

**McGladrey & Pullen**

Certified Public Accountants

**Bank-Fund Staff Federal  
Credit Union**

Financial Statements

December 31, 2009 and 2008

## **TABLE OF CONTENTS**

---

|   |          |
|---|----------|
| <b>INDEPENDENT AUDITOR'S REPORT .....</b>       | <b>1</b> |
| <b>STATEMENTS OF FINANCIAL CONDITION .....</b>  | <b>2</b> |
| <b>STATEMENTS OF INCOME .....</b>               | <b>3</b> |
| <b>STATEMENTS OF COMPREHENSIVE INCOME .....</b> | <b>4</b> |
| <b>STATEMENTS OF MEMBERS' EQUITY .....</b>      | <b>5</b> |
| <b>STATEMENTS OF CASH FLOWS.....</b>            | <b>6</b> |
| <b>NOTES TO FINANCIAL STATEMENTS .....</b>      | <b>7</b> |

---

# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

Supervisory Committee  
Bank-Fund Staff Federal Credit Union  
Washington, DC

We have audited the accompanying statements of financial condition of Bank-Fund Staff Federal Credit Union (a federally chartered credit union) as of December 31, 2009 and 2008, and the related statements of income, comprehensive income, 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 our audits provide a reasonable basis for our opinion.

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

Vienna, Virginia  
March 16, 2010

*McGladrey & Pullen, LLP*

**Bank-Fund Staff Federal Credit Union**  
**Statements of Financial Condition**  
**December 31, 2009 and 2008**  
(In Thousands)

| <b>Assets</b>                                      | <b>2009</b>  | <b>2008</b>  |
|--|--------------|--------------|
| Cash and cash equivalents                          | \$ 50,288    | \$ 17,213    |
| Federal funds sold and short-term investments      | 211,072      | 457,293      |
| Investments:                                       |              |              |
| Trading account securities, at fair value          | 690,261      | 227,840      |
| U.S. Government securities, held-to-maturity       | -            | 176,698      |
| Loans held-for-sale                                | 4,679        | 4,109        |
| Loans receivable, net                              | 1,806,313    | 1,640,406    |
| Accrued interest receivable                        | 9,348        | 7,966        |
| Property and equipment, net                        | 20,441       | 15,440       |
| National Credit Union Share Insurance Fund deposit | 19,187       | 12,835       |
| Other assets                                       | 16,553       | 16,345       |
|  | <hr/>        | <hr/>        |
| Total assets                                       | \$ 2,828,142 | \$ 2,576,145 |
|  | <hr/>        | <hr/>        |
| <b>Liabilities and Members' Equity</b>             |              |              |
| Liabilities  |              |              |
| Members' shares and deposits                       | \$ 2,433,318 | \$ 2,190,337 |
| Accrued dividends payable                          | 12,745       | 16,020       |
| Accrued expenses and other liabilities             | 20,939       | 18,848       |
|  | <hr/>        | <hr/>        |
| Total liabilities                                  | 2,467,002    | 2,225,205    |
|  | <hr/>        | <hr/>        |
| Members' Equity                                    |              |              |
| Regular reserves                                   | 27,151       | 27,151       |
| Retained earnings                                  | 336,752      | 326,651      |
| Accumulated other comprehensive loss               | (2,763)      | (2,862)      |
|  | <hr/>        | <hr/>        |
| Total members' equity                              | 361,140      | 350,940      |
|  | <hr/>        | <hr/>        |
| Total liabilities and members' equity              | \$ 2,828,142 | \$ 2,576,145 |
|  | <hr/>        | <hr/>        |

**Bank-Fund Staff Federal Credit Union**  
**Statements of Income**  
**For the Years Ended December 31, 2009 and 2008**  
(In Thousands)

|  | <u>2009</u>      | <u>2008</u>     |
|--|------------------|-----------------|
| <b>Interest Income</b>                                     |                  |                 |
| Interest and fees on loans to members                      | \$ 90,644        | \$ 93,759       |
| Total return from trading account securities               | 9,141            | 5,345           |
| Interest on investments and cash equivalents               | 1,837            | 12,854          |
|  | <hr/>            | <hr/>           |
| Total interest income                                      | 101,622          | 111,958         |
|  | <hr/>            | <hr/>           |
| <b>Interest Expense</b>                                    |                  |                 |
| Dividends on members' shares and deposits                  | 34,792           | 58,514          |
|  | <hr/>            | <hr/>           |
| <b>Net Interest Income</b>                                 | 66,830           | 53,444          |
|  | <hr/>            | <hr/>           |
| <b>Provision for Loan Losses</b>                           | 6,500            | 3,425           |
|  | <hr/>            | <hr/>           |
| <b>Net Interest Income After Provision for Loan Losses</b> | 60,330           | 50,019          |
|  | <hr/>            | <hr/>           |
| <b>Noninterest Income</b>                                  |                  |                 |
| Foreign exchange commissions                               | 681              | 699             |
| Loan servicing fees  | 453              | 787             |
| Gain on sale of mortgage loans                             | 4,311            | 826             |
| Recapitalization gain on NCUSIF deposit                    | 9,437            | -               |
| Other noninterest income                                   | 3,007            | 3,916           |
|  | <hr/>            | <hr/>           |
| Total noninterest income                                   | 17,889           | 6,228           |
|  | <hr/>            | <hr/>           |
| <b>Noninterest Expenses</b>                                |                  |                 |
| Compensation and benefits                                  | 25,456           | 23,850          |
| Office operating expenses                                  | 17,371           | 16,591          |
| Occupancy  | 10,283           | 9,134           |
| Professional and outside processing fees                   | 2,292            | 1,632           |
| Trading account management fees                            | 401              | 360             |
| Impairment of NCUSIF deposit and premium assessment        | 12,315           | -               |
|  | <hr/>            | <hr/>           |
| Total noninterest expenses                                 | 68,118           | 51,567          |
|  | <hr/>            | <hr/>           |
| <b>Net Income</b>  | <u>\$ 10,101</u> | <u>\$ 4,680</u> |

