PEFCU

Purdue Employees
Federal Credit Union

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

Purdue Employees Federal Credit Union

2007 Treasurer's Report

On behalf of your volunteer board of directors I am pleased to report that 2007 was another strong year for Purdue Employees Federal Credit Union (PEFCU). Your cooperative organization remains financially strong. I'm sure this is comforting given all the negative economic and financial information in the news today. Nationally, 2007 saw a significant downturn in the housing market and great problems in mortgage lending. In contrast your credit union had another strong year of responsible mortgage lending while meeting the membership's demand for home ownership. While home foreclosures in the Lafayette community remain historically high, Lafayette's economic base remains relatively stable with 2007 unemployment averaging 4.0%. This is down from the 4.3% experienced in 2006. PEFCU avoided the major lending mistakes affecting so many other financial institutions. The member's long-term best interest remains a key factor in all lending decisions.

With the contributing factors of a stable local economy, competitive loan products and superior quality service, PEFCU's net loans outstanding grew by 11.3% or $49.3 million (M) in 2007. First mortgage loans remained in strong demand from members with $90.1M in mortgage originations. Mortgage loans outstanding increased $32.5M (15.5%) for 2007. PEFCU completed the first full calendar year since the launch of the Purdue Alumni Association Visa affinity credit card program. The popularity of the affinity program is catching on as credit card balances grew by $6.6M (24.3%) for 2007. This was a significant increase when compared to the $2.4M (9.6%) increase for 2006. PEFCU's commercial relationships grew in 2007 as well with commercial loans outstanding increasing $6.7M (16.2%). Another strong contributor was student loans as year-end outstanding balances increased $8M (9.4%). Origination volume for the current school year is expected to be $120M for an increase of 5% over the prior year.

PEFCU's balance sheet strength is grounded in a well-diversified loan portfolio that also has high credit quality. With many sectors of the financial industry negatively impacted by poor mortgage lending practices, PEFCU's credit quality remained strong with loan delinquency (0.47%) remaining well below our peer group average of 0.78%. The relatively low amount of loan losses again positively contributed to the bottom line and benefited your credit union. Charge-offs of 0.26% for 2007 compare favorably to our peer group average of 0.46% charge-offs.

2007 Treasurer's Report (continued)

Loan funding is primarily drawn from member deposits and supplemented with institutional borrowings. Deposit growth was $17.9M (4.4%) in 2007. While growth did slow from the 2006 annual growth rate of 7.8%, member product usage showed some strength. Certificates of deposit provided the strongest growth at $11M (7.4%) along with IRA's which grew $1.4M (9.8%) for the year. Checking account balances grew $3.2M (4.2%), savings increased $1.9M (2.5%), and money markets increased $829K (1%). At year-end 2007, PEFCU had $66.4 million of institutional borrowings with short-term maturities matched to scheduled sales of student loans in early 2008.

Earnings for 2007 declined from the 0.62% return on average assets (ROA) experienced in 2006. Earnings of $1.644 million generated an ROA of 0.34% for the year. 2007's ROA decline is expected to be temporary as member service investment decisions are showing positive revenue growth trends. Credit card program expansion continues as balances and transactions grow. Members with a credit card increased from 40.8% to 43.7% during 2007. The credit card program alone accounts for 50% of 2007 operating expense increase of $1.8M (9.4%). Another contributor to expense growth was opening of the new Southside branch at 350 South and 18th Street in September. Members have enjoyed this service addition and trends show positive contribution to revenue. Membership grew 0.2% for the year to almost 57,000. Member satisfaction levels, as measured formally through quarterly membership surveys, improved for the second year in a row. The board and management believe that investments made during 2007 will lead to further membership growth, improved operational efficiencies, and enhanced member service satisfaction.

Capital, or PEFCU's regulatory net worth, ended the year at $42.1M or 8.6% of assets. Continued strong earnings and capital enable PEFCU to make enhancements to products and services while also providing a cushion for future economic and marketplace uncertainties.

The board of directors and management team appreciate the challenge of meeting your service expectations while balancing the income retention necessary for PEFCU's long-term financial health. Your member-owned organization is working hard to provide you and your family with a "collective" financial service value exceeding that of any other local financial service provider and look forward to continuing to be your financial partner for life!

Robert Bain

Robert W. Bain
Treasurer

PEFCU
Purdue Employees
Federal Credit Union

2007 Supervisory Committee Report

The Supervisory Committee, a volunteer group of PEFCU members, 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.

Under the direction of the Supervisory Committee an annual audit is performed by Crowe Chizek, an independent, outside accounting firm with proven knowledge of credit union regulations and operations. The committee then works with the board and the credit union management team to address any areas of concern raised in the audit. The Supervisory Committee also authorizes the internal audit and information technology security audit programs, in addition to reviewing the results of those audits.

Another Supervisory Committee responsibility is to verify the members' accounts with the credit union's records; this is completed through the annual independent audit process, and confirmation testing completed throughout the year by the internal audit department.

The Supervisory Committee acknowledges the support and professionalism exhibited throughout the year by the credit union staff. It has been a pleasure to serve you, the members.

Christiane E. Keck

Christiane E. Keck
Supervisory Committee Chair

PURDUE EMPLOYEES FEDERAL CREDIT UNION
West Lafayette, Indiana

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

CONTENTS

Crowe

Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheets of Purdue Employees Federal Credit Union as of December 31, 2007 and 2006, 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 Employees Federal Credit Union as of December 31, 2007 and 2006, 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.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

South Bend, Indiana
March 12, 2008

PURDUE EMPLOYEES FEDERAL CREDIT UNION
CONSOLIDATED BALANCE SHEETS
December 31, 2007 and 2006

	2007	2006
ASSETS		
Cash and due from financial institutions	$ 5,315,030	$ 4,923,601
Short-term interest-earning balances in other financial institutions	1,300,824	926,996
Total cash and cash equivalents	6,615,854	5,850,597
Interest-earning balances in other financial institutions	1,000,000	1,000,000
Trading assets	1,338,690	1,255,270
Corporate credit union paid-in capital	1,500,000	1,500,000
Securities available for sale	16,306,366	32,088,891
Federal Home Loan Bank (FHLBI) stock, at cost	2,023,100	2,023,100
Loans to members, net	484,000,196	434,718,610
Land, premises and equipment, net	13,810,182	12,782,606
National Credit Union Share Insurance Fund (NCUSIF) deposit	3,599,699	3,295,522
Accrued interest receivable	2,731,879	2,734,357
Other assets	4,978,884	4,512,025
Total assets	$ 537,904,850	$ 501,760,978
LIABILITIES		
Members' deposits	$ 422,068,948	$ 404,235,286
Borrowings	66,430,000	51,385,000
Other liabilities	7,419,554	6,218,389
Total liabilities	495,918,502	461,838,675
MEMBERS' EQUITY		
Regular reserve	7,502,640	7,502,640
Undivided earnings	34,577,319	32,932,388
Accumulated other comprehensive loss	(93,611)	(512,725)
	41,986,348	39,922,303
Total liabilities and members’ equity	$ 537,904,850	$ 501,760,978

See accompanying notes to consolidated financial statements.

