

**ORANGE COUNTY'S CREDIT UNION
AND SUBSIDIARY
Santa Ana, California**

**CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006**

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Independent Auditor's Report

Members of the Supervisory Committee
Orange County's Credit Union and subsidiary
Santa Ana, California

We have audited the accompanying consolidated statements of financial condition of Orange County's Credit Union and subsidiary as of December 31, 2007 and 2006, and the related consolidated statements of income, members' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the consolidated 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 consolidated 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 Orange County's Credit Union and subsidiary 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.

Clifton Gunderson LLP

Tucson, Arizona
April 8, 2008

**ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2007 and 2006**

ASSETS		
	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 51,652,071	\$ 76,947,696
Investment securities:		
Available-for-sale	34,446,996	44,100,768
Held-to-maturity	999,790	1,999,230
Other investments	91,845,031	85,444,264
Federal Home Loan Bank stock	2,924,700	2,776,000
Loans held-for-sale	88,301	3,253,700
Loans to members, net of allowance for loan losses	642,707,692	594,387,004
Accrued interest receivable	3,210,857	2,535,671
Premises and equipment, net	24,354,289	24,869,187
NCUSIF deposit	6,328,878	6,704,783
Other assets	<u>3,074,494</u>	<u>3,052,827</u>
 TOTAL ASSETS	 <u>\$ 861,633,099</u>	 <u>\$ 846,071,130</u>
 LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' share and savings accounts	\$ 756,414,811	\$ 746,280,509
Borrowed funds	7,850,000	9,350,000
Accrued expenses and other liabilities	3,673,332	3,358,448
Deferred compensation payable	<u>1,706,802</u>	<u>1,241,973</u>
Total liabilities	<u>769,644,945</u>	<u>760,230,930</u>
 MEMBERS' EQUITY - substantially restricted		
Regular reserve	14,248,147	14,248,147
Undivided earnings	77,624,847	72,179,034
Accumulated other comprehensive income (loss)	<u>115,160</u>	<u>(586,981)</u>
Total members' equity	<u>91,988,154</u>	<u>85,840,200</u>
 TOTAL LIABILITIES AND MEMBERS' EQUITY	 <u>\$ 861,633,099</u>	 <u>\$ 846,071,130</u>

The accompanying notes are an integral part of the consolidated financial statements.

ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
INTEREST INCOME		
Interest on loans to members	\$ 39,080,715	\$ 35,276,430
Interest on investment securities and cash equivalents	<u>9,682,351</u>	<u>7,116,814</u>
Total interest income	<u>48,763,066</u>	<u>42,393,244</u>
INTEREST EXPENSE		
Dividends on members' share and savings accounts	22,725,098	16,981,000
Interest on borrowed funds	<u>373,908</u>	<u>413,295</u>
Total interest expense	<u>23,099,006</u>	<u>17,394,295</u>
Net interest income	25,664,060	24,998,949
PROVISION FOR LOAN LOSSES	<u>1,923,226</u>	<u>1,844,849</u>
Net interest income after provision for loan losses	<u>23,740,834</u>	<u>23,154,100</u>
NON-INTEREST INCOME		
Fees and charges	6,181,808	5,743,729
Other non-interest income	5,682,791	5,166,807
Gain on litigation settlement	-	831,518
Gain on sales of loans held-for-sale	<u>192,396</u>	<u>316,439</u>
Total non-interest income	<u>12,056,995</u>	<u>12,058,493</u>
Total income	<u>35,797,829</u>	<u>35,212,593</u>
NON-INTEREST EXPENSE		
Compensation and benefits	16,423,503	15,351,300
Occupancy	2,418,696	2,432,590
Operations	7,542,905	7,658,434
Professional and outside services	899,440	584,185
Educational and promotional	992,841	951,766
Loan servicing	691,307	568,441
Other expense	<u>1,383,324</u>	<u>1,573,717</u>
Total non-interest expense	<u>30,352,016</u>	<u>29,120,433</u>
NET INCOME	<u>\$ 5,445,813</u>	<u>\$ 6,092,160</u>

The accompanying notes are an integral part of the consolidated financial statements.

**ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
Years Ended December 31, 2007 and 2006**

	<u>Regular Reserve</u>	<u>Undivided Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
BALANCES, DECEMBER 31, 2005	\$ 14,248,147	\$ 66,086,874	\$ (1,096,654)	\$ 79,238,367
COMPREHENSIVE INCOME				
Net income	-	6,092,160	-	6,092,160
Other comprehensive income:				
Change in unrealized gain (loss) on securities available-for-sale	<u>-</u>	<u>-</u>	<u>509,673</u>	<u>509,673</u>
Total comprehensive income	<u>-</u>	<u>6,092,160</u>	<u>509,673</u>	<u>6,601,833</u>
BALANCES, DECEMBER 31, 2006	14,248,147	72,179,034	(586,981)	85,840,200
COMPREHENSIVE INCOME				
Net income	-	5,445,813	-	5,445,813
Other comprehensive income:				
Change in unrealized gain (loss) on securities available-for-sale	<u>-</u>	<u>-</u>	<u>702,141</u>	<u>702,141</u>
Total comprehensive income	<u>-</u>	<u>5,445,813</u>	<u>702,141</u>	<u>6,147,954</u>
BALANCE, DECEMBER 31, 2007	<u>\$ 14,248,147</u>	<u>\$ 77,624,847</u>	<u>\$ 115,160</u>	<u>\$ 91,988,154</u>

The accompanying notes are an integral part of the consolidated financial statements.

ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 5,445,813	\$ 6,092,160
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,889,523	1,901,174
Amortization of premiums and discounts, net	81,098	109,398
Amortization of deferred loan costs, net	192,598	609,012
Provision for loan losses	1,923,226	1,844,849
Gain on litigation settlement	-	(831,518)
Proceeds from litigation settlement	-	610,000
Gain on sales of loans held-for-sale	(192,396)	(316,439)
Mortgage loans originated as held-for-sale	(20,302,854)	(38,758,245)
Proceeds from mortgage loans sold	23,660,649	35,820,984
Effect of changes in operating assets and liabilities:		
Accrued interest receivable	(675,186)	(209,023)
Other assets	(21,667)	(933,027)
Accrued expenses and other liabilities	314,884	(72,448)
Deferred compensation payable	464,829	470,665
	<u>12,780,517</u>	<u>6,337,542</u>
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from repayments or maturity of available-for-sale securities	20,791,155	29,737,762
Purchases of available-for-sale securities	(10,516,900)	(5,981,235)
Proceeds from repayments or maturity of held-to-maturity securities	1,000,000	-
Decrease in other investments	-	80,387
(Increase) decrease in deposits in corporate credit union accounts	(6,400,767)	20,264,006
Increase in Federal Home Loan Bank stock	(148,700)	(233,000)
Loans to members, net of principal collections	(50,436,512)	(37,104,702)
(Increase) decrease in NCUSIF deposit	375,905	(292,521)
Purchases of premises and equipment	(1,374,625)	(1,004,830)
	<u>(46,710,444)</u>	<u>5,465,867</u>
Net cash provided by (used in) investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' share and savings accounts	10,134,302	37,314,753
Payments made on borrowed funds	(1,500,000)	(750,000)
	<u>8,634,302</u>	<u>36,564,753</u>
Net cash provided by financing activities		

ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (25,295,625)	\$ 48,368,162
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>76,947,696</u>	<u>28,579,534</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 51,652,071</u>	<u>\$ 76,947,696</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest:		
Dividends on members' share and savings accounts	\$ 22,725,098	\$ 16,981,000
Interest on borrowed funds	<u>373,908</u>	<u>413,295</u>
Total	<u>\$ 23,099,006</u>	<u>\$ 17,394,295</u>
Taxes paid	<u>\$ 150,500</u>	<u>\$ 177,478</u>

The accompanying notes are an integral part of the consolidated financial statements.

**ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Orange County's Credit Union (Credit Union) and its wholly owned subsidiary, Orange County Group, Inc. (CUSO). The CUSO is engaged in providing insurance products to members. No significant net income is derived from the CUSO. All significant intercompany accounts and transactions have been eliminated.