**Bank-Fund Staff Federal Credit Union  
Statements of Comprehensive Income  
For the Years Ended December 31, 2009 and 2008  
(In Thousands)**

|  | <u>2009</u>      | <u>2008</u>     |
|--|------------------|-----------------|
| <b>Net Income</b>  | \$ 10,101        | \$ 4,680        |
| <b>Other Comprehensive Income (Loss)</b>                         |                  |                 |
| Net change in unamortized losses—post-retirement healthcare plan | <u>99</u>        | <u>(1,076)</u>  |
| <b>Comprehensive Income</b>                                      | <u>\$ 10,200</u> | <u>\$ 3,604</u> |

**Bank-Fund Staff Federal Credit Union**  
**Statements of Members' Equity**  
**For the Years Ended December 31, 2009 and 2008**  
(In Thousands)

|   | Retained Earnings  |                       |            | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|---|--------------------|-----------------------|------------|--|
|   | Regular<br>Reserve | Undivided<br>Earnings | Total      |  |
| Balance, December 31, 2007  | \$ 27,151          | \$ 321,971            | \$ 349,122 | \$ (1,786)   |
| Net income  |                    | 4,680                 | 4,680      |  |
| Net change in unamortized losses—<br>post-retirement health care plan |                    |                       |            | (1,076)  |
| Balance, December 31, 2008  | 27,151             | 326,651               | 353,802    | (2,862)  |
| Net income  |                    | 10,101                | 10,101     |  |
| Net change in unamortized losses—<br>post-retirement healthcare plan  |                    |                       |            | 99   |
| Balance, December 31, 2009  | \$ 27,151          | \$ 336,752            | \$ 363,903 | \$ (2,763)   |

**Bank-Fund Staff Federal Credit Union**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2009 and 2008**  
(In Thousands)

|   | <u>2009</u>      | <u>2008</u>      |
|---|------------------|------------------|
| <b>Operating Activities</b>   |                  |                  |
| Net income  | \$ 10,101        | \$ 4,680         |
| Adjustments to reconcile net income to net cash used in operating activities: |                  |                  |
| Depreciation and amortization   | 4,450            | 3,389            |
| Amortization of mortgage servicing rights                                     | 1,203            | 721              |
| Capitalization of mortgage servicing rights                                   | (2,526)          | (1,038)          |
| Impairment of NCUSIF deposit  | 9,437            | -                |
| Recapitalization gain on NCUSIF deposit                                       | (9,437)          | -                |
| Provision for loan losses   | 6,500            | 3,425            |
| Real estate loans originated for sale   | (242,234)        | (98,578)         |
| Real estate loans sold  | 245,976          | 98,861           |
| Gain on sales of real estate loans  | (4,311)          | (826)            |
| Securities purchased, not yet settled   | -                | (3,270)          |
| Net change in:  |                  |                  |
| Trading account securities  | (462,421)        | (77,565)         |
| Accrued interest receivable   | (1,382)          | 421              |
| Other real estate   | 552              | (761)            |
| Accrued dividends payable   | (3,275)          | (1,209)          |
| Other, net  | 2,753            | (1,622)          |
| Net cash used by operating activities   | <u>(444,614)</u> | <u>(73,372)</u>  |
| <b>Investing Activities</b>   |                  |                  |
| Net increase in loan principal  | (172,408)        | (26,285)         |
| Net change in federal funds sold and short-term investments                   | 246,221          | (127,412)        |
| Proceeds from maturities of securities held-to-maturity                       | 176,698          | 45,942           |
| Net change in NCUSIF deposit  | (6,352)          | (820)            |
| Purchases of furniture and equipment  | (9,451)          | (9,943)          |
| Net cash provided by (used) in investing activities                           | <u>234,708</u>   | <u>(118,518)</u> |
| <b>Financing Activities</b>   |                  |                  |
| Net increase in members' shares and deposits                                  | <u>242,981</u>   | <u>198,410</u>   |
| Net cash provided by financing activities                                     | <u>242,981</u>   | <u>198,410</u>   |
| <b>Increase In Cash and Cash Equivalents</b>                                  | 33,075           | 6,520            |
| <b>Cash and Cash Equivalents at Beginning of Year</b>                         | <u>17,213</u>    | <u>10,693</u>    |
| <b>Cash and Cash Equivalents at End of Year</b>                               | <u>\$ 50,288</u> | <u>\$ 17,213</u> |
| <b>Cash Paid for Dividends on Members' Shares and Deposits</b>                | \$ 38,067        | \$ 59,723        |

**Bank-Fund Staff Federal Credit Union**  
**Notes to Financial Statements**  
**December 31, 2009 and 2008**

**Note 1. Nature of Operations and Significant Accounting Policies**

**Nature of Operations:** Bank-Fund Staff Federal Credit Union (the Credit Union) offers personal financial services worldwide to the staffs, retirees and families of the World Bank Group, the International Monetary Fund (IMF) and their related organizations. The Credit Union is located in Washington, DC, where the World Bank Group and IMF are headquartered. The Credit Union accepts members' shares and deposits, originates and services consumer and mortgage loans, and provides other member services. The Credit Union maintains its accounting records on an accrual basis and in accordance with generally accepted accounting principles (GAAP). Pursuant to the Federal Credit Union Act, the Credit Union is exempt from payment of Federal and state income taxes.

**Significant Accounting Policies:** The Credit Union follows the accounting standards set by the Financial Accounting Standards Board (FASB). The FASB establishes GAAP that are followed to ensure consistent reporting of the financial condition, results of operations and cash flows of the Credit Union. References to GAAP issued by the FASB in these footnotes are to *The FASB Accounting Standards Codification*<sup>™</sup> commonly referred to as the Codification or ASC. The FASB finalized the Codification effective for periods ended on or after September 15, 2009. As such, the Credit Union has adopted the Codification in these financial statements; the Codification does not change how the Credit Union accounts for its transactions nor does it change the nature of the associated disclosures. Prior FASB standards like FASB Statement No. 5, *Accounting for Contingencies*, are no longer being issued by the FASB. Because the FASB encourages the use of plain English to describe broad topical references, these financial statements will generally no longer include references to specific technical guidance. For example, citations of the accounting requirements for contingencies would include a reference similar to "as required by the Contingencies Topic of the Codification."