PURDUE EMPLOYEES FEDERAL CREDIT UNION
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2007 and 2006

	2007	2006
Interest income		
Loans receivable	$ 25,967,737	$ 23,481,893
Securities	1,059,947	1,490,466
Interest-earning balances with other financial institutions	760,634	362,562
	27,788,318	25,334,921
Interest expense		
Members' deposits	10,576,627	8,248,383
Borrowings	1,424,965	1,814,882
	12,001,592	10,063,265
Net interest income	15,786,726	15,271,656
Provision for loan losses	1,155,000	780,000
Net interest income after provision for loan losses	14,631,726	14,491,656
Other income		
Service fee income	6,115,897	5,578,900
Income from trading assets	83,420	173,803
Gain on sale of loans	703,240	827,466
Other income	620,208	528,456
	7,522,765	7,108,625
Other expense		
Salaries and employee benefits	8,271,042	7,963,559
Occupancy expense	1,470,092	1,456,778
Office operations and equipment expense	4,134,903	4,079,894
Advertising and marketing expense	1,779,052	1,493,367
ATM expense	1,216,035	1,210,254
Loan servicing	2,490,841	1,620,052
Other expense	1,147,595	1,001,309
	20,509,560	18,825,213
Net income	$ 1,644,931	$ 2,775,068

See accompanying notes to consolidated financial statements.

PURDUE EMPLOYEES FEDERAL CREDIT UNION
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
Years ended December 31, 2007 and 2006

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance – January 1, 2006	**$** 7,502,640	$ 30,157,320	$ (809,163)	$ 36,850,797
Comprehensive income:				
Net income	-	2,775,068	-	2,775,068
Unrealized gains (losses) on securities available for sale	-	-	296,438	296,438
Total comprehensive income	-	-	-	3,071,506
Balance – December 31, 2006	7,502,640	32,932,388	(512,725)	39,922,303
Comprehensive income:				
Net income	-	1,644,931	-	1,644,931
Unrealized gains (losses) on securities available for sale	-	-	419,114	419,114
Total comprehensive income	-	-	-	2,064,045
Balance – December 31, 2007	$ 7,502,640	$ 34,577,319	$ (93,611)	$ 41,986,348

See accompanying notes to consolidated financial statements.

PURDUE EMPLOYEES FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2007 and 2006

	2007	2006
Cash flows from operating activities		
Net income	$ 1,644,931	$ 2,775,068
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	1,695,504	1,813,955
Provision for loan losses	1,155,000	780,000
Accretion and amortization	99,673	123,205
Income from trading assets	(83,420)	(173,803)
Gain on sale of mortgage loans	(376,930)	(540,097)
Gain on sale of student loans	(326,310)	(287,369)
Proceeds from sales of mortgage loans held for sale	36,958,602	49,444,562
Originations of mortgage loans held for sale	(36,653,634)	(48,923,836)
Proceeds from sales of student loans held for sale	96,157,756	115,669,286
Originations of student loans held for sale	(103,784,216)	(107,657,420)
Changes in:		
Accrued interest receivable	2,478	(434,888)
Other assets	(466,859)	(837,273)
Other liabilities	1,201,165	4,020,490
Total adjustments	(4,421,191)	12,996,812
Net cash from operating activities	(2,776,260)	15,771,880
Cash flows from investing activities		
Purchases of:		
Premises and equipment, net	(2,723,080)	(1,209,829)
Federal Home Loan Bank stock	-	(232,800)
Proceeds from:		
Maturities and paydowns of securities available for sale	16,101,966	8,042,396
Sale of mortgage loans	2,660,739	-
Net changes in:		
Interest-earning balances in other financial institutions	-	2,000,000
Corporate credit union membership shares and paid-in capital	-	500,000
Loans to members	(45,072,593)	(25,174,519)
NCUSIF deposit	(304,177)	(68,482)
Net cash from investing activities	(29,337,145)	(16,143,234)
Cash flows from financing activities		
Net change in members' deposits	17,833,662	29,086,150
Net change in borrowings	15,045,000	(38,615,000)
Net cash from financing activities	32,878,662	(9,528,850)
Net change in cash and cash equivalents	765,257	(9,900,204)
Cash and cash equivalents at beginning of year	5,850,597	15,750,801
Cash and cash equivalents at end of year	$ 6,615,854	$ 5,850,597
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 12,027,944	$ 10,120,637
Transfer from portfolio loans to loans held for sale	2,645,577	-

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Nature of Operations and Concentrations of Credit Risk: Purdue Employees Federal Credit Union, a federally chartered credit union operating in Lafayette and West Lafayette, Indiana, provides 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 commercial, consumer (including credit card), student, mortgage and home equity loans to its members who are primarily individuals (including family members) employed at or attending Purdue University campuses. The majority of the loans are secured by collateral including autos and other types of vehicles, members' share accounts, real estate, business assets and other consumer assets. At year end 2007 and 2006, approximately 27% and 26% of the total loans outstanding were unsecured. Unsecured loans include student loans, which are guaranteed by USA Funds. Additional services include financial planning, investment, trust, and insurance services to Credit Union members through PEFCU Trust and Financial Services, a third party provider.

The CUSO provides services to non-member Credit Unions, primarily first mortgage loan origination and servicing for other credit unions. The CUSO is a 21% owner of Passageways LLC, a software development company providing portal solutions to credit unions.

Use of Estimates in the Preparation of Financial Statements: 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. Actual results could differ from current estimates. The allowance for loan losses and fair values of financial instruments are particularly subject to change.

Interest-earning Balances in Other Financial Institutions: Interest-earning balances in other financial institutions are carried at cost and mature within one year.

Trading Assets: The Credit Union has acquired certain mutual funds in connection with a deferred compensation arrangement with an executive officer of the Credit Union. Changes in the fair value of such mutual funds are used to determine compensation expense under the terms of the deferred compensation arrangement. Such mutual funds are recorded at fair value with changes in fair value included in earnings. Quoted market prices are used to determine the fair value of trading securities.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments. Gains and losses on sales are 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: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, and (3) 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 of Indianapolis (FHLBI) Stock: The Bank 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. FHLBI stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment. Because this stock is viewed as long term investment, impairment is based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans: 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, and an allowance for loan losses. Loans held for sale are reported at the lower of cost or market, on an aggregate basis. Loans sold in the secondary market are primarily sold with the servicing of the loans being retained.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired or payments are past due over 90 days. All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such 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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Servicing Rights: Servicing rights are recognized separately when they are acquired through sales of loans. For sales of mortgage loans prior to January 1, 2007, a portion of the cost of the loan was allocated to the servicing right based on relative fair values. The Credit Union adopted SFAS No. 156 on January 1, 2007, and for sales of mortgage loans beginning in 2007, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. 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. The Credit Union compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Credit Union later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required using past loan loss experience, known and inherent risks in 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. Loan losses are charged against the allowance for loan losses when management believes the uncollectibility of a loan balance is confirmed.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

A loan is impaired when 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.

