidated balance sheets of Purdue Federal Credit Union as of December 31, 2010 and 2009, and the related consolidated statements of 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 Purdue Federal Credit Union as of December 31, 2010 and 2009, 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.

BKD, LLP

Indianapolis, Indiana
March 3, 2011

Purdue Federal Credit Union
Consolidated Balance Sheets
December 31, 2010 and 2009

Assets

	<u>2010</u>	<u>2009</u>
Cash and due from banks	\$ 6,542,038	\$ 6,009,593
Interest-bearing demand deposits	38,105,440	35,108,218
Cash and cash equivalents	44,647,478	41,117,811
Interest-bearing deposits	14,127,229	10,309,000
Available-for-sale securities	96,675,789	36,858,069
Loans held for sale	2,509,509	2,358,402
Loans, net of allowance for loan losses of \$2,650,517 and \$2,384,241 at December 31, 2010 and 2009	455,747,596	469,942,360
Premises and equipment	12,686,769	12,484,440
National Credit Union Share Insurance Fund (NCUSIF) deposit	5,335,161	4,819,097
Federal Home Loan Bank stock, at cost	2,592,200	2,419,000
Interest receivable	1,686,774	1,603,135
Other	4,474,689	4,444,452
	<u>\$ 640,483,194</u>	<u>\$ 586,355,766</u>

Liabilities

Members' deposits	\$ 581,088,509	\$ 535,314,667
Other liabilities	5,877,231	4,298,223
Total liabilities	<u>586,965,740</u>	<u>539,612,890</u>

Members' Equity

Regular reserve	7,502,640	7,502,640
Undivided earnings	45,645,826	39,078,586
Accumulated other comprehensive income	368,988	161,650
Total members' equity	<u>53,517,454</u>	<u>46,742,876</u>
	<u>\$ 640,483,194</u>	<u>\$ 586,355,766</u>

Purdue Federal Credit Union
Consolidated Statements of Income
Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Interest Income		
Loans	\$ 26,754,893	\$ 27,311,859
Securities	1,137,221	737,021
Interest-earning deposits with other financial institutions	373,064	232,215
	<u>28,265,178</u>	<u>28,281,095</u>
Interest Expense		
Members' deposits	6,560,227	8,389,789
Short-term borrowings	724	1,310
Total interest expense	<u>6,560,951</u>	<u>8,391,099</u>
Net Interest Income	21,704,227	19,889,996
Provision for Loan Losses	<u>1,569,081</u>	<u>2,150,000</u>
Net Interest Income After Provision for Loan Losses	<u>20,135,146</u>	<u>17,739,996</u>
Other Income		
Customer service fees	7,892,515	7,251,381
Income from trading securities	-	284,754
Net gains on loan sales	2,410,865	2,151,727
Loss on corporate credit union member shares and paid-in capital	-	(2,128,678)
Gain on sales of securities	140,218	30,213
Other	326,723	190,379
	<u>10,770,321</u>	<u>7,779,776</u>
Other Expenses		
Salaries and employee benefits	10,241,026	9,645,088
Net occupancy expense	1,662,390	1,732,268
Office operations and equipment expense	3,926,892	4,355,637
Loan servicing	3,279,168	2,896,303
ATM and debit card expense	1,852,017	1,625,572
NCUSIF premium expense	1,350,165	722,864
Advertising and marketing expense	1,560,736	1,299,559
Other	951,814	945,504
Total noninterest expense	<u>24,824,208</u>	<u>23,222,795</u>
Net Income	<u>\$ 6,081,259</u>	<u>\$ 2,296,977</u>

Purdue Federal Credit Union
Consolidated Statements of Changes in Members' Equity
Years Ended December 31, 2010 and 2009