**Use of Estimates:** The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and fair value of financial instruments.

**Subsequent Events:** Management of the Credit Union has evaluated the effects of subsequent events that have occurred subsequent to period end December 31, 2009, and through March 16, 2010. During this period, there have been no material events that would require recognition in our financial statements or disclosure in the notes to the financial statements.

**Concentrations of Credit Risk:** Most of the Credit Union's business activity is with its members who reside in the Washington, DC metropolitan area. The Credit Union may be exposed to credit risk from a regional economic standpoint, since a significant concentration of its borrowers work or reside in Washington, DC. However, the loan portfolio is generally well-diversified and the Credit Union does not have any significant concentrations of credit risk except unsecured loans, which by their nature increase the risk of loss compared to those loans that are collateralized. The Credit Union's policy for repossessing collateral is that when all other collection efforts have been exhausted, the Credit Union enforces its first lien holder status and repossesses the collateral. Repossessed collateral normally consists of vehicles and residential real estate.

**Cash and Cash Equivalents:** For the purpose of the statements of financial position and the statements of cash flows, cash and cash equivalents includes cash on hand, amounts due from financial institutions, federal funds sold and highly liquid debt instruments classified as cash that were purchased with maturities of three months or less. Amounts due from financial institutions may, at times, exceed federally insured limits.

**Bank-Fund Staff Federal Credit Union**  
**Notes to Financial Statements**  
**December 31, 2009 and 2008**

**Investments:** Management determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. Trading account securities are invested in U.S. Government obligations, funds collateralized by U.S. Government obligations, Federal agency securities, State and local government municipal securities, and mutual fund investments. These securities are carried at fair value. Realized and unrealized gains and losses on such securities, which are calculated on the specific identification method, are included in the statements of income.

Debt securities are classified as held-to-maturity when the Credit Union has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of individual held-to-maturity securities below their cost that are deemed to be other than temporary are allocated to either (1) credit losses (which are reflected in earnings as realized losses) or (2) noncredit losses (which are recorded in other comprehensive income). In determining whether investments other-than-temporary impairment exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Credit Union to retain its investment in the issue for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

**Loans Held-for-Sale:** Mortgage loans originated and intended for sale in the secondary market are carried at cost. All sales are made without recourse subject to the customary representations and warranties.

**Loans Receivable, Net:** The Credit Union grants mortgage and consumer loans to members. The ability of the members to honor their contracts is dependent upon the real estate and general economic conditions of the area.

Loans that the Credit Union has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, less an allowance for loan losses and net deferred origination fees and costs. Interest income on loans is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding.

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

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

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans, adjusted for estimated prepayments based on the Credit Union's historical prepayment experience.

**Allowance for Loan Losses:** The allowance for loan losses is established as losses are estimated to have occurred though a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is likely. Subsequent recoveries, if any, are credited to the allowance.

**Bank-Fund Staff Federal Credit Union**  
**Notes to Financial Statements**  
**December 31, 2009 and 2008**

The allowance for loan losses is evaluated on a quarterly basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of the underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Credit Union's allowance for loan losses and may require the Credit Union to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

The Credit Union's allowance for loan losses is that amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. Such evaluations consider prior loss experience, the risk rating and the levels of nonperforming loans. A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Specific allowances for loan losses are established for large impaired loans on an individual basis as required by the Codification. The specific allowances established for these loans are based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flow, the loan's estimated market value or the estimated fair value of the underlying collateral. General allowances are established for loans that can be grouped into homogeneous pools based on similar characteristics as described in the Codification. In this process, general allowance factors are based on an analysis of historical charge-off experience and expected losses given default derived from the Credit Union's internal risk rating process. These factors are developed and applied to the portfolio by loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment. These factors include the credit quality statistics, recent economic uncertainty, losses incurred from recent events and lagging data.

**Transfers of Financial Assets:** Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Credit Union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

**Loan Servicing:** Servicing assets are recognized as separate assets when rights are acquired through the sale of financial assets. The Credit Union has one class of servicing assets related to the sale of mortgage loans. When the Credit Union sells mortgage loans a portion of the cost of originating the loan is allocated to the servicing right based on fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are reported in other assets and are measured at amortized cost. The Credit Union has elected to account for mortgage loan servicing rights using the amortization method in which the rights are amortized into noninterest income.

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

**Bank-Fund Staff Federal Credit Union**  
**Notes to Financial Statements**  
**December 31, 2009 and 2008**

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

**Other Real Estate Owned:** Assets acquired through, or in lieu of, loan foreclosure are held-for-sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in operating expenses.

**Property and Equipment:** Leasehold improvements, and furniture and equipment are carried at cost, less accumulated depreciation and amortization. Furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases.

**National Credit Union Share Insurance Fund (NCUSIF) Deposit and Insurance Premium:** The deposit in the NCUSIF is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each federally insured Credit Union in an amount equal to 1 percent of its insured members' shares and deposits. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, if it converts its insurance coverage to another source, or if management of the fund is transferred from the NCUA Board. In January 2009, the financial condition resulting from the ongoing economic decline caused the NCUA to announce the impairment of the deposits of natural person credit unions in the NCUSIF.

In January 2009, the financial conditions resulting from the ongoing economic decline in corporate credit unions caused the NCUA to take certain actions to provide stability and help maintain liquidity in the corporate credit union system. On January 28, 2009, the NCUA announced that federally insured credit unions will share the cost of these actions proportionately through a partial write-off of the Credit Unions' existing 1 percent NCUSIF deposit and future assessments of additional premiums to return the NCUSIF to the normal operating level of 1.3 percent of insured deposits. Due to this impairment, the Credit Union recognized a charge of \$9,437,000 for the impairment of the NCUSIF deposit and a premium assessment of \$4,103,000.

In May 2009, the Helping Families Save Their Home Act was passed into law. This legislation amended the Federal Credit Union Act. The legislation created a Temporary Corporate Credit Union Stabilization Fund that enables the NCUA Board to mitigate near-term corporate stabilization costs by assessing premiums to credit unions over seven years. These actions resulted in an adjustment of \$9,437,000 to fully restore the refundable NCUSIF deposit. The additional estimated premium assessment of 0.30 percent of insured members' shares as of December 31, 2008, has been adjusted to 0.15 percent of insured members' shares as of June 30, 2009, which resulted in a net premium assessment in the amount of \$2,878,000.