Foreclosed Assets: Assets acquired through or instead of loan foreclosure are initially recorded at fair value when acquired, establishing a new cost basis. If fair value declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed. At December 31, 2007 and 2006 foreclosed assets totaled $201,970 and $99,192, respectively.

Land, 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 estimated useful lives. Maintenance and repairs are expensed, and major improvements are capitalized. Gains and losses on disposals are included in current operations.

Credit Union Owned Life Insurance: The Credit Union has purchased life insurance policies on certain key executives. Upon adoption of EITF 06-5, which is discussed further below, Credit Union owned life insurance is recorded at the amount that an be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. Prior to adoption of EITF 06-5, the Credit Union recorded owned life insurance at its cash surrender value.

In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-5, *Accounting for Purchases of Life Insurance - Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4 (Accounting for Purchases of Life Insurance).* This issue requires that a policyholder consider contractual terms of a life insurance policy in determining the amount that could be realized under the insurance contract. It also requires that if the contract provides for a greater surrender value if all individual policies in a group are surrendered at the same time, that the surrender value be determined based on the assumption that policies will be surrendered on an individual basis. Lastly, the Issue requires disclosure when there are contractual restrictions on the Credit Union's ability to surrender a policy. The adoption of EITF 06-5 on January 1, 2007 had no impact on the Credit Union's financial condition or results of operation.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term Assets: These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

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 1 percent of its 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 1 percent of its total insured shares, unless the payment is waived or reduced by the NCUA Board. The NCUA Board waived the insurance premium for insured shares outstanding for 2007 and 2006.

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 at the end of an interest period and are not guaranteed by the Credit Union. The Board of Directors, based on an evaluation of current and future market conditions, sets interest rates on members' deposits.

Retirement Plans: Employee 401(k) and profit sharing plan expense is the amount of matching contributions. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

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

Income Taxes: The Credit Union is exempt, by statute, from federal and state income taxes.

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. The Credit Union has recorded a $165,000 litigation liability in conjunction with their Visa USA members' equity allocation for their share of covered litigation of Visa USA's settlement with American Express, an estimated contingency with Discover and other legal matters (please see Note 10 for additional discussion).

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Off-Balance-Sheet Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and open-end revolving 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.

Cash Flow Reporting: Cash and cash equivalents include the Credit Union's cash on hand, its short-term interest-earning balances in other institutions and federal funds sold. The Credit Union reports net cash flows for member loan and share transactions, interest-earning balances in other financial institutions, corporate credit union membership shares and paid-in capital and the NCUSIF deposit.

Fair Values of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. 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.

Restrictions on Cash: The Credit Union was required to have $1,178,000 and $1,033,000 of cash on hand for the clearing of credit card advances as of December 31, 2007 and 2006.

Effect of Newly Issued But Not Yet Effective Accounting Standards: In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued Staff Position (FSP) 157-2, *Effective Date of FASB Statement No. 157.* This FSP delays the effective date of FAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The impact of adoption is not anticipated to be material.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. The standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new standard is effective for the Credit Union on January 1, 2008. The Credit Union did not elect the fair value option for any financial assets or financial liabilities as of January 1, 2008.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. This issue requires that a liability be recorded during the service period when a split-dollar life insurance agreement continues after participants' employment or retirement. The required accrued liability will be based on either the post-employment benefit cost for the continuing life insurance or based on the future death benefit depending on the contractual terms of the underlying agreement. This issue is effective for fiscal years beginning after December 15, 2007. The impact of adoption is not anticipated to be material.

NOTE 2 - CONCENTRATION OF FUNDS

At year-end 2007 and 2006, the Credit Union had the following interest-earning balances with Members United Corporate Federal Credit Union (Members United):

	2007	2006
Investment shares	$ 1,217,945	$ 890,510
National Credit Union Foundation Account	1,000,000	1,000,000
Paid-in capital	1,500,000	1,500,000
	$ 3,717,945	$ 3,390,510

The paid-in capital represents a twenty-year deposit of $1,500,000 and has a floating rate, which was 5.39% at December 31, 2007. The principal is due at the maturity date of June 25, 2023. The funds are callable only at the option of Members United and only if Members United meets its minimum level of required capital after the funds are called. The investment shares account is available on demand and earns daily dividends based on the previous day's ending balance. The National Credit Union Foundation Account may be withdrawn during the first 90 days of the deposit, and the account matures after one year. Of the amounts on deposit with Members United, only $100,000 is insured by the NCUSIF.

(Continued)

NOTE 3 - SECURITIES

Year-end securities were as follows:

	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Available for sale - 2007			
U.S. Treasury and U.S. Government agencies	$ 3,974,200	$ -	$ (22,523)
Mortgage-backed securities	12,332,166	1,842	(72,930)
	$ 16,306,366	$ 1,842	$ (95,453)
Available for sale - 2006			
U.S. Treasury and U.S. Government agencies	$ 13,824,000	$ -	$ (231,703)
Mortgage-backed securities	18,264,891	1,955	(282,977)
	$ 32,088,891	$ 1,955	$ (514,680)

At December 31, 2007, debt securities with a carrying value of $3,974,200 are contractually scheduled to mature by December 31, 2008. Securities not due at a single maturity date include mortgage-backed securities as disclosed above.

There were no sales of securities in 2007 or 2006. No investments were pledged at December 31, 2007 or 2006.

(Continued)

NOTE 3 – SECURITIES (Continued)

Securities with unrealized losses at year end 2007 and 2006, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

As of December 31, 2007

	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury and U.S. Government agencies	$ -	$ -	$ 3,974,200	$ (22,523)	$ 3,974,200	$ (22,523)
Mortgage-backed securities	834,676	(145)	10,170,631	(72,785)	11,005,307	(72,930)
Total temporarily impaired	$ 834,676	$ (145)	$ 14,144,831	$ (95,308)	$ 14,979,507	$ (95,453)

As of December 31, 2006

	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury and U.S. Government agencies	$ 9,939,500	$ (124,044)	$ 3,884,500	$ (107,659)	$ 13,824,000	$ (231,703)
Mortgage-backed securities	1,872,872	(18,817)	15,515,768	(264,160)	17,388,640	(282,977)
Total temporarily impaired	$11,812,372	$ (142,861)	$ 19,400,268	$ (371,819)	$ 31,212,640	$ (514,680)

The Credit Union evaluates securities for other-than-temporary impairment-at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the credit quality of the investment, and the intent and ability of the Credit Union to retain its investment for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, the Credit Union may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. The Credit Union has the intent and ability to hold these investments for the foreseeable future, and the decline in fair value is largely due to changes in interest rates. Fair values are expected to recover as investments approach maturity.