Nature of Operations

Orange County's Credit Union is a state chartered credit union organized under the provisions of the California Credit Union Act and administratively responsible to the California Department of Financial Institutions. The Credit Union's primary source of revenue is providing loans to its members.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant Group Concentrations of Credit Risk

The Credit Union provides a variety of financial services to its members, most of who live, work, or worship in Orange County, California and Riverside County, California.

Cash and Cash Equivalents

Cash equivalents consist of funds due from banks, corporate credit unions, and cash in vaults and on hand. For purposes of the statements of cash flows, the Credit Union considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Investment Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost. Securities not classified as held-to-maturity or trading, including equity securities with readily determinable fair values, are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

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 held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Federal Home Loan Bank Stock

The Credit Union, as a member of the Federal Home Loan Bank (FHLB) system, is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of 1% of its membership assets or 4.7% of advances from the FHLB. There is no ready market value for the FHLB stock; therefore, it has no quoted market value and is reported on the statement of financial position at cost.

**ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Held-For-Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate, as determined by outstanding commitments from investors or current investor yield requirements. Net unrealized losses are recognized in a valuation allowance by charges to income. All sales are made without recourse with the exception of recourse related to fraud or errors.

Mortgage loans held-for-sale are generally sold without the mortgage servicing rights retained by the Credit Union. The carrying value of mortgage loans sold is reduced by the cost allocated to the associated mortgage servicing rights. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

Loans to Members

The Credit Union grants mortgage, member business and consumer loans to members. A substantial portion of the loan portfolio is represented by automobile and real estate loans to members. A substantial portion of its members' ability to honor their loan agreements is dependent upon the economic stability of the various groups comprising the Credit Union's field of membership.

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

The accrual of interest on loans is discontinued at the time a loan is 60 days delinquent. Credit card loans and other personal loans are typically charged-off no later than 180 days past due. Loans may be charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or charged-off is reversed against interest income.

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 (first mortgage loans) and the effective yield method, which approximates the interest method (all other loan types) 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 through 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 confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

**ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (continued)

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 distribution of the portfolios, the impact of current internal and external influences on credit loss and the levels of nonperforming loans. General allowances are established for loans that can be grouped into pools based on similar characteristics as described in SFAS No. 5. 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 in terms of 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. In instances where the Credit Union has large non-homogeneous impaired loans, these loans will have a specific allowance established. The specific allowance established for these loans is 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.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Credit Union has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

Premises and Equipment

Land is carried at cost. Buildings and improvements, furniture and equipment and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Buildings and improvements and 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.

NCUSIF Deposit

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with NCUA regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured shares. The 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.

Investment in PrimeDirect Mortgage, Inc.

The Credit Union owned a 50% interest in PrimeDirect Mortgage, Inc. (PDMI). The Credit Union was accounting for its investment in PDMI using the equity method of accounting under which the Credit Union's share of the net income or loss was recognized as income or loss in the income statement and added to (or deducted from) the investment account, and dividends received are treated as a reduction of the investment account. PDMI was officially liquidated on July 30, 2007.

**ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Members' Share and Savings Accounts

Members' share and savings accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' share and savings accounts are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Interest rates on members' share and savings accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Members' Equity

The Credit Union is required, by regulation, to maintain a statutory regular reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of dividends.

Income Taxes

The Credit Union is exempt, by statute, from federal and state income taxes. The CUSO, however, is subject to federal and state income taxes. Operations of the CUSO resulted in income tax expense of \$171,393 and \$177,473 for the years ended December 31, 2007 and 2006, respectively.

The Internal Revenue Service (IRS) and certain state taxing authorities are currently revising what, if any, products and services provided by state chartered credit unions are subject to unrelated business income tax (UBIT). Currently there is minimal guidance in the IRS code on what activities qualify and should be reported as UBIT. The IRS is currently in the process of issuing Technical Advice Memorandums (TAMs) to some state chartered credit unions. Once the TAMs are published they will be considered authority by the IRS for purposes of reporting unrelated business income (UBI). The TAMs will be relied upon by IRS agents as guidance in determining what items of income may be subject to UBIT.