**Member's Shares and Deposits:** Member's shares and deposits represent accounts of the owners of the Credit Union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. Irrespective of the amount of shares owned in excess of \$5, no member has more than one vote. Members' shares and deposits are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members' shares and deposits are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union.

**Advertising Costs:** Advertising costs are expensed as incurred.

**Income Taxes:** The Credit Union is exempt from federal income taxes under Section 501(c)(14) of the Internal Revenue Code.

**Bank-Fund Staff Federal Credit Union**  
**Notes to Financial Statements**  
**December 31, 2009 and 2008**

**Comprehensive Income:** Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on the post-retirement health care plan, are reported as a separate component of the members' equity section of the statements of financial condition. For 2009 and 2008, other comprehensive income includes no reclassification adjustments.

**Recent Accounting Pronouncements:** The Codification includes guidance issued in June 2009 for accounting for transfers of and servicing of financial assets. These requirements will be effective in the first annual period beginning after November 15, 2009, with the following impact on the accounting for loan sales:

- Many types of transfers previously derecognized will no longer be eligible for derecognition.
- Additional fair value measurements and disclosures will be required.

The Credit Union is currently evaluating the future impact of the Codification on accounting for transfers of and servicing of financial assets on the Credit Union's financial position, results of operations or cash flows.

**Note 2. Investments**

Trading assets, at fair value, consist of the following:

|                             | <b>December 31</b> |                   |
|-----------------------------|--------------------|-------------------|
|                             | <b>2009</b>        | <b>2008</b>       |
| U.S. Government obligations | \$ 628,562         | \$ 112,493        |
| Mortgage backed securities  | 4,951              | 49,513            |
| Mutual funds                | 31,364             | 65,379            |
| Municipal Bonds             | 468                | 455               |
| Corporate debt              | 24,916             | -                 |
|                             | <u>\$ 690,261</u>  | <u>\$ 227,840</u> |

Total return from the trading account securities consisted of the following (in thousands):

|                                    | <b>Years Ended December 31</b> |                 |
|------------------------------------|--------------------------------|-----------------|
|                                    | <b>2009</b>                    | <b>2008</b>     |
| Interest                           | \$ 4,796                       | \$ 3,644        |
| Gain on trading account securities | 6,726                          | 7,486           |
| Loss on trading account securities | (2,381)                        | (5,785)         |
|                                    | <u>\$ 9,141</u>                | <u>\$ 5,345</u> |

There were no investments classified as held-to-maturity as of December 31, 2009.

Investments classified as held-to-maturity consist of the following (in thousands):

| <b>December 31, 2008</b>    | <b>Amortized<br/>Cost</b> | <b>Unrealized<br/>Gains</b> | <b>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
|-----------------------------|---------------------------|-----------------------------|------------------------------|-----------------------|
| U.S. Government obligations | <u>\$ 176,698</u>         | <u>\$ 1,352</u>             | <u>\$ (209)</u>              | <u>\$ 177,841</u>     |

None of the held-to-maturity securities held as of December 31, 2008, had unrealized losses for greater than 12 months.

**Bank-Fund Staff Federal Credit Union**  
**Notes to Financial Statements**  
**December 31, 2009 and 2008**

Investments by maturity as of December 31, 2009, are summarized as follows (in thousands):

|                            | <b>Trading<br/>Securities</b> |
|----------------------------|-------------------------------|
| No contractual maturity    | \$ 31,364                     |
| Less than 1-year maturity  | 421,518                       |
| 1 – 5 years maturity       | 213,007                       |
| 5 – 10 years maturity      | 19,421                        |
| Mortgage-backed securities | 4,951                         |
|                            | <u>\$ 690,261</u>             |

Expected maturities of mortgage-backed securities may differ from contractual maturities because borrowers may have the right to call or prepay the obligations and are, therefore, classified separately with no specific maturity date.

**Note 3. Loans Receivable, net**

Loans to members consist of the following (in thousands):

|                                     | <b>December 31</b>  |                     |
|-------------------------------------|---------------------|---------------------|
|                                     | <b>2009</b>         | <b>2008</b>         |
| Mortgage loans:                     |                     |                     |
| Fixed rate first mortgages          | \$ 407,767          | \$ 543,353          |
| Variable rate first mortgages       | 981,817             | 697,333             |
| Home equity and second mortgages    | 232,740             | 228,863             |
|                                     | <u>1,622,324</u>    | <u>1,469,549</u>    |
| Vehicle loans                       | 48,655              | 49,280              |
| Credit card loans, unsecured        | 89,672              | 82,622              |
| Secured by shares and deposits      | 2,086               | 1,926               |
| Unsecured consumer loans            | 50,358              | 39,670              |
|                                     | <u>190,771</u>      | <u>173,498</u>      |
| Deferred net loan origination costs | 1,835               | 2,069               |
| Allowance for loan losses           | (8,617)             | (4,710)             |
|                                     | <u>\$ 1,806,313</u> | <u>\$ 1,640,406</u> |

The Credit Union offers nontraditional mortgage loans to its members. These loans include hybrid loans that consist of loans that are fixed for an initial period of three, five or seven years.

Nontraditional mortgage loans may have significantly different credit risk characteristics than traditional fixed and variable rate mortgages. However, the Credit Union believes it has established prudent underwriting standards as well as adequate risk management functions to monitor these additional risks.