(Continued)

NOTE 4 - LOANS TO MEMBERS, NET

Year-end loans to members were as follows:

	2007	2006
Consumer loans	$ 64,214,179	$ 68,016,747
Real estate loans	201,177,238	172,616,169
Home equity loans	40,068,088	36,222,947
Mortgage loans held for sale	427,200	370,400
VISA loans	33,882,891	27,261,128
Lines of credit	1,623,145	1,789,779
Student loans held for sale	92,669,638	84,716,868
Commercial loans	48,458,898	41,709,594
	482,521,277	432,703,632
Net deferred loan costs	2,908,630	3,309,735
Allowance for loan losses	(1,429,711)	(1,294,757)
	$ 484,000,196	$ 434,718,610

Loans to Credit Union officials including directors, Supervisory Committee members and executive officers, at year-end 2007 and 2006 were approximately $3,046,000 and $2,335,000.

Activity in the allowance for loan losses was as follows:

	2007	2006
Balance at beginning of year	$ 1,294,757	$ 1,356,535
Provision for loan losses	1,155,000	780,000
Loans charged-off	(1,450,736)	(1,122,843)
Recoveries on charged-off loans	430,690	281,065
Balance at end of year	$ 1,429,711	$ 1,294,757

Nonperforming loans were as follows:

	2007	2006
Loans past due over 90 days still on accrual	$	$ -
Nonaccrual loans	1,330,000	566,000

(Continued)

NOTE 4 - LOANS TO MEMBERS, NET (Continued)

There were no loans individually classified as impaired during 2007 and 2006. At year end, loans past due 60 days or more were as follows:

	2007	2006
Loans delinquent between two and six months	$ 841,000	$ 961,000
Loans delinquent more than six months	976,000	182,000

NOTE 5 – MORTGAGE SERVICING RIGHTS

Mortgage loans serviced for others are not reported as assets. The principal balances of these loans at year end 2007 and 2006 are $92,352,828 and $67,687,443, respectively.

Capitalized mortgage servicing rights are included in other assets on the balance sheet. Activity for capitalized mortgage servicing rights follows:

	2007	2006
Servicing rights:		
Beginning of year	$ 535,108	$ 208,522
Additions	304,434	404,431
Amortized to expense	(159,631)	(77,845)
End of year	$ 679,911	$ 535,108

There was no valuation allowance established at December 31, 2007 or 2006.

NOTE 6 - LAND, PREMISES AND EQUIPMENT, NET

Year-end land, premises and equipment were as follows:

	2007	2006
Land and land improvements	$ 2,350,862	$ 2,204,638
Buildings	12,107,943	10,541,468
Furniture, fixtures and equipment	14,364,367	13,353,986
Leasehold improvements	673,233	673,233
	29,496,405	26,773,325
Less accumulated depreciation	(15,686,223)	(13,990,719)
	$ 13,810,182	$ 12,782,606

(Continued)

NOTE 7 - MEMBERS' DEPOSITS

Year-end members' deposits were as follows:

	2007	2006
Checking accounts	$ 78,134,780	$ 74,976,845
Regular and IRA savings accounts	87,206,936	85,993,258
Money market accounts	82,180,095	81,351,193
	247,521,811	242,321,296
Share and IRA certificate accounts	174,547,137	161,913,990
	$ 422,068,948	$ 404,235,286

At year-end 2007, scheduled maturities of share and IRA certificates are as follows:

2008	$ 125,633,818
2009	29,940,116
2010	13,479,032
2011	3,655,549
2012	1,838,622
Total	$ 174,547,137

Members’ deposits in denominations of $100,000 or more at year-end 2007 and 2006 totaled approximately $119,452,000 and $102,184,000.

Deposits from Credit Union officials, including directors, Supervisory Committee members and executive officers, were approximately $1,593,000 and $1,711,000 at year-end 2007 and 2006.

Interest on members' deposits was as follows:

	2007	2006
Checking accounts	$ 133,834	$ 125,953
Regular and IRA savings accounts	501,161	506,413
Money market accounts	1,878,760	1,823,886
Share and IRA certificate accounts	8,062,872	5,792,131
	$ 10,576,627	$ 8,248,383

(Continued)

NOTE 8 - EMPLOYEE BENEFITS

401(k) and Pension Plan: The Credit Union sponsors a defined contribution pension plan (401K 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 11% (reduced by forfeitures) of annual wages for eligible employees and was approximately $509,000 and $486,000 in 2007 and 2006. In general, distributions from the plan are made only at retirement, death, disability, termination of employment, or termination of the plan. The plans vesting period is based on a graduated scale with full vestment occurring in year six.

Employee voluntary contribution amounts are limited to $15,500 per year, and employees over 50 years of age may contribute an additional $5,000 per year. Employee voluntary contributions are vested at all times. The Credit Union has not matched any funds contributed to this plan through December 31, 2007.

NOTE 9 – BORROWINGS

At year-end 2007 and 2006, the Credit Union had a board approved borrowing capacity available at Members United of $150,000,000. The terms of the related security agreement allow Members United the right to perfect an interest in Credit Union assets at anytime with the exception of assets currently pledged elsewhere. Outstanding borrowings with Members United were $66,430,000 and $11,385,000 at December 31, 2007 and 2006. The outstanding borrowings at December 31, 2007 will mature in 2008. At December 31, 2007 and 2006, the weighted average rate of interest on the borrowings was 4.64% and 5.50%, respectively.

The Credit Union is a member of the Federal Home Loan Bank of Indianapolis (FHLBI). The Credit Union executed a certified resolution for advances, which allows for fixed and variable rate borrowings. The Credit Union had $0 and $40,000,000 in borrowings with the FHLBI as of December 31, 2007 and 2006. The terms of the security agreement with the FHLBI require the Credit Union to pledge qualifying first mortgage loans as collateral. The total amount of such loans pledged was $137,911,000 and $137,413,000 as of December 31, 2007 and 2006.

(Continued)

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The Credit Union is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet financing needs of its members. The Credit Union's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to make loans and open-end revolving lines of credit is represented by the contractual amount of those instruments. The Credit Union uses the same credit policy to make such commitments as it uses for on-balance-sheet items.

At year-end, the Credit Union had the following open credit lines and commitments to extend credit:

	2007	2006
Fixed	$ 121,541,758	$ 95,285,595
Variable	31,429,598	28,281,399

The Credit Union has entered into noncancelable operating lease and affinity agreements. The leases are for office space. The affinity agreement provides the Credit Union with exclusive rights to market financial products to certain groups and expires June 30, 2013, with renewal options available.