As a result, at this time there is uncertainty regarding whether state chartered credit unions should pay income tax on certain types of net taxable income from activities that taxing authorities consider unrelated to the purpose for which the Credit Union was granted non-taxable status. The Credit Union has filed UBIT returns (federal Form 990-T and Form 109 for the state of California) in the past, which has resulted in \$800 and \$15,300 of income taxes paid for the years ended December 31, 2007 and 2006, respectively.

Pension Plan – 401(k)

The Credit Union has a qualified 401(k) plan covering substantially all of its employees.

Deferred Compensation Plans

The Credit Union offers both 457(b) and 457(f) plans to members of management.

Advertising Costs

Advertising costs are charged to operations when incurred.

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 available-for-sale securities, are reported as a separate component of the equity section of the balance sheet. For 2007 and 2006, other comprehensive income includes no reclassification adjustments.

**ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain reclassifications have been made to the 2006 financial statement presentation to correspond to the current year's format. Total equity and net income are unchanged due to these reclassifications.

NOTE 2 – RESTRICTIONS ON CASH

The Credit Union is required to maintain balances with corporate credit unions as membership shares that are uninsured and require a notice before withdrawal. Membership share balances were \$7,755,097 and \$5,865,800 at December 31, 2007 and 2006, respectively. The Credit Union was also required to maintain other compensating balances with Western Corporate Federal Credit Union in the amount of \$2,242,700 at December 31, 2007 and 2006.

NOTE 3 – INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities available-for-sale are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
December 31, 2007:				
U.S. government and federal agency securities	\$ 23,327,655	\$ 185,701	\$ (17,691)	\$23,495,665
Mortgage-backed securities	<u>11,004,181</u>	<u>25,682</u>	<u>(78,532)</u>	<u>10,951,331</u>
Total	<u>\$ 34,331,836</u>	<u>\$ 211,383</u>	<u>\$ (96,223)</u>	<u>\$34,446,996</u>
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
December 31, 2006:				
U.S. government and federal agency securities	\$ 24,952,131	\$ 5,341	\$ (248,328)	\$ 24,709,144
Negotiable certificates of deposit	778,000	-	-	778,000
Mortgage-backed securities	<u>18,957,618</u>	<u>17,577</u>	<u>(361,571)</u>	<u>18,613,624</u>
Total	<u>\$ 44,687,749</u>	<u>\$ 22,918</u>	<u>\$ (609,899)</u>	<u>\$ 44,100,768</u>

**ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006**

NOTE 3 – INVESTMENT SECURITIES (CONTINUED)

The amortized cost and estimated fair value of investment securities held-to-maturity are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
December 31, 2007:				
U.S. government and federal agency securities	\$ 999,790	\$ 10	\$ -	\$ 999,800
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
December 31, 2006:				
U.S. government and federal agency securities	\$ 1,999,230	\$ -	\$ (23,143)	\$ 1,976,087

At December 31, 2007 and 2006, securities carried at approximately \$30,239,000 and \$44,553,000, respectively, were pledged as collateral against a line of credit with the Federal Home Loan Bank. At December 31, 2007, securities carried at approximately \$4,570,000 were pledged as collateral against a line of credit with the Federal Reserve Bank. There were no securities pledged with the Federal Reserve Bank as of December 31, 2006.

In order to meet the liquidity needs of providing financial services to its members, the Credit Union maintains funds on deposit in various demand and investment accounts in excess of the insured deposit limits. As of December 31, 2007 and 2006, the amount of uninsured deposits and investments totaled approximately \$127,958,000 and \$154,226,000, respectively.