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2009	\$ 7,502,640	\$ 36,781,609	\$ 134,597	\$ 44,418,846
Net income		2,296,977		2,296,977
Change in unrealized gains on available-for-sale securities, net of reclassification adjustment of \$30,213			27,053	27,053
Comprehensive income				<u>2,324,030</u>
Balance, December 31, 2009	7,502,640	39,078,586	161,650	46,742,876
Comprehensive income				
Net income		6,081,259		6,081,259
Change in unrealized gains on available-for-sale securities, net of reclassification adjustment of \$140,218			207,338	207,338
Comprehensive income				<u>6,288,597</u>
Equity acquired in merger		485,981		485,981
Balance, December 31, 2010	<u>\$ 7,502,640</u>	<u>\$ 45,645,826</u>	<u>\$ 368,988</u>	<u>\$ 53,517,454</u>

Purdue Federal Credit Union
Consolidated Statements of Cash Flows
Years Ended December 31, 2010 and 2009

	2010	2009
Operating Activities		
Net income	\$ 6,081,259	\$ 2,296,977
Items not requiring (providing) cash		
Depreciation and amortization	1,454,804	1,776,744
Provision for loan losses	1,569,081	2,150,000
Accretion and amortization	(1,340,117)	268,294
Gain on sale of available-for-sale securities	(140,218)	(30,213)
Gain on sale of loans	(2,410,865)	(2,151,727)
Loss on the sale of fixed assets	450	3,258
Loss on membership shares and paid-in capital	-	2,128,678
Changes in		
Trading securities	-	(284,754)
Interest receivable	(83,639)	(39,389)
Loans held for sale	2,259,758	7,573,716
Other assets	88,802	(167,178)
Interest payable and other liabilities	1,541,920	954,669
Net cash provided by operating activities	9,021,235	14,479,075
Investing Activities		
Proceeds from maturities of available-for-sale securities	69,123,490	9,535,779
Proceeds from sales of available-for-sale securities	8,307,424	3,000,000
Net change in interest-bearing time deposits	(2,815,258)	(5,609,000)
Net change in loans	16,243,744	(32,868,651)
Purchase of available-for-sale securities	(135,560,961)	(35,241,539)
Purchase of premises and equipment	(980,429)	(504,152)
Purchase of FHLB stock	(173,200)	(395,900)
Net change in NCUSIF deposit	(461,766)	(918,095)
Cash provided by acquisition	425,788	-
Net cash used in investing activities	(45,891,168)	(63,001,558)
Financing Activity - net change in members' deposits	40,399,600	55,280,852
Increase in Cash and Cash Equivalents	3,529,667	6,758,369
Cash and Cash Equivalents, Beginning of Year	41,117,811	34,359,442
Cash and Cash Equivalents, End of Year	\$ 44,647,478	\$ 41,117,811
Supplemental Cash Flows Information		
Interest paid	\$ 6,561,050	\$ 8,391,099
Transfer of securities from trading to available for sale	-	2,176,385

Purdue Federal Credit Union
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Purdue Federal Credit Union (Credit Union), and its wholly owned credit union service organization, CU Channels, LLC (CUSO). All significant intercompany accounts and transactions have been eliminated in consolidation.

Nature of Operations

Purdue Federal Credit Union (Credit Union) is a federally chartered credit union with locations in Lafayette, West Lafayette and La Porte, Indiana. The Credit Union offers a broad range of financial services to its members. The Credit Union's primary services include accepting members' deposits and making loans. The Credit Union grants loans to members who are primarily individuals (including family members) employed at or attending Purdue University campuses. The majority of its loans are collateralized by specific items, including consumer assets, residential real estate and member share balances. Additional services include financial planning, investment, trust and insurance services to Credit Union members through CUNA Brokerage Services, Inc., a third-party provider. The CUSO provides services to nonmember Credit Unions, primarily first mortgage loan origination and servicing for other credit unions. The CUSO is a 14% owner of Passageways LLC, a software development company providing portal solutions to credit unions.

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 and disclosed in the consolidated financial statements, and future results could differ from those estimates. The collectibility of loans, valuation and amortization of loan-servicing rights and fair values of financial instruments are particularly subject to change.

Cash Equivalents

The Credit Union considers all liquid investments with original maturities of three months or less to be cash equivalents.

The credit unions holding the Credit Union's cash accounts are participating in the NCUA's Temporary Corporate Credit Union Share Guarantee Program (TCCUSGP). Under this program, through December 31, 2011, all accounts are fully guaranteed for the entire amount in the account.