The future minimum commitments at year-end 2007 for all noncancelable lease and affinity agreements are as follows:

Year ending December 31,	Commitment
2008	$ 1,204,527
2009	1,121,867
2010	1,072,826
2011	1,056,392
2012	1,045,281
Thereafter	524,740
	$ 6,025,633

The amount expensed for 2007 and 2006 related to the lease and affinity agreements was $1,323,000 and $829,000.

(Continued)

NOTE 10 - COMMITMENTS AND CONTINGENCIES (Continued)

In October 2007, Visa completed a reorganization in which Visa USA, Visa International, Visa Canada and Inovant became Visa, Inc., in anticipation of its initial public offering, which is expected to occur in 2008. As a result, the Credit Union, as a principal member of the Visa network, became a 0.00637% owner in Class USA Common Stock, par value $0.0001, of Visa Inc. It is anticipated that some of these shares will be redeemed as part of the initial public offering with the remaining shares converted to Class A shares on the third anniversary of the initial public offering or upon Visa Inc.'s settlement of certain litigation matters, whichever is later. Visa, Inc. is expected to apply a portion of the proceeds from the initial public offering to fund an escrow account to cover certain litigation judgments and settlements. Should the initial public offering not occur, Visa, Inc. may be unable to fund the litigation judgments and settlements and, in turn, Visa, Inc.'s member institutions could have to settle the liabilities through indemnification provisions as part of Visa, Inc.'s "retrospective responsibility plan." Under this plan, Visa U.S.A. member institutions have an indemnification obligation contained in Visa U.S.A.'s certificate of incorporation and bylaws and as agreed in their membership agreements.

Due to the possibility of this indemnification obligation, the Credit Union recorded a $165,000 litigation liability at December 31, 2007 in regards to the Discover Financial Services lawsuit, American Express settlement and other litigations. The Credit Union's Visa U.S.A. membership proportion is 0.00637%. The Credit Union was not named as a defendant in the Discover Financial Services and American Express lawsuits, and, therefore, will not be directly liable for any amount of the settlement. In the event that the initial public offering occurs in 2008, the Credit Union anticipates that Visa Inc.'s escrow account will be used to settle such litigation judgments and settlements and the liability recorded on the Credit Union's books will be offset by the Credit Union's interest in the escrow account. The Credit Union expects that its proceeds from the anticipated share redemption will ultimately result in a gain.

(Continued)

NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	2007		2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$ 6,615,854	$ 6,615,854	$ 5,850,597	$ 5,850,597
Interest-earning balances in other financial institutions	1,000,000	1,000,000	1,000,000	1,000,000
Trading assets	1,338,690	1,338,366	1,255,270	1,255,270
Corporate credit union paid-in capital	1,500,000	1,500,000	1,500,000	1,500,000
Securities available for sale	16,306,366	16,306,366	32,088,891	32,088,891
FHLBI stock	2,023,100	2,023,100	2,023,100	2,023,100
Loans to members, net	484,000,196	483,584,555	434,718,610	436,196,204
NCUSIF deposit	3,599,699	3,599,699	3,295,522	3,295,522
Accrued interest receivable	2,731,879	2,731,879	2,734,357	2,734,357
Financial liabilities:				
Members' deposits	(422,068,948)	(422,951,713)	(404,235,286)	(404,231,364)
Borrowings	(66,430,000)	(66,430,000)	(51,385,000)	(51,385,000)
Accrued interest payable	(79,405)	(79,405)	(105,757)	(105,757)

The methods and assumptions used to estimate fair value are described as follows. Carrying amount is the estimated fair value for cash and cash equivalents, interest-earning balances in other financial institutions, short-term borrowings, corporate credit union membership shares and paid-in capital, NCUSIF deposit, accrued interest and share drafts, cash management and regular savings accounts. The carrying amount of FHLBI stock approximates fair value based on the redemption provisions of the FHLBI. Security fair values including trading assets are based on market prices or dealer quotes, and if no such information is available, on the rate and term of the security and information about the issuer. For fixed rate loans and time deposits and for variable rate loans and time deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. The estimated fair values of other financial instruments and off-balance-sheet loan commitments approximate cost and are not considered significant for this presentation.

(Continued)

NOTE 12 – CAPITAL REQUIREMENTS

The Credit Union is subject to various regulatory capital requirements administered by the National Credit Union Administration (NCUA). Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under accounting principles generally accepted in the United States of America. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the following table) of net worth (as defined) to total assets (as defined). Credit Unions are also required to calculate a risk-based net worth requirement (RBNWR) that establishes whether the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's required risk-based net worth ratio as of December 31, 2007 was 6.3%. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes, as of December 31, 2007, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2007 and 2006, the most recent call reporting period, the NCUA categorized the Credit Union as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Credit Union must maintain a minimum net worth ratio of 7% of assets. There are no conditions or events since that notification that management believes have changed the institution's category.

Actual and required capital amounts (in millions) and ratios are presented below at December 31:

	Actual		Minimum Required to be Well Capitalized		Risk-based Requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2007						
Net worth to total assets	$42.1	8.6%	$34.2	7.0%	-	-
Risk-based net worth	$42.1	8.6%	-	-	$30.8	6.3%
2006						
Net worth to total assets	$40.4	8.7%	$32.5	7.0%	-	-
Risk-based net worth	$40.4	8.7%	-	-	$28.6	6.2%

(Continued)

NOTE 12 – CAPITAL REQUIREMENTS (Continued)

Because the RBNWR ratio requirement is less than the net worth ratio requirement, the Credit Union retains its original category of well capitalized. Further, in performing its calculation of total assets, the Credit Union used the average daily assets of the current and three preceding calendar quarter-end balances.

NOTE 13 – OTHER COMPREHENSIVE INCOME

Other comprehensive income components were as follows:

	2007	2006
Net change in net unrealized appreciation on securities available for sale	$ 419,114	$ 296,438
Reclassification adjustments for (gains) losses included in net income	-	-
Total other comprehensive income	$ 419,114	$ 296,438

2007 Committees and Volunteers

Supervisory Committee
Christiane Keck, Chair
Stephen E. Brewer
Lucia Anderson
Marcus Rogers
Rick Davis

Executive Committee
A. Charlene Sullivan, Chair
Stephen E. Brewer
Robert W. Bain
John O. Trott

Asset Liability Committee
Robert W. Bain, Chair
John O. Trott
Thomas E. Moore
James Schackmuth
John Schneider
P. Greggory Williams

Membership Services Committee
Susan K. Aufderheide, Chair
Susan M. Smith
Mark M. Moriarty
Cindy Oneal
Ted Hingst
Dan Heman
Darren Cooper
Rick Bradley
Sharon Kraebber
Jayne Feathers

30-year Employee Retires

In January 2008, PEFCU said goodbye to **Dave Melville**, our first 30-year employee to retire. Melville joined PEFCU on January 30, 1978, and during his tenure made numerous contributions in positions ranging from collector to director of operations, to vice president of lending, to facilities manager, which he held since the position was created in 1990. It is truly wonderful for PEFCU to have such a hard-working and dedicated employee for all these years.