The amortized cost and fair values of investment securities available-for-sale at December 31, 2007 and 2006, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Available-for-Sale</u>			
	<u>2007</u>		<u>2006</u>	
	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due in one year or less	\$ 5,924,739	\$ 5,916,013	\$ 12,293,532	\$ 12,183,768
Due in one year through five years	<u>17,402,916</u>	<u>17,579,652</u>	<u>13,436,599</u>	<u>13,303,376</u>
	23,327,655	23,495,665	25,730,131	25,487,144
Mortgage-backed securities	<u>11,004,181</u>	<u>10,951,331</u>	<u>18,957,618</u>	<u>18,613,624</u>
Total	<u>\$ 34,331,836</u>	<u>\$ 34,446,996</u>	<u>\$ 44,687,749</u>	<u>\$ 44,100,768</u>

**ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006**

NOTE 3 – INVESTMENT SECURITIES (CONTINUED)

The amortized cost and fair values of investment securities held-to-maturity at December 31, 2007, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Held-to-Maturity			
	2007		2006	
	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due in one year or less	\$ 999,790	\$ 999,800	\$ 1,000,000	\$ 988,236
Due in one year through five years	<u>-</u>	<u>-</u>	<u>999,230</u>	<u>987,851</u>
Total	<u>\$ 999,790</u>	<u>\$ 999,800</u>	<u>\$ 1,999,230</u>	<u>\$ 1,976,087</u>

Gross unrealized losses and fair values by length of time that the investment securities have been in a continuous unrealized loss position at December 31, 2007, are as follows:

	<u>Fair Value</u>	<u>Continuous Unrealized Losses Existing for:</u>		
		<u>Less than 12 Months</u>	<u>Greater than 12 Months</u>	<u>Total Unrealized Losses</u>
Securities available-for-sale:				
U.S. government and federal agency securities	\$ 6,806,037	\$ (8,725)	\$ (8,966)	\$ (17,691)
Mortgage-backed securities	<u>10,329,468</u>	<u>-</u>	<u>(78,532)</u>	<u>(78,532)</u>
Total	<u>\$ 17,135,505</u>	<u>\$ (8,725)</u>	<u>\$ (87,498)</u>	<u>\$ (96,223)</u>

**ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006**

NOTE 3 – INVESTMENT SECURITIES (CONTINUED)

Gross unrealized losses and fair values by length of time that investment securities have been in a continuous unrealized loss position at December 31, 2006, are as follows:

	<u>Fair Value</u>	<u>Continuous Unrealized Losses Existing for:</u>		
		<u>Less than 12 Months</u>	<u>Greater than 12 Months</u>	<u>Total Unrealized Losses</u>
Securities available- for-sale:				
U.S. government and federal agency securities	\$ 23,212,462	\$ (109,764)	\$ (138,564)	\$ (248,328)
Mortgage-backed securities	<u>17,926,478</u>	<u>-</u>	<u>(361,571)</u>	<u>(361,571)</u>
Total	<u>\$ 41,138,940</u>	<u>\$ (109,764)</u>	<u>\$ (500,135)</u>	<u>\$ (609,899)</u>
Securities held-to- maturity:				
U.S. government and federal agency securities	<u>\$ 1,976,087</u>	<u>\$ (11,764)</u>	<u>\$ (11,379)</u>	<u>\$ (23,143)</u>

Management evaluates 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 financial condition and near-term prospects of the issues, and the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

When securities mature or are called, they are paid at par value. The Credit Union has the ability to hold the securities until maturity for a long period of time sufficient for recovery as experienced in the past years. Management concludes that there is no permanent or other-than-temporary impairment to all investment securities.

Other investment securities at December 31 are summarized as follows:

	<u>2007</u>	<u>2006</u>
Funds in corporate credit unions	\$ 91,339,797	\$ 84,910,248
Investment in PrimeDirect Mortgage, Inc.	-	28,782
Investment in other credit union service organizations	<u>505,234</u>	<u>505,234</u>
Total	<u>\$ 91,845,031</u>	<u>\$ 85,444,264</u>

**ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006**

NOTE 4 – INVESTMENT IN PRIMEDIRECT MORTGAGE, INC.