**Bank-Fund Staff Federal Credit Union**  
**Notes to Financial Statements**  
**December 31, 2009 and 2008**

The following is an analysis of the allowance for loan losses (in thousands):

|                            | <b>Years Ended December 31</b> |                 |
|----------------------------|--------------------------------|-----------------|
|                            | <b>2009</b>                    | <b>2008</b>     |
| Balance, beginning of year | \$ 4,710                       | \$ 3,109        |
| Provision for loan losses  | 6,500                          | 3,425           |
| Loans charged off          | (2,681)                        | (1,868)         |
| Recoveries                 | 88                             | 44              |
| Balance, end of year       | <u>\$ 8,617</u>                | <u>\$ 4,710</u> |

The allowance for loan losses is considered by management of the Credit Union as adequate to cover probable losses inherent in the loan portfolio at December 31, 2009. However, no assurance can be given that the Credit Union, any particular period, will not sustain loan losses that exceed the allowance, or that subsequent evaluation of the loan portfolio, in light of then-prevailing factors, including economic conditions, credit quality of the assets comprising the portfolio and the ongoing evaluation process, will not require significant changes in the allowance for loan losses.

The Credit Union is party to financial instruments with off-balance sheet risk extended in the normal course of business to meet the financing needs of its members. These financial instruments consist of commitments to extend loans against approved lines of credit as loans as there is no violation of any significant condition established in the contract. Commitments are made on both an open-ended and closed-ended basis. The open-ended loans are generally self-replenishing as long as payments are made. The closed-ended loans have fixed terms and are collateralized by real estate.

Loans are extended to members on a fixed-rate and a variable-rate basis. All variable-rate consumer loans are subject to being repriced within one year. The majority of all variable-rate real estate loans are subject to being repriced within three years. The majority of all real estate loans are collateralized by residential property located in the Washington, DC, metropolitan area.

Loans on which accrual of interest has been discontinued or reduced amounted to \$9,690,000 and \$4,706,000, respectively, at December 31, 2009 and 2008. Interest on nonaccrual loans is immaterial to the financial statements.

The Credit Union considers a loan to be impaired when, based on current information and events, it is determined that it will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Management of the Credit Union assesses and accounts for as impaired certain large dollar balance nonaccrual real estate loans and certain consumer loans whose terms have been modified in a troubled debt restructuring (TDR). As of December 31, 2009, the Credit Union does not have any recorded investment or allowance for impaired loans.

**Bank-Fund Staff Federal Credit Union**  
**Notes to Financial Statements**  
**December 31, 2009 and 2008**

**Note 4. Loan Servicing**

Mortgage loans serviced for others are not included in the accompanying statements of financial condition. The unpaid principal balances of these loans at December 31, 2009 and 2008, are summarized as follows (in thousands):

|  | <b>December 31</b> |                   |
|--|--------------------|-------------------|
|  | <b>2009</b>        | <b>2008</b>       |
| Mortgage loan portfolios serviced for: |                    |                   |
| Fannie Mae (FNMA)                      | \$ 584,569         | \$ 487,548        |
| Charlie Mac                            | 38,078             | 63,719            |
| Residential Funding Corporation (RFC)  | 21,337             | 33,712            |
|  | <u>\$ 643,984</u>  | <u>\$ 584,979</u> |

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in members' shares and deposits, were approximately \$1,146,000 and \$990,000 at December 31, 2009 and 2008, respectively.

The components of capitalized mortgage servicing rights at December 31, 2009 and 2008, are summarized as follows (in thousands):

|  | <b>Years Ended December 31</b> |                 |
|--|--------------------------------|-----------------|
|  | <b>2009</b>                    | <b>2008</b>     |
| Mortgage servicing rights:                           |                                |                 |
| Balance, beginning of year                           | \$ 3,829                       | \$ 3,512        |
| Additions  | 2,526                          | 1,038           |
| Amortizations  | (1,203)                        | (721)           |
|  | <u>5,152</u>                   | <u>3,829</u>    |
| Reserve for impairment of mortgage servicing rights: |                                |                 |
| Balance, beginning of year                           | (390)                          | (9)             |
| Reductions (Additions)                               | 175                            | (381)           |
| Balance, end of year                                 | <u>(215)</u>                   | <u>(390)</u>    |
| Net carrying value                                   | <u>\$ 4,937</u>                | <u>\$ 3,439</u> |

The estimated fair value of the Credit Union's mortgage servicing rights was \$6,545,000 and \$4,391,000, as of December 31, 2009 and 2008, respectively. The fair value of servicing rights was determined using discount rates ranging from 9.5 to 11 percent, and a weighted average prepayment speed assumption of 224 (prepayment speeds are expressed using the Public Securities Association convention, which estimate the rate at which mortgage borrowers will pay off their mortgages), depending on the stratification of the specific right as of December 31, 2009.

**Bank-Fund Staff Federal Credit Union**  
**Notes to Financial Statements**  
**December 31, 2009 and 2008**

**Note 5. Property and Equipment**

Property and equipment are summarized as follows (in thousands):

|   | <b>December 31</b> |                  |
|---|--------------------|------------------|
|   | <b>2009</b>        | <b>2008</b>      |
| Leasehold improvements                    | \$ 14,231          | \$ 9,660         |
| Furniture and equipment                   | 24,586             | 19,574           |
| Construction in progress                  | 4,387              | 4,519            |
|   | <hr/>              | <hr/>            |
| Accumulated depreciation and amortization | (22,763)           | (18,313)         |
|   | <hr/>              | <hr/>            |
|   | <b>\$ 20,441</b>   | <b>\$ 15,440</b> |

The Credit Union leases space for offices and automated teller machines. The operating leases contain renewal options and provisions requiring the Credit Union to pay property taxes and operating expenses over base period amounts. Minimum rental payments under operating leases with initial or remaining terms of one year or more at December 31, 2009, are as follows (in thousands):

**Years Ending December 31**

|                  |                  |
|------------------|------------------|
| 2010             | \$ 5,124         |
| 2011             | 5,044            |
| 2012             | 5,024            |
| 2013             | 4,995            |
| 2014             | 3,131            |
| Subsequent years | 7,603            |
|                  | <hr/>            |
|                  | <b>\$ 30,921</b> |

Rental expense for the years ended December 31, 2009 and 2008, for all facilities leased under operating leases totaled \$5,763,000 and \$5,679,000 respectively.