In Memoriam

"As a board member, I have invested my time and effort to learn more about the financial services industry and particularly credit unions and how they serve their members. You, the members, have invested your trust and confidence in me... to provide leadership and oversight for the credit union's growth and future. Thank you for your trust and confidence."

- Ron E. Feathers, 2001-07 Board Member

PEFCU
Purdue Employees Federal Credit Union

William F. Connors
Chief Executive Officer

A. Charlene Sullivan
Board Chair

As we look back at 2007, it is with great pride that we share the success and prosperity PEFCU experienced this past year. Some of our banking peers will not have that same privilege. Our industry faced turmoil in the financial markets, a dramatic decline in housing, the failure of sub-prime mortgage lenders and a pullback in consumer spending. This made for a difficult year for most financial institutions. But your credit union remained focused.

We are a cooperative. Our purpose is to serve you, our members. It is our responsibility to offer the right products and services at fair prices. And, it is the only way we will accomplish our most important mission: to be your financial partner for life. That means we need to provide these services in both good times and bad. Thus, we don't reach for high yields or offer products and services in areas we don't understand.

Our commitment is long term and our business model isn't altered every time rates change or the economy slumps. Your board and management team actively engage in annual strategic planning discussions to set the course for our business. Our goal is for PEFCU to be there for our members regardless of interest rate cycles or housing and auto industry slumps.

Over the past 15 years we have seen a change in our economy, driven mostly by the auto and housing industries. During this span auto manufacturers entered the lending business and offered 0% financing and inflated trade-ins and other "incentives" to entice consumers to buy. They effectively created demand to help keep their manufacturing plants busy. In many cases, consumers were forced to finance up to 125% of the cost of a car just to stay driving. Similarly, builders created demand for housing to move renters into homes by creating their own mortgage companies and qualifying buyers for home ownership using low teaser rate mortgage products that eventually re-priced to a level well beyond what many could afford, thus leading to foreclosure.

During 2007 we provided first mortgages to 542 members, up from 467 in 2006. Dollar volume amounted to $90.1 million vs. $76.6 million in 2006. Outstanding balances grew $28 million (16%). We did this in spite of slowing local and national housing markets. We didn't get into sub-prime mortgages or offer exotic adjustable rate products that were not in the best interest of our members. And our mortgage charge-offs declined by $8,000 to $62,000, a mere 0.03% of our outstanding balances.

Overall, we classify 2007 as very successful; our ROA (effectively our net income) was 0.34% or $1.64 million and about 9% above budget. Purdue Alumni Association Visa card revenue was up substantially over 2006 and actually exceeded our 2007 budget by nearly 5%. Balances grew by $6.6 million (24%) and our loan losses associated with Visa were $25,000 lower than the previous year.

We opened our long-awaited branch at South 18th St. and East CR 350 South on time and under budget. Already, member usage and new business is ahead of projections. Our very own Trust and Financial Center enjoyed one of the best years in its short history. Over 2,000 members worked one-on-one with our investment representatives to plan their retirement and set future financial goals.

We continued to invest in technology to provide you with the most robust, safe and innovative electronic services available anywhere. We updated our Web site and then revised it again with your feedback. Along the way we enhanced PEFCU Online, dramatically increasing transaction speed. And, in December PEFCU became the first financial institution in the Greater Lafayette area to offer mobile banking services with the introduction of PEFCU2go. Mobile banking services are accessible through your Web-enabled cell phone or PDA with most of the transaction functionality of PEFCU Online.

As a cooperative we aim to provide services that are valuable to our members even if few other financial institutions would even consider providing them. Almost a decade ago we hired our first credit counselor and added a second in late 2006. Together they met with more than 450 members in 2007 – guiding them through some difficult financial situations. They also volunteer in the community leading financial literacy programs, which have included such topics as budgeting and credit management. We strongly believe this service has helped our members and PEFCU avoid some of the financial nightmares you may have read about in the media.

What's in store for next year? Currently, we have more questions than answers relative to the economy. The Federal Reserve made an unprecedented move in early February 2008 to lower short-term rates 75 basis points between meetings and then dropped them an additional 50 basis points two weeks later following their meeting. What we do know is that your credit union will be here to meet all of your financial needs, regardless of what direction the economy takes.

We will continue to focus on membership growth in 2008. Part of our mission to be a financial partner for life also means helping more of our potential members weather the uncertain economy and achieve their own long-term financial goals. We will continue working with our existing members to deepen that relationship through expanded product and service usage.

As always, we must take this opportunity to thank the staff and the many volunteers who are the ones who make the credit union your financial partner for life.

A. Charlene Sullivan
Board Chair

William F. Connors
Chief Executive Officer

Executive Leadership

Bob Falk
President/COO

Gail J. Koehler
Executive Vice President

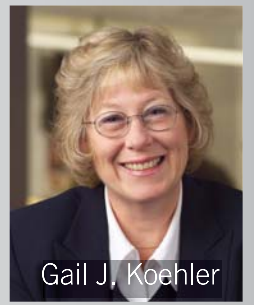
Brian D. Musser
Vice President Finance/CFO

Bill Arnold
Vice President
Information Technology

Jackie Hofman
Vice President
Human Resources and Marketing

Evelyn Royer
Vice President Risk Management
and Support Services


Bob Falk


Gail J. Koehler


Brian D. Musser


Bill Arnold


Jackie Hofman


Evelyn Royer

Board of Directors


Steve Brewer
Vice Chair


Ron E. Feathers
Director


Robert W. Bain
Treasurer


Thomas E. Moore
Director


John O. Trott
Secretary


Susan Smith
Director


Susan K. Aufderheide
Director


Michael E. Trautmann
Director

Making a difference together.

Together, PEFCU and its employees make our community a better place through financial and volunteer support of local organizations and initiatives.