The Credit Union's cash accounts exceeded the insured limits by approximately \$17,364,000. This entire amount of uninsured funds is held with the Federal Reserve Bank and Federal Home Loan Bank of Indianapolis, which are not federally insured.

Purdue Federal Credit Union
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Interest-Bearing Deposits

Interest-bearing deposits mature within one year and are carried at cost.

Securities

Available-for-sale securities, which include any federal agencies, mortgage-backed, mutual funds and an annuity contract for which the Credit Union has no immediate plan to sell but which may be sold in the future, are carried at fair value. Unrealized gains and losses are recorded in other comprehensive income.

Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

Corporate Credit Union Member Shares and Paid-in Capital

The Corporate Credit Union shares and paid-in capital were impaired during 2009 due to losses incurred by Members United and WesCorp and the subsequent actions taken by the NCUA. The Credit Union recorded a loss of \$2,128,678 in 2009 related to the write down of the shares and paid-in capital.

Federal Home Loan Bank (FHLB) Stock

FHLB stock is a required investment based upon predetermined formulas and is carried at cost. The FHLB stock may only be sold to the FHLB at par value.

Loans Held for Sale

Mortgage and student loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Loans sold in the secondary market are primarily sold with the servicing of the loans being retained.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

Purdue Federal Credit Union
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

Discounts and premiums on purchased residential real estate loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments. Discounts and premiums on purchased consumer loans are recognized over the expected lives of the loans using methods that approximate the interest method.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. 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.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Credit Union's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

Purdue Federal Credit Union
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Credit Union does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Premises and Equipment

Premises and equipment are recorded at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable. Leasehold improvements are amortized over the shorter of the estimated useful lives of the related assets or the lease term.

NCUSIF Deposit

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is required by NCUA regulations in an amount equal to 1 percent of the Credit Union's insured shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board.

NCUSIF Insurance Premiums

A credit union is required to pay an annual insurance premium equal to one-twelfth of one percent of its total insured shares, unless the payment is waived or reduced by the NCUA Board. The Credit Union paid \$1,350,000 and \$723,000 in share insurance premiums in 2010 and 2009, respectively.

Purdue Federal Credit Union
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Mortgage-Servicing Rights

Mortgage-servicing assets are recognized separately when rights are acquired through purchase or through sale of financial assets. Under the servicing assets and liabilities accounting guidance (ASC 860-50), servicing rights resulting from the sale or securitization of loans originated by the Credit Union are initially measured at fair value at the date of transfer. The Credit Union subsequently measures each class of servicing assets using the amortization method. Under the amortization method, servicing rights are amortized in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment or increased obligation based on fair value at each reporting date.

Fair value is based on market prices for comparable mortgage-servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. These variables change from quarter to quarter as market conditions and projected interest rates change, and may have an adverse impact on the value of the mortgage-servicing right and may result in a reduction to noninterest income.

Each class of separately recognized servicing assets subsequently measured using the amortization method are evaluated and measured for impairment. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type and investor type.

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

Members' Deposits

Members' deposits are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' deposits is based on available earnings and is not guaranteed by the Credit Union. Interest rates on members' deposits are set by the board of directors, based on an evaluation of a number of factors, including market conditions.

Purdue Federal Credit Union
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Members' Equity

The Credit Union 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 to members.

Comprehensive Income

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

Income Taxes

The Credit Union is exempt by statute from federal and state income taxes.

Merger

During 2010, Members United Federal Credit Union in La Porte, Indiana was acquired and merged with the Credit Union. The impact of this merger was immaterial to the consolidated financial statements.

Current Economic Conditions

The current protracted economic decline continues to present financial institutions with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair values of investments and other assets, constraints on liquidity and capital and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans.

At December 31, 2010, the Credit Union held \$61,110,000 in commercial real estate and related loans. Due to national, state and local economic conditions, values for commercial and development real estate may have declined significantly, and the market for these properties is depressed.