**Note 6. Members' Shares and Deposits**

Members' shares and deposits are summarized as follows (in thousands):

|                            | <b>December 31</b>  |                     |
|----------------------------|---------------------|---------------------|
|                            | <b>2009</b>         | <b>2008</b>         |
| Regular shares             | \$ 291,477          | \$ 182,779          |
| Checking                   | 439,562             | 383,994             |
| Money market accounts      | 1,032,938           | 935,946             |
| IRA savings accounts       | 18,792              | 16,016              |
| Share certificate accounts | 650,549             | 671,602             |
|                            | <hr/>               | <hr/>               |
|                            | 2,433,318           | 2,190,337           |
|                            | <hr/>               | <hr/>               |
| Dividends payable          | 12,745              | 16,020              |
|                            | <hr/>               | <hr/>               |
|                            | <b>\$ 2,446,063</b> | <b>\$ 2,206,357</b> |

**Bank-Fund Staff Federal Credit Union**  
**Notes to Financial Statements**  
**December 31, 2009 and 2008**

Shares by maturity as of December 31, 2009, are summarized as follows (in thousands):

|                         |              |
|-------------------------|--------------|
| No contractual maturity | \$ 1,763,977 |
| 0 – 1 year maturity     | 508,597      |
| 1 – 2 years maturity    | 90,538       |
| 2 – 3 years maturity    | 28,397       |
| 3 – 4 years maturity    | 32,741       |
| 4 – 5 years maturity    | 9,068        |
|                         | <hr/>        |
|                         | \$ 2,443,318 |
|                         | <hr/>        |

Regular shares, checking accounts, money market accounts and IRA savings accounts have no contractual maturity. Share certificate accounts have maturities of five years or less.

The NCUSIF insures members' shares, deposits and certain individual retirement and Keogh accounts. Effective October 3, 2008, and continuing through December 31, 2013, new legislation provides for an increase in the minimum NCUSIF coverage from \$100,000 to \$250,000 on member share accounts. This includes all account types, such as regular share, share draft, money market and certificates of deposit. Individual Retirement Account and Keogh account coverage remains at up to \$250,000 separate from other types of accounts owned.

The aggregate amount of share certificate accounts in denominations of \$100,000 or more at December 31, 2009, is approximately \$465,217,000.

In December 2009 and 2008, the Board of Directors declared supplemental dividends of \$12,500,000 and \$15,100,000, respectively, which were paid in January 2010 and 2009, respectively. These amounts are included in accrued dividends payable in the statements of financial condition.

**Note 7. Notes Payable**

The Credit Union has a demand loan agreement with a bank. The Credit Union has a \$10,000,000 unsecured, short-term line of credit agreement. The agreement is reviewed for continuation by the lender and the Credit Union annually. There were no outstanding borrowings on December 31, 2009.

**Note 8. Off-Balance Sheet Activities**

The Credit Union is party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit that include lines of credit, credit cards and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the financial statements.

The Credit Union's exposure to credit loss is represented by the contractual amount of these off-balance sheet loans commitments. The Credit Union follows the same credit policies in making commitments as it does for those loans recorded in the financial statements.

Outstanding loan commitments at December 31, 2009 and 2008, total approximately \$830,950,000 and \$813,581,000, respectively.

**Bank-Fund Staff Federal Credit Union**  
**Notes to Financial Statements**  
**December 31, 2009 and 2008**

Unfunded loan commitments under lines of credit are summarized as follows (in thousands):

|                            | December 31 |            |
|----------------------------|-------------|------------|
|                            | 2009        | 2008       |
| Home equity line of credit | \$ 195,300  | \$ 190,100 |
| Credit card                | 284,700     | 286,400    |
| Share draft line of credit | 74,600      | 72,800     |
|                            | \$ 554,600  | \$ 549,300 |

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's credit worthiness on a case-by-case basis. The amount of collateral obtained to secure borrowing on the lines of credit is based on management's credit evaluation of the member.

**Note 9. Commitments and Contingent Liabilities**

The Credit Union is a party to various legal actions normally associated with collections of loans and other business activities of financial institutions, the aggregate effect of which, in management's opinion, would not have a material adverse effect on the financial condition or results of operations of the Credit Union.

The Credit Union had certain forward delivery contracts, which were designated as fair value hedges of loans held-for-sale. The net unrealized gain in value of these contracts was \$80,939 at December 31, 2009, and the net unrealized loss was \$90,274 at December 31, 2008.

At December 31, 2009 and 2008, the Credit Union had commitments to make fixed-rate mortgages, interest rate locks (IRLs), with notional amounts of \$10,081,950 and \$24,681,967, respectively. Additionally, the Credit Union had similar amounts in forward delivery contracts related to the IRLs. The net unrealized loss related to these forward delivery contracts was approximately \$133,448 at December 31, 2009, and the net unrealized gain was \$73,275 at December 31, 2008, which approximated the net unrealized gain or loss in the value of the IRLs.

**Note 10. Employee Benefit Plans**

The Credit Union has a defined contribution retirement savings plan for the benefit of its employees. Participation is limited to all full-time employees who have completed one or more years of service. Employer contribution amounts are based on a percentage of an employee's salary depending upon the employee's number of year of employment. Participants vest in employer contributions based on their total years of vesting service and are fully vested after five years. Participants are at all times fully vested in their own contributions. Pension expense was \$1,825,000 in 2009 and \$1,603,000 in 2008.

**Other Post-Retirement Benefits:** The Credit Union also has a defined-benefit health care plan that provides post-retirement medical benefits to full-time staff that have a combination of age and years of service of at least 75 with a minimum of 15 years of service with the Credit Union. The plan is elective and contributory. Participant contributions are subject to adjustment annually, and it contains other cost-sharing features such as deductibles and co-insurance.