In 2007, PEFCU significantly impacted the local community through its contributions:

- PEFCU raised $50,000 through the 1st Annual Brees Dream Foundation Golf Outing for the benefit of Purdue University's National Youth Sports Program and Riley Hospital for Children through the Credit Unions for Kids Program.
- PEFCU gave two $1,000 scholarships to Purdue University student-recipients of the Citizenship Award.
- PEFCU raised $860 for the Greater Lafayette United Way through a silent auction held during opening week of the new 350 South Branch.
- PEFCU donated 22 items autographed by PEFCU spokesperson Drew Brees for fundraising auctions held by local charities and student groups.
- PEFCU sponsored numerous community events including the Purdue Musical Organizations Christmas Show, Civic Theatre of Greater Lafayette and more.
- Employee contributions in 2007 totaled more than $40,000 and surpassed last year's total of $37,000. Contributions went to groups including, but not limited to, the YWCA of Greater Lafayette through a Columbus Day auction that generated $4,218 in donations and the Greater Lafayette United Way through employee pledges equaling $32,483. Employees also donated 482 pounds of food to Food Finders Food Bank, and volunteered countless hours on not-for-profit boards and committees, and at community events.


NYSP Campers win new bikes from PEFCU


PEFCU Staff fills Teal Road office with donated food


Drew signs autographs at golf gallery

"I am proud to be a part of this great community. The level of participation in this year's event shows our collective commitment to enhancing the lives of our youth here in Lafayette."

- Drew Brees, NFL Saints quarterback and PEFCU spokesperson

1st Annual Brees Dream Foundation Golf Outing presented by PEFCU.

The mild, sunny day couldn't have been better for the more than 200 golfers, celebrities and public spectators who participated in the outing. Following golf was a cocktail reception where unique sports memorabilia were auctioned off with Brees serving as auctioneer. The event concluded with the presentation of a $25,000 check to each of the year's beneficiaries:

- Purdue University's National Youth Sports Program (NYSP). A four-week sports enrichment camp for local children ages 10-16 who live at or below poverty. In 2006 the camp boasted a participant roster of more than 400 local children, delivering a summer program of sports, fitness, health/nutrition instruction and computers/writing.
- Riley Hospital for Children through the Credit Unions for Kids Program. This program is a collaboration between credit unions to benefit children's hospitals affiliated with the Children's Miracle Network, which serves 17 million kids.

Thanks to the overall community support we received for our first fundraising golf tournament, we will host this event again on Saturday, June 14, 2008. You can expect even greater participation from former Purdue teammates and NFL standouts. The public is welcome to participate in the silent auction and gallery viewing areas on the golf course during the event. To RSVP for golf, please contact Nicole at 765.497.7444. Don't miss this one-of-a-kind event!

PEFCU Trust & Financial Center (PTFC) Highlights:

PTFC Assets Under Management (AUM) increased 22% from 2006 to 2007.

2,028 PEFCU members were serviced by PTFC in 2007.

Making 2007 simple, smart and speedy.

At PEFCU we define innovation by offering premier technology to our members – technology that makes managing your finances simple, smart and speedy no matter how you choose to transact your PEFCU account. It is just one of the investments we make in you, our member-owner.

350 S. Branch Opening

350 South Branch

At the credit union, you are a member-owner and we heard your request for a more convenient place to make financial transactions. That's why we expanded our reach to a new branch located on Lafayette's Southside.

The 350 South Branch is the seventh full-service PEFCU branch in Greater Lafayette. The spacious 3,365 square-foot building sits on a beautifully landscaped one-acre property. The branch features a blend of personalized service and latest technology with a traditional four-station teller line, private meeting spaces, on-site mortgage services, Internet café, four drive-up lanes and an outdoor ATM.

SecureAccess

Early in 2007, PEFCU introduced a new security upgrade known as SecureAccess to enhance the security and safety of your online experience. SecureAccess is an enhanced login method that helps protect you and your account from online fraud and identity theft.

When you see the image and phrase you personally selected, you can be sure that you are really logging into the official PEFCU Web site and not a fraudulent site that looks like us. The additional measures will also help protect your accounts from unauthorized access. It identifies you as the true "owner" of your accounts by recognizing not only your password, but also your computer.

New Web Site Design

Whether you use the PEFCU Web site (www.purdueefcu.com) to review current rates, locate branches and ATMs, or manage your accounts online, providing you with a safe, satisfying online experience is our priority. Since launching the first rendition in fall 2007, we continue to draw on your feedback to make our Web site better and easier to navigate.

Some improvements include:

- Easy-to-find login box located on the upper left side of your screen to ensure you always see the box without having to scroll
- Accurate keyword search results with a site search engine powered by Google
- Tabs with drop-down menus that make it simple to find what you're looking for
- Compatibility with the latest Internet Explorer, Firefox and Safari browsers
- Member news, events and fraud alerts easily accessible from the home page

Mobile Banking Service at www.pefcu2go.com

PEFCU maintains its place as a leader in the financial services industry by becoming the first credit union in Indiana and the first local financial institution in Greater Lafayette to launch a Web-enabled mobile service called PEFCU2go. Through PEFCU2go, members are able to check account balances, transfer funds, and pay bills using their Web-enabled cell phone or other mobile device. The mobile service is safe and provides a consistent member experience with the online account service by employing the same multi-factor identification authentication for mobile and online access.

Foreign Currency Exchange Service

As people travel to and from Greater Lafayette, they need a fast, convenient way to exchange currency. At PEFCU, we strive to meet our members' needs, so adding a foreign currency exchange service simply made sense. Through the new service, members are able to easily buy and sell foreign currency of all types before and after travel. Members who need to exchange currency should visit the Northwestern Avenue Branch to make their request.

Making the community better in 2007.

Educational Workshops

In October 2006, PEFCU received a grant from the National Credit Union Foundation and HUD to initiate a housing counseling program for the community. Through this grant we were able to employ additional counseling resources for our members and the community at-large. With foreclosure rates on the rise throughout the state of Indiana, PEFCU has seen more of its members in financial distress because of changes in the economy, taxes and predatory lending.

In addition to the grant, a partnership was established with the Lafayette Housing Authority and Lafayette Transitional Housing, which helped to obtain funding for seminars and workshops. In 2007 PEFCU provided 49 seminars/workshops involving 727 participants within the community (including both members and non-members).

A series of financial education workshops were given to both McCutcheon and Jefferson high-school seniors. We spent a total of eight hours in each class teaching the students financial literacy. These classes consisted of the basics of a checking account, budgeting and money management, understanding credit and credit cards, fraud and identity theft, and rental knowledge as well as home-buying information.

We consider ourselves lucky to have the opportunity to reach such a broad spectrum of people in our community with the tools they need to achieve financial success at any point in their lives.

Merit Checking and Counseling Programs

The Merit Checking Program was designed to help members achieve financial success in light of past credit or checking blemishes. The program educates members about healthy fiscal habits and arms them with financial tools to improve their credit and checking history. So far, 23 members have completed the Merit Checking Program – all of whom were unable to obtain a traditional checking account at any other financial institution. Members are given information about check holds and how to use a checkbook register, and are taught ways to improve their credit score. After completing the program, members are eligible for a checking account and check card.