The accompanying consolidated financial statements have been prepared using values and information currently available to the Credit Union.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the consolidated financial statements could change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses and capital that could negatively impact the Credit Union's ability to meet regulatory capital requirements and maintain sufficient liquidity.

Purdue Federal Credit Union
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Note 2: Securities

The amortized cost and approximate fair values of securities are as follows:

	2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S Government and Federal agencies	\$ 70,563,220	\$ 320,049	\$ (218,360)	\$ 70,664,909
Mortgage-backed securities				
Government-sponsored entities				
(GSE) residential	23,567,197	89,390	(132,086)	23,524,501
Mutual funds	1,194,277	141,663	-	1,335,940
Annuity contract	982,107	168,332	-	1,150,439
	<u>96,306,801</u>	<u>719,434</u>	<u>(350,446)</u>	<u>96,675,789</u>
Total investment securities	<u>\$ 96,306,801</u>	<u>\$ 719,434</u>	<u>\$ (350,446)</u>	<u>\$ 96,675,789</u>

	2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S Government and Federal agencies	\$ 19,756,061	\$ 45,260	\$ (29,861)	\$ 19,771,460
Mortgage-backed securities				
Government-sponsored entities				
(GSE) residential	14,763,973	189,897	(52,952)	14,900,918
Mutual funds	1,194,277	4,782	(269)	1,198,790
Annuity contract	982,108	4,793	-	986,901
	<u>36,696,419</u>	<u>244,732</u>	<u>(83,082)</u>	<u>36,858,069</u>
Total investment securities	<u>\$ 36,696,419</u>	<u>\$ 244,732</u>	<u>\$ (83,082)</u>	<u>\$ 36,858,069</u>

Purdue Federal Credit Union
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

The amortized cost and fair value of available-for-sale securities at December 31, 2010, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale	
	Amortized Cost	Fair Value
Within one year	\$ 1,552,193	\$ 1,559,098
One to five years	69,011,027	69,105,811
	70,563,220	70,664,909
Mortgage-backed securities		
Government-sponsored entities (GSE) residential	23,567,197	23,524,501
Mutual funds	1,194,277	1,335,940
Annuity contract	982,107	1,150,439
Totals	\$ 96,306,801	\$ 96,675,789

Gross gains of \$140,000 resulting from sales of available-for-sale securities were realized for 2010. There were no gains or losses realized from maturities or calls of available-for-sale securities in 2010 and 2009. Securities in the amount of \$8,307,000 and \$3,000,000 were sold in 2010 and 2009.

The mutual fund and annuity contract were transferred from trading securities on November 30, 2009. A gain of \$285,000 was recognized on the income statement before the securities were transferred. A total net unrealized gain of \$9,000 was recognized in 2009 through other comprehensive income subsequent to the transfer.

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2010 and 2009 was \$56,247,000 and \$13,518,000, which is approximately 58% and 55%, respectively, of the Credit Union's available-for-sale investment portfolio. These declines primarily resulted from changes in market interest rates.

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary.

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

Purdue Federal Credit Union
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

The following tables show the Credit Union's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2010 and 2009:

Description of Securities	2010					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S Government and Federal agencies	\$ 40,227,131	\$ (218,360)	\$ -	\$ -	\$ 40,227,131	\$ (218,360)
Mortgage-backed securities						
GSE residential	16,019,680	(132,086)	-	-	16,019,680	(132,086)
Total investment securities	\$ 56,246,811	\$ (350,446)	\$ -	\$ -	\$ 56,246,811	\$ (350,446)

Description of Securities	2009					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S Government and Federal agencies	\$ 6,974,465	\$ (29,861)	\$ -	\$ -	\$ 6,974,465	\$ (29,861)
Mortgage-backed securities						
GSE residential	6,004,812	(52,946)	74,874	(6)	6,079,686	(52,952)
Mutual funds	464,348	(269)	-	-	464,348	(269)
Total investment securities	\$ 13,443,625	\$ (83,076)	\$ 74,874	\$ (6)	\$ 13,518,499	\$ (83,082)

The unrealized losses on U.S. Government and Federal agencies and mortgage-backed securities at December 31, 2010 were primarily due to changes in interest rates. The Credit Union expects to recover the amortized cost basis of these securities over the terms of the securities. Because the Credit Union does not intend to sell the investments, and it is not likely the Credit Union will be required to sell the investments before recovery of their amortized cost basis prior to maturity, the Credit Union does not consider these investments to be other-than-temporarily impaired at December 31, 2010.