**Bank-Fund Staff Federal Credit Union**  
**Notes to Financial Statements**  
**December 31, 2009 and 2008**

The funded status of the plan is summarized as follows (in thousands):

|  | <b>December 31</b> |                   |
|--|--------------------|-------------------|
|  | <b>2009</b>        | <b>2008</b>       |
| Benefit obligation at December 31  | \$ (7,256)         | \$ (6,147)        |
| Fair value of plan assets  | -                  | -                 |
| <b>Funded status</b>   | <b>\$ (7,256)</b>  | <b>\$ (6,147)</b> |
| Accrued benefit cost recognized in the statements of financial condition | \$ (7,256)         | \$ (6,147)        |

Plan expenses (in thousands):

|                                  | <b>Year Ended December 31</b> |             |
|----------------------------------|-------------------------------|-------------|
|                                  | <b>2009</b>                   | <b>2008</b> |
| Net healthcare cost              | \$ 1,212                      | \$ 872      |
| Employer contribution            | 1                             | 2           |
| Plan participant's contributions | 7                             | 7           |
| Benefit payments                 | 8                             | 8           |

Amounts recognized in the statements of financial condition consist of (in thousands):

|                              | <b>December 31</b> |                   |
|------------------------------|--------------------|-------------------|
|                              | <b>2009</b>        | <b>2008</b>       |
| Current liabilities          | \$ (54)            | \$ (25)           |
| Noncurrent liabilities       | (7,202)            | (6,122)           |
| <b>Net amount recognized</b> | <b>\$ (7,256)</b>  | <b>\$ (6,147)</b> |

Amounts recognized in accumulated other comprehensive income consist of (in thousands):

|                    | <b>Year Ended December 31</b> |                   |
|--------------------|-------------------------------|-------------------|
|                    | <b>2009</b>                   | <b>2008</b>       |
| Net loss           | \$ (1,327)                    | \$ (1,272)        |
| Prior service cost | (1,436)                       | (1,590)           |
|                    | <b>\$ (2,763)</b>             | <b>\$ (2,862)</b> |

**Bank-Fund Staff Federal Credit Union**  
**Notes to Financial Statements**  
**December 31, 2009 and 2008**

The following are the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic healthcare plan cost over the next fiscal year ending 2010 (in thousands).

|                             |    |       |
|-----------------------------|----|-------|
| Net gain/loss               | \$ | 32    |
| Prior service (cost)        |    | (155) |
| Transition asset/obligation |    | -     |

| <b>December 31</b> |             |
|--------------------|-------------|
| <b>2009</b>        | <b>2008</b> |

**Assumptions Used to Determine Benefit Obligation:**

|  |       |       |
|--|-------|-------|
| Discount rate                          | 6.00% | 5.75% |
| Increase in health insurance premiums: |       |       |
| Initial increase                       | 8.40% | 9.00% |
| Ultimate increase                      | 4.50% | 5.00% |
| Years ultimate reached                 | 2027  | 2017  |

| <b>December 31</b> |             |
|--------------------|-------------|
| <b>2009</b>        | <b>2008</b> |

**Assumptions Used to Determine Net Cost:**

|  |       |       |
|--|-------|-------|
| Discount rate                            | 6.00% | 5.75% |
| Expected long-term return on plan assets | N/A   | N/A   |
| Rate of compensation increase            | N/A   | N/A   |

The Credit Union makes benefit payments as they become due. The plan is not funded, so the benefit payments are made from the general assets of the Credit Union. Because of this, the long-term return on plan assets is not applicable when determining the overall net cost of the plan. The rate of compensation increase is also not applicable because the benefits from this plan are not dependent on compensation levels.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

**Years Ending December 31**

|             |    |           |
|-------------|----|-----------|
| 2010        | \$ | 55,849    |
| 2011        |    | 64,994    |
| 2012        |    | 62,984    |
| 2013        |    | 64,134    |
| 2014        |    | 70,922    |
| 2015 - 2019 |    | 682,078   |
|             |    | 682,078   |
|             | \$ | 1,000,961 |

**Bank-Fund Staff Federal Credit Union**  
**Notes to Financial Statements**  
**December 31, 2009 and 2008**

**Note 11. Members' Equity**

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

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth to total assets. Further, credit unions over \$10 million in assets are also required to calculate a Risk-Based Net Worth (RBNW) requirement that establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNW requirements as of December 31, 2009 and 2008, were 5.02 and 5.01 percent. The minimum requirement to be considered "complex" under the regulatory framework is 6.0 percent. Management believes, as of December 31, 2009 and 2008, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2009 and 2008, 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 7.0 percent of assets. There are no conditions or events since that notification that management believes have changed the institution's category.

The Credit Union's actual capital amounts and ratios are presented in the following table (dollars in thousands):

|  | <u>December 31, 2009</u> |                          | <u>December 31, 2008</u> |                          |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
|  | <u>Amount</u>            | <u>Ratio/Requirement</u> | <u>Amount</u>            | <u>Ratio/Requirement</u> |
| Amount needed to be classified as "adequately capitalized" | \$ 169,689               | 6.00%                    | \$ 154,569               | 6.00%                    |
| Amount needed to be classified as "well-capitalized"       | \$ 197,970               | 7.00%                    | \$ 180,330               | 7.00%                    |
| Actual net worth   | \$ 363,903               | 12.87%                   | \$ 353,802               | 13.73%                   |

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

**Note 12. Related-Party Transactions**

Loans to employees are made at preferred interest rates, but with all other terms and collateral requirements comparable to those required of other members. The aggregate amount of these loans, as reflected in the statements of financial condition, was approximately \$38,334,000 and \$34,863,000 as of December 31, 2009 and 2008, respectively.

Loans to directors and Committee members, as reflected in the statements of financial condition, are made on the same terms and conditions as loans made to other members. The aggregate amount of these loans was approximately \$4,248,000 and \$3,195,000 as of December 31, 2009 and 2008, respectively.

The World Bank and the International Monetary Fund charged the Credit Union \$1,237,000 and \$1,279,000 for office space in 2009 and 2008, respectively.

**Bank-Fund Staff Federal Credit Union**  
**Notes to Financial Statements**  
**December 31, 2009 and 2008**

**Note 13. Fair Value Measurements**

The Codification defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. This requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard the Codification establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability

The following methods and assumptions were used by the Credit Union in estimating fair values of financial instruments as disclosed herein:

**Cash and Cash Equivalents:** The carrying amounts of cash and cash equivalents approximate their fair value.

**Federal Funds Sold and Short-Term Investments:** The fair value of short-term investments is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based, as appropriate, upon externally developed models that use unobservable inputs due to limited market activity of the instrument or estimated cash flows adjusted for credit risk that are discounted using an interest rate appropriate for the maturity of the applicable investment.