Along with the Merit Checking Program, PEFCU conducted 489 individual counseling sessions in 2007. For nearly a decade, our Credit Counseling Program has provided free and confidential service to PEFCU members. No other financial institution in this community offers this unique service. These sessions, for both members and non-members alike, included guidance on issues including budgeting, foreclosure prevention and credit repair.

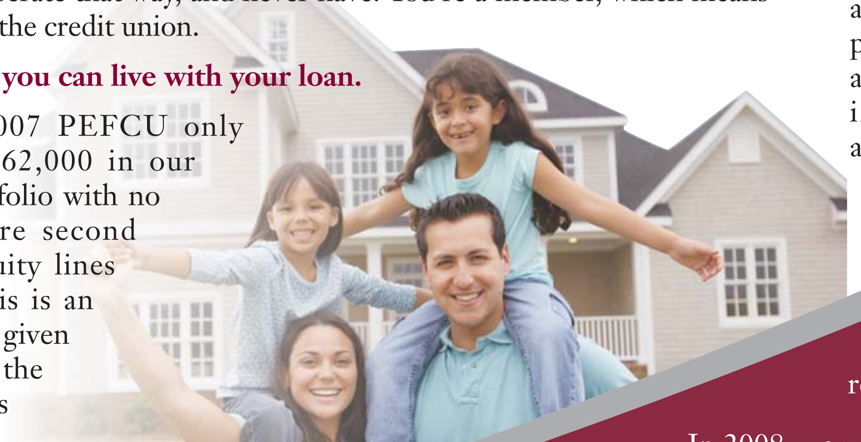
Mortgage Industry

"Indiana continues to lead the nation in home foreclosures; in fact the Indiana foreclosure rate is twice the national average. Bankruptcies are also among the highest in the nation with a 13.7% increase in bankruptcies in 2005 over 2004."

Negative news headlines like this one about mortgages mostly describe homeowners who made risky mortgages with other lenders – lenders who want a loan on the books even if it's a bad deal. We don't operate that way, and never have. You're a member, which means you are also part-owner of the credit union.

It is important to us that you can live with your loan.

To that end, during 2007 PEFCU only experienced losses of $62,000 in our entire first mortgage portfolio with no ($0) losses in our entire second mortgage (i.e. home equity lines and loans) portfolio. This is an excellent accomplishment given the amount of write-offs the mortgage industry has recently faced.



Helping members live and work smarter in 2007.

In late 2007, personal economic issues such as credit card debt, home foreclosures, the collapse of the sub-prime lending market, and the escalating number of personal bankruptcies focused the nation's attention on the importance of financial education for adults. It's why we believe that making thoughtful and informed decisions about your finances is more important than ever.

PEFCU engages in a number of activities that support financial literacy for people of all ages, whether volunteering in classrooms, operating student branches, supporting organizations that foster financial literacy, or providing free seminars to the public on important fiscal topics. In 2007, we launched a Learn-At-Work program that enables businesses of all sizes to provide free, valuable financial information to their employees at their convenience.

PEFCU also understands the importance of reaching our local youth as early as possible with financial education tools and resources. Establishing the right financial habits now will enable them to make better financial decisions for the rest of their lives. The student-run credit union at Lafayette Jefferson High School is at the foundation of our vision for youth financial literacy. It provides a direct opportunity for PEFCU to reach out to local youth with our commitment to the betterment of their financial future. Students gain hands-on experience developing and executing business priorities in a professional environment. We hope this prototype becomes a model for our community and other area schools in the future.

Smart Credit

In 2007, our credit card program continued to exceed our results over 2006 with strong card acquisition and card usage throughout the year. More than 2,500 new members are Purdue Alumni Visa credit cardholders. The credit union saw an overall increase in credit lines, loan balances and purchases as well.

We spent a good part of 2007 getting new Purdue Alumni Visa cards into the hands of our existing cardholders – especially among Purdue University students and recent graduates. We've already experienced a decrease in account closures by this population as they continue to carry the "Purdue Card" long after they leave campus.

Unlike affinity card programs offered by larger credit card issuers and banks, the Purdue Alumni Association-PEFCU affinity card program has transparent disclosures and tangible benefits for cardholders. Highlights of the card include no annual fees, no universal default rates, no balance transfer or cash advance fees, generous rewards and industry-low, fixed rates.

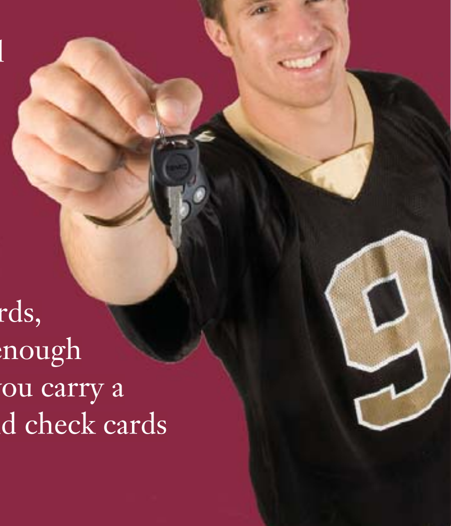
Plus, through PEFCU, all our cardholders have access to free credit counseling and educational seminars about how to build a strong credit history and use credit cards wisely. Undergraduate student cardholders have low credit lines to keep them from over-spending and that can serve as overdraft protection for their checking accounts. For graduating college seniors, PEFCU provides Grad Packs that include helpful hints about successfully managing credit.

Thanks to the Purdue Alumni Association affinity credit card program, the credit union has formed additional partnerships that include our participation in the annual grad fair and other campus events involving students and alumni alike.

Looking ahead in 2008.

PEFCU will continue launching products and services that help our members live easier, work smarter and reach higher to attain their goals. Beginning in January, PEFCU will put members in the driver's seat of a new or used vehicle with no hassle and no pressure. Through a partnership with Members Auto Source, a personalized auto-buying service and wholly-owned subsidiary of Eli Lilly Federal Credit Union, we will find, negotiate and deliver a vehicle at **no cost** to members. Interested members can make a request online, by phone or in person.

In 2008, we will launch a product designed to give members more control over their health coverage and finances. Health Savings Accounts (HSA) are designed to give members more control over their health coverage while receiving tax breaks at the same time. Unlike employers' flexible spending accounts, money saved in the HSA will roll over from one year to the next. Watch for more information soon on this exciting product.



Get ready to score even more rewards from PEFCU!

Later in 2008, PEFCU will add the ScoreCard® Rewards program to the PEFCU Visa check card. With ScoreCard Rewards, you'll earn Bonus Points for every qualified retail purchase you make with your check card. Once you've accumulated enough Bonus Points, you can redeem them for brand-name merchandise and exciting travel rewards – including airline tickets! If you carry a PEFCU Visa credit card, you already know how robust these rewards are. Continue using both your PEFCU Visa credit and check cards and you'll be amazed how quickly your Bonus Points add up. Stay tuned for more details.