Purdue Federal Credit Union
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Note 3: Loans

	<u>2010</u>	<u>2009</u>
Consumer	\$ 63,120,160	\$ 62,039,817
Real estate	227,350,697	258,729,230
Home equity	45,780,820	42,894,227
Visa	50,106,458	44,030,007
Lines of credit	1,175,507	1,366,917
Commercial loans	65,509,683	61,788,279
Loan to credit union service organization	4,000,000	-
	<u>457,043,325</u>	<u>470,848,477</u>
Net deferred loan origination costs	1,354,788	1,478,124
Allowance for loan losses	<u>(2,650,517)</u>	<u>(2,384,241)</u>
	<u>\$ 455,747,596</u>	<u>\$ 469,942,360</u>

In the normal course of business, the Credit Union makes loans to directors, supervisory committee members and executive officers. The aggregate dollar amount of these loans amounted to \$4,203,488 and \$3,213,000 at December 31, 2010 and 2009.

Activity in the allowance for loan losses was as follows:

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 2,384,241	\$ 1,872,549
Provision for loan losses	1,569,081	2,150,000
Loans charged-off	(1,617,239)	(2,022,352)
Recoveries of loans previously charged-off	<u>314,434</u>	<u>384,044</u>
Balance, end of year	<u>\$ 2,650,517</u>	<u>\$ 2,384,241</u>

There were no accruing loans delinquent 90 days or more at December 31, 2010 and 2009. Nonaccruing loans at December 31, 2010 and 2009 were \$2,174,000 and \$2,127,000, respectively.

The Credit Union had an impaired loan totaling \$858,000 with a valuation allowance of \$250,000 at December 31, 2010. No interest income was recognized on impaired loans during 2010. There were no impaired loans at December 31, 2009.

Purdue Federal Credit Union
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Note 4: Premises and Equipment

	<u>2010</u>	<u>2009</u>
Land	\$ 2,409,244	\$ 2,358,090
Buildings	13,432,258	12,795,742
Furniture, fixtures and equipment	15,212,865	14,420,207
Leasehold improvements	355,160	352,195
	<u>31,409,527</u>	<u>29,926,234</u>
Less accumulated depreciation	<u>(18,722,758)</u>	<u>(17,441,794)</u>
	<u>\$ 12,686,769</u>	<u>\$ 12,484,440</u>

Note 5: Mortgage-Servicing Rights

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage loans serviced for others was \$313,054,000 and \$222,123,000 at December 31, 2010 and 2009, respectively.

Custodial escrow balances maintained in connection with the loan servicing, and included in demand deposits, were approximately \$1,290,000 and \$1,059,000 at December 31, 2010 and 2009, respectively.

Activity in the balance of mortgage-servicing rights was as follows:

	<u>2010</u>	<u>2009</u>
Amortized cost		
Balance at January 1	\$ 1,437,034	\$ 746,938
Additions	1,028,323	1,194,783
Amortization	<u>(583,889)</u>	<u>(504,687)</u>
Balance at December 31	<u>\$ 1,881,468</u>	<u>\$ 1,437,034</u>

The fair value of loan-servicing rights was approximately \$2,250,000 and \$1,500,000 at December 31, 2010 and 2009. There was no valuation allowance established at December 31, 2010 and 2009.

Purdue Federal Credit Union
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Note 6: Members' Deposits

	<u>2010</u>	<u>2009</u>
Checking	\$ 104,904,267	\$ 94,789,795
Regular and IRA savings accounts	135,277,147	115,039,086
Money market accounts	177,686,618	148,480,569
Share and IRA certificate accounts	<u>163,220,477</u>	<u>177,005,217</u>
	<u>\$ 581,088,509</u>	<u>\$ 535,314,667</u>

Individual share certificates of \$100,000 or more were approximately \$64,729,000 and \$69,867,000 at December 31, 2010 and 2009.