**Investments:** Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flow. Level 2 securities would include U.S. Agency securities, mortgage backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

**Loans Receivable, Including Loans Held-For-Sale:** When quoted market prices are not available, the fair value of loans receivable is generally based upon observable market prices of similar instruments, including bonds, credit derivatives and loans with similar characteristics. If observable market prices are not available, fair value is based upon estimated cash flows adjusted for credit risk that are discounted using an interest rate appropriate for the maturity of the applicable loans or the unfunded commitments.

**Bank-Fund Staff Federal Credit Union**  
**Notes to Financial Statements**  
**December 31, 2009 and 2008**

**Mortgage Servicing Rights:** Mortgage servicing rights (MSRs) do not trade in an active, open market with readily observable prices. While sales of MSRs do occur, the precise terms and conditions typically are not readily available. Accordingly, the Credit Union estimates the fair value of MSRs and certain other retained interests in securitizations using discounted cash flow models incorporating numerous assumptions from the perspective of market participants including servicing income, servicing costs, market discount rates, prepayment speeds and default rates. Due to the nature of the valuation inputs, MSRs are classified within Level 3 of the valuation hierarchy.

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

**Members' Shares and Deposits:** The fair value of shares payable upon demand (regular shares, checking and money market accounts) is the amount payable at the date of the statement of financial condition. The fair value of fixed maturity accounts (share certificates and IRA savings accounts) is estimated by discounting the estimated cash flows using interest rates for comparable instruments and terms.

**Accrued Dividends Payable:** Accrued dividends payable represents interest members' share accounts. The carrying amount of accrued dividends payable approximates fair value.

**Derivative Instruments (Interest Rate Lock Commitments or Other Hedging Instruments):** Fair values for derivative instruments are provided by valuation experts. Certain derivatives with limited market activity are valued using externally developed models that consider unobservable market parameters.

**Off-Balance Sheet Credit-Related Instruments:** Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value for such financial instruments is nominal.

The following table summarizes financial assets measured at fair value on a recurring basis as of December 31, 2009 and 2008, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

|   | <b>December 31, 2009</b> |   |  |  |
|---|--------------------------|---|--|--|
|   | <b>Total</b>             | <b>Quoted Prices in<br/>Active Markets for<br/>Identical Assets<br/>(Level 1)</b> | <b>Significant Other<br/>Observable Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
| Trading securities                            | \$ 690,261               | \$ 628,562  | \$ 61,699  | \$ -   |
| Federal funds sold and short-term investments | 211,072                  | 205,339   | 5,733  | -  |
|   | <u>\$ 901,333</u>        | <u>\$ 833,901</u>   | <u>\$ 67,432</u>   | <u>\$ -</u>  |
|   | <b>December 31, 2008</b> |   |  |  |
|   | <b>Total</b>             | <b>Quoted Prices in<br/>Active Markets for<br/>Identical Assets<br/>(Level 1)</b> | <b>Significant Other<br/>Observable Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
| Trading securities                            | \$ 227,840               | \$ 137,181  | \$ 90,659  | \$ -   |
| Federal funds sold and short-term investments | 457,293                  | 336,957   | 120,336  | -  |
|   | <u>\$ 685,133</u>        | <u>\$ 474,138</u>   | <u>\$ 210,995</u>  | <u>\$ -</u>  |

**Bank-Fund Staff Federal Credit Union**  
**Notes to Financial Statements**  
**December 31, 2009 and 2008**

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

|                  | <b>Carrying Value at December 31, 2009</b> |                |                |                | <b>Year Ended<br/>December 31,<br/>2009</b> |
|------------------|--|----------------|----------------|----------------|---|
|                  | <b>Total</b>                               | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total Income<br/>Recognized</b>          |
| Servicing assets | \$ 4,937                                   | \$ -           | \$ -           | \$ 4,937       | \$ (175)                                    |

  

|                  | <b>Carrying Value at December 31, 2008</b> |                |                |                | <b>Year Ended<br/>December 31,<br/>2008</b> |
|------------------|--|----------------|----------------|----------------|---|
|                  | <b>Total</b>                               | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total Expense<br/>Recognized</b>         |
| Servicing assets | \$ 3,439                                   | \$ -           | \$ -           | \$ 3,439       | \$ 381                                      |

The Codification requires disclosure of fair value information about financial instruments, whether or not recognized on the statement of financial condition. Fair value is determined under the framework established by the Codification. The Codification excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Credit Union. The following information presents estimated fair values of the Credit Union's financial instruments as of December 31, 2009 and 2008, and the methods and assumptions used to estimate those fair values.

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

|                               | <b>December 31, 2009</b>   |                       | <b>December 31, 2008</b>   |                       |
|-------------------------------|----------------------------|-----------------------|----------------------------|-----------------------|
|                               | <b>Carrying<br/>Amount</b> | <b>Fair<br/>Value</b> | <b>Carrying<br/>Amount</b> | <b>Fair<br/>Value</b> |
| <b>Financial Assets:</b>      |                            |                       |                            |                       |
| Cash and cash equivalents     | \$ 50,288                  | \$ 50,288             | \$ 17,213                  | \$ 17,213             |
| Short-term investments        | 211,072                    | 211,072               | 457,293                    | 457,293               |
| Trading investments           | 690,261                    | 690,261               | 227,840                    | 227,840               |
| Held-to-maturity securities   | -                          | -                     | 176,698                    | 177,841               |
| Loans held-for-sale           | 4,679                      | 4,679                 | 4,109                      | 4,109                 |
| Loans receivable, net         | 1,806,313                  | 1,787,773             | 1,640,406                  | 1,629,643             |
| Accrued interest receivable   | 9,348                      | 9,348                 | 7,966                      | 7,966                 |
| Mortgage servicing rights     | 4,937                      | 6,545                 | 3,439                      | 4,391                 |
| <b>Financial Liabilities:</b> |                            |                       |                            |                       |
| Members' shares and deposits  | \$ 2,433,318               | \$ 2,431,920          | \$ 2,190,337               | \$ 2,194,195          |
| Accrued dividends payable     | 12,745                     | 12,745                | 16,020                     | 16,020                |