At December 31, 2010, scheduled maturities of certificates for the next five years were as follows:

2011	\$ 97,368,230
2012	33,621,593
2013	10,194,079
2014	5,506,799
2015	<u>16,529,776</u>
	<u>\$ 163,220,477</u>

Deposits from related parties held by the Credit Union at December 31, 2010 and 2009 totaled \$2,636,000 and \$1,552,000, respectively.

Note 7: Borrowings

The Credit Union has a \$100,000,000 Board-approved advance borrowing agreement with the Federal Home Loan Bank, of which \$50,000,000 is available as an overnight line of credit. Additionally, the Credit Union has a borrowing capacity of \$150,000,000 under a line of credit from Members United Bridge Corporate Federal Credit Union (Members United). The terms of the related security agreement allow Members United the right to perfect an interest in Credit Union assets at anytime with an exception of assets currently pledged elsewhere. At December 31, 2010 and 2009, the Credit Union has \$187,558,000 and \$168,265,000 of mortgage loans pledged to FHLB. As of December 31, 2010 and 2009, there were no amounts outstanding on either line of credit.

Purdue Federal Credit Union
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Note 8: Retirement Plans

The Credit Union maintains a defined-contribution pension plan (401(k) Plan and Trust) covering substantially all employees who meet certain age and service requirements. The Credit Union's contribution and expense for the pension plan is a discretionary amount approved by the Board of Directors. The 2010 and 2009 contribution was 11% (reduced by forfeitures) of annual wages for eligible employees and was approximately \$672,000 and \$679,000 in 2010 and 2009.

Note 9: Disclosures About Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies 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 in active markets for identical assets or liabilities
- Level 2** 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 for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Purdue Federal Credit Union
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models and quoted prices of securities with similar characteristics. The fair value measurements consider observable data, that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions. Pricing models typically include a technique known as matrix pricing, which is a mathematical technique used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investments securities, but rather, relying on the investment securities' relationship to other benchmark quoted investment securities. Level 2 securities include all federal agencies, mortgage-backed securities and an annuity contract. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. No securities are classified within Level 3. The Credit Union obtains all fair value measurements from an independent pricing service.

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2010 and 2009:

	Fair Value	2010 Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S Government and Federal agencies	\$ 70,664,909	\$ -	\$ 70,664,909	\$ -
Mortgage-backed securities				
Government-sponsored entities residential	23,524,501	-	23,524,501	-
Mutual funds	1,335,940	1,335,940	-	-
Annuity contract	1,150,439	-	1,150,439	-
	<u>\$ 96,675,789</u>	<u>\$ 1,335,940</u>	<u>\$ 95,339,849</u>	<u>\$ -</u>

Purdue Federal Credit Union
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

	2009			
	Fair Value Measurements Using			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
U.S Government and Federal agencies	\$ 19,771,460	\$ -	\$ 19,771,460	\$ -
Mortgage-backed securities Government-sponsored entities residential	14,900,918	-	14,900,918	-
Mutual funds	1,198,790	1,198,790	-	-
Annuity contract	986,901	-	986,901	-
	<u>\$ 36,858,069</u>	<u>\$ 1,198,790</u>	<u>\$ 35,659,279</u>	<u>\$ -</u>

There were no assets or liabilities measured at fair value on a nonrecurring basis at December 31, 2010. The following table presents the fair value measurement of assets and liabilities measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2009:

Other Real Estate Owned

The fair value of real estate is generally determined based on appraisals by qualified licensed appraisers. The appraisers typically determine the value of the real estate by utilizing an income or market valuation approach. If an appraisal is not available, the fair value may be determined by using a cash flow analysis.

	2009			
	Fair Value Measurements Using			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Other real estate owned	\$ 568,038	\$ -	\$ -	\$ 568,038

Purdue Federal Credit Union
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents, Interest-Bearing Deposits and Federal Home Loan Bank Stock

The carrying amount approximates fair value.

Loans

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations. The carrying amount of accrued interest approximates its fair value.

Loans Held for Sale

Fair value of loans held for sale are based on quoted market prices, where available, or are determined by discounting estimated cash flows using interest rates approximating the Credit Union's current origination rates for similar loans and adjusted to reflect the inherent credit risk.

NCUSIF Deposit and Other Investments

The fair value of the NCUSIF deposit approximates the carrying value.

Interest Receivable

The fair value of interest receivable approximates the carrying value.

Members' Deposits

Deposits include demand deposits, savings accounts, certain money market deposits and time deposits. The carrying amount approximates fair value. The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

Purdue Federal Credit Union
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

The following table shows the approximate carrying amount and fair value of financial instruments held by the Credit Union at December 31:

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	\$ 44,647,478	\$ 44,647,478	\$ 41,117,811	\$ 41,117,811
Interest-bearing balances				
with financial institutions	14,127,229	14,127,229	10,309,000	10,309,000
Securities available for sale	96,675,789	96,675,789	36,858,609	36,858,609
FHLB stock	2,592,200	2,592,200	2,419,000	2,419,000
Loans held for sale	2,509,509	2,509,509	2,358,402	2,358,402
Loans, net	455,747,596	476,407,032	469,942,360	488,693,302
NCUSIF deposit	5,335,161	5,335,161	4,819,097	4,819,097
Interest receivable	1,686,774	1,686,774	1,603,135	1,603,135
Financial Liabilities				
Members' share accounts	581,088,509	583,737,158	535,314,667	536,902,471

Note 10: Commitments and Contingent Liabilities

In the normal course of business, there are outstanding commitments and contingent liabilities, such as commitments to extend credit, which are not included in the accompanying consolidated financial statements. The Credit Union's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit is represented by the contractual or notional amount of those instruments. The Credit Union uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated balance sheets.

Financial instruments whose contract amount represents credit risk as of December 31 were as follows:

	2010	2009
Commitments to extend credit	\$ 238,028,000	\$ 215,780,000

Purdue Federal Credit Union
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

The Credit Union has entered into noncancelable operating lease and other agreements. The leases are for office space.

Future minimum commitments at December 31, 2010 for all noncancelable lease and other agreements are summarized as follows:

2011	\$ 1,214,220
2012	1,084,789
2013	548,366
2014	<u>9,620</u>
	<u>\$ 2,856,995</u>

The amount expensed for 2010 and 2009 related to the lease and other agreements was \$1,356,000 and \$1,381,000, respectively.

In the normal course of business, the Credit Union is subject to various legal actions. Management believes that the results of these legal actions will not have a material adverse effect on the Credit Union's consolidated financial position.

Note 11: Regulatory Capital

Credit unions are subject to regulatory capital requirements prescribed by a federal regulatory agency. There are five classifications based on the combined result of quarterly net worth and risk-based net worth requirements: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. The net worth requirement is based on net worth to total assets. The risk-based net worth requirement requires net worth to exceed the sum of various asset categories times risk factors for each category, and must be met (if this requirement exceeds 6%) to be classified as well or adequately capitalized. If classified as adequately capitalized, net worth and the regular reserve account must increase quarterly by .1% of assets. If undercapitalized, a net worth restoration plan must also be filed and asset growth and business lending are restricted. Additional regulatory actions may be taken at lower capital classifications such as restriction on interest, required merger or liquidation. The Credit Union's current capital classification is well capitalized. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

Purdue Federal Credit Union
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Actual and required capital amounts (in millions) and ratios as of December 31 are presented below.

	Actual		Minimum Required to be Well Capitalized		Risk-Based Requirement	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2010						
Net worth to total assets	\$ 53.1	8.5%	\$ 43.5	7.0%	\$ -	-
Risk-based net worth	53.1	8.5%	-	-	36.9	5.9%
As of December 31, 2009						
Net worth to total assets	\$ 46.6	8.2%	\$ 39.7	7.0%	\$ -	-
Risk-based net worth	46.6	8.2%	-	-	37.1	6.5%

Note 12: Subsequent Events

Subsequent events have been evaluated through March 3, 2011, which is the date the consolidated financial statements were available to be issued.