In 2001, the Credit Union entered into an agreement with nuVision Financial Federal Credit Union to form PrimeDirect Mortgage, Inc. (PDMI). PDMI was formed to originate and sell mortgage loans to the owner credit unions and other third parties. PDMI's income was derived from collecting loan origination points and fees from borrowers and from selling loans to third parties. Each credit union owned 50% of the issued and outstanding stock of PDMI which was accounted for using the equity method. Under the equity method, the investment in PDMI was initially recorded at cost. The investment was increased or decreased for the Credit Union's proportionate share of income or losses and decreased for dividends received from PDMI. Summarized financial data for PDMI is as follows as of December 31:

	<u>2007</u>	<u>2006</u>
Total assets	\$ -	\$ 81,579
Total liabilities	-	24,015
Total equity	-	57,564
Equity of nuVision Financial Federal Credit Union	-	28,782
Investment in PDMI	-	28,782
Net loss for the year ended	(20,828)	(527,295)

On March 1, 2006, the Credit Union and nuVision Financial Federal Credit Union collectively made the decision to dissolve PDMI. The mortgage lending functions of PDMI were assumed by the Credit Union, resulting in mortgage loan sales activity and an ending loans held-for-sale balance of \$88,301 and \$3,253,700 as of December 31, 2007 and 2006, respectively. PDMI was officially liquidated on July 30, 2007.

NOTE 5 – LOANS TO MEMBERS

The composition of loans to members at December 31 is as follows:

	<u>2007</u>	<u>2006</u>
Automobile	\$ 254,621,976	\$ 274,616,623
Unsecured	36,800,240	28,106,658
Real estate	302,061,899	245,951,627
Member business	14,333,085	5,739,362
Loan participations	33,311,011	38,480,346
Other	<u>4,999,811</u>	<u>4,521,829</u>
	646,128,022	597,416,445
Net deferred loan origination costs	467,593	923,968
Allowance for loan losses	<u>(3,887,923)</u>	<u>(3,953,409)</u>
Total	<u>\$ 642,707,692</u>	<u>\$ 594,387,004</u>

The Credit Union has purchased participations originated by various entities which are secured by commercial property, other real estate and vehicles to faith-based organizations and members of other credit unions.

**ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006**

NOTE 5 – LOANS TO MEMBERS (CONTINUED)

The composition of loan participations at December 31 is as follows:

	<u>2007</u>	<u>2006</u>
Automobile	\$ 1,495,353	\$ 2,752,718
Real estate	1,126,204	1,599,990
Member business	<u>30,689,454</u>	<u>34,127,638</u>
Total	<u>\$ 33,311,011</u>	<u>\$ 38,480,346</u>

A summary of the changes in the allowance for loan losses at December 31 is as follows:

	<u>2007</u>	<u>2006</u>
Balance, beginning of year	\$ 3,953,409	\$ 4,337,584
Provision charged to operations	1,923,226	1,844,849
Loans charged-off	(2,744,957)	(3,029,335)
Recoveries	<u>756,245</u>	<u>800,311</u>
Balance, end of year	<u>\$ 3,887,923</u>	<u>\$ 3,953,409</u>

A summary of non-accrual loans at December 31 is as follows:

	<u>2007</u>	<u>2006</u>
Non-accrual loans	\$ 2,792,000	\$ 1,708,000
Foregone interest on non-accrual loans	\$ 78,000	44,800

NOTE 6 – PREMISES AND EQUIPMENT

Premises and equipment at December 31 is summarized as follows:

	<u>2007</u>	<u>2006</u>
Land	\$ 5,058,842	\$ 5,058,842
Buildings and improvements	18,028,454	17,861,237
Furniture and equipment	4,865,204	4,675,633
Computer equipment	7,849,924	7,232,705
Leasehold improvements	<u>3,188,923</u>	<u>2,860,680</u>
	38,991,347	37,689,097
Accumulated depreciation and amortization	<u>(14,637,058)</u>	<u>(12,819,910)</u>
Total	<u>\$ 24,354,289</u>	<u>\$ 24,869,187</u>

Depreciation and amortization expense amounted to \$1,889,523 and \$1,901,174 for the years ended December 31, 2007 and 2006, respectively.

**ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006**

NOTE 7 – LEASE COMMITMENTS

The Credit Union leases certain office facilities under noncancelable operating leases expiring in various years through 2016. Some of the leases contain renewal options for periods from three to five years at their fair rental value at the time of renewal. Future minimum lease payments under these leases are as follows:

Years Ending December 31,

2008	\$ 591,293
2009	601,178
2010	611,368
2011	488,273
2012	401,009
Thereafter	<u>381,433</u>
Balance, end of year	<u>\$ 3,074,554</u>

Minimum lease payments exclude rentals under renewal options, which, as of December 31, 2007, are not reasonably assured of being exercised.

Rent expense was approximately \$603,000 and \$627,000 for the years ended December 31, 2007 and 2006, respectively.

NOTE 8 – MEMBERS' SHARE AND SAVINGS ACCOUNTS

Members' share and savings accounts at December 31 are summarized as follows:

	<u>2007</u>	<u>2006</u>
Regular share accounts	\$ 149,059,192	\$ 167,536,304
Share draft accounts	114,182,510	138,441,777
Money market accounts	152,785,322	119,007,080
IRA share accounts	<u>5,257,714</u>	<u>6,173,766</u>
Total share accounts	<u>421,284,738</u>	<u>431,158,927</u>
Share and IRA certificates		
0.00% to 1.99%	-	47,863
2.00% to 2.99%	151,357	845,746
3.00% to 3.99%	11,685,300	26,948,258
4.00% to 4.99%	129,514,969	148,982,964
5.00% to 5.99%	192,981,379	137,137,151
6.00% to 6.99%	710,968	824,995
7.00% to 7.99%	-	-
8.00% to 8.99%	<u>86,100</u>	<u>334,605</u>
Total certificate accounts	<u>335,130,073</u>	<u>315,121,582</u>
Total members' share and savings accounts	<u>\$ 756,414,811</u>	<u>\$ 746,280,509</u>

**ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006**

NOTE 8 – MEMBERS' SHARE AND SAVINGS ACCOUNTS (CONTINUED)

Scheduled maturities of share and IRA certificates at December 31, 2007 are as follows:

Years Ending December 31,

2008	\$294,463,430
2009	21,208,765
2010	7,534,843
2011	3,659,754
2012	8,249,465
Thereafter	<u>13,816</u>
Total certificate accounts	<u>\$335,130,073</u>

The aggregate amounts of members' share and savings accounts in denominations of \$100,000 or more were approximately \$304,968,000 and \$291,390,000 at December 31, 2007 and 2006, respectively.

NOTE 9 – LINE OF CREDIT

The Credit Union maintains lines of credit with Western Corporate Federal Credit Union (WesCorp), the Federal Home Loan Bank of San Francisco (FHLB) and the Federal Reserve Bank of San Francisco (FRB) as described below:

<u>December 31, 2007</u>	<u>WesCorp</u>	<u>FHLB</u>	<u>FRB</u>	<u>Total Lines</u>
Total available	\$ 95,000,000	\$ 29,337,212	\$ 4,524,053	\$ 128,861,265
Borrowed	<u>-</u>	<u>(7,750,000)</u>	<u>-</u>	<u>(7,750,000)</u>
Remaining available	<u>\$ 95,000,000</u>	<u>\$ 21,587,212</u>	<u>\$ 4,524,053</u>	<u>\$ 121,111,265</u>
Term	LOC	LOC	LOC	
Weighted average rate	N/A	4.31%	N/A	
<u>December 31, 2006</u>	<u>WesCorp</u>		<u>FHLB</u>	<u>Total Lines</u>
Total available	\$ 95,000,000		\$ 43,294,927	\$ 138,294,927
Borrowed	<u>-</u>		<u>(9,250,000)</u>	<u>(9,250,000)</u>
Remaining available	<u>\$ 95,000,000</u>		<u>\$ 34,044,927</u>	<u>\$ 129,044,927</u>
Term	LOC		LOC	
Weighted average rate	N/A		4.16%	

The WesCorp line is collateralized by substantially all of the Credit Union's assets. The FHLB line is collateralized by federal agency and mortgage-backed securities held in safekeeping by the FHLB. During 2007, the Credit Union opened a discount window with the FRB. This line of credit is collateralized by federal agency securities held in safekeeping by the FRB.

**ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006**

NOTE 10 – BORROWED FUNDS

Borrowed funds at December 31 are as follows:

	<u>2007</u>	<u>2006</u>
FHLB, fixed rate (4.31% and 4.16% weighted average rates at December 31, 2007 and 2006, respectively), secured by securities held in safekeeping by FHLB.	\$ 7,750,000	\$ 9,250,000
Note payable to City of Buena Park, interest free, secured	<u>100,000</u>	<u>100,000</u>
Total	<u>\$ 7,850,000</u>	<u>\$ 9,350,000</u>

The note payable to the City of Buena Park is an interest free loan to pay for the construction of a Credit Union branch. The borrowing is due and payable if the building is sold.

Scheduled maturities of borrowed funds at December 31, 2007, are as follows:

Years Ending December 31,

2008	\$ 2,500,000
2009	1,250,000
2010	2,000,000
2011	500,000
2012	<u>1,500,000</u>
	7,750,000
No scheduled maturity	<u>100,000</u>
Total	<u>\$ 7,850,000</u>

NOTE 11 – ADVERTISING

Advertising expense totaled approximately \$949,000 and \$909,000 for the years ended December 31, 2007 and 2006, respectively.

NOTE 12 – OFF-BALANCE SHEET ACTIVITIES

The Credit Union is a 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 which include lines of credit, credit cards, home equity lines, and overdraft protection commitments 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 notional amount of these instruments. The Credit Union uses the same credit policies in making commitments as it does for those loans recorded in the financial statements.

**ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 12 – OFF-BALANCE SHEET ACTIVITIES (CONTINUED)

At December 31, the following financial instruments were outstanding whose contract amounts represent credit risk:

	<u>2007</u>	<u>2006</u>
Commitments to grant loans:		
Home-equity lines of credit	\$ 50,306,151	\$ 56,359,527
Credit cards	3,617,998	3,831,143
Line-of-credit loans	35,528,831	34,918,639
Overdraft protection program commitments	<u>6,798,700</u>	<u>7,016,288</u>
Total	<u>\$ 96,251,680</u>	<u>\$ 102,125,597</u>

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 creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Credit Union upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but may include consumer assets, residential real estate and member share balances.

NOTE 13 – LEGAL CONTINGENCIES

The Credit Union is periodically a party to various legal actions normally associated with financial institutions, the aggregate effect of which, in management's and legal counsel's opinion, would not be material to the Credit Union's financial condition.

A lawsuit against the contractors involved in the original design and construction of the Credit Union's corporate headquarters facility was settled during the fourth quarter of 2006. The Credit Union received cash of \$610,000 in 2006 and a note receivable of \$250,000, payable in equal installments of \$50,000 annually over five years according to the terms of the settlement agreement. In addition, the Credit Union realized \$227,782 in attorney expenses pertaining to the above litigations resulting in a net gain of \$632,218 for the year ended December 31, 2006.

Also in 2006, the Credit Union realized a gain of \$199,300 by settling an unrepresented check made payable to a former vendor.

**ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006**

NOTE 14 – CAPITAL REQUIREMENTS

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 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 generally accepted accounting principles. 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 ratios (set forth in the following table) of net worth (as defined in the regulations) to assets and RBNW ratios (as defined). As of December 31, 2007 and 2006, the Credit Union's RBNW requirement was 5.27% and 4.96%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6 percent. Management believes that, as of December 31, 2007, the Credit Union meets all capital adequacy requirements to which it is subject and no events have occurred since the calculation date, which would change the Credit Union's category.

As of December 31, 2007, the most recent call reporting period, the NCUA has 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%. The Credit Union's actual capital amounts and ratios as of December 31, 2007 and 2006 are also presented in the table.

The Credit Union's actual capital amounts and ratios as of December 31, 2007 are as follows:

	<u>Actual</u>		<u>To Be Adequately Capitalized Under Prompt Corrective Action Provisions</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
Net worth	\$ 91,872,994	10.66%	\$ 51,697,986	6.0%	\$ 60,314,317	7.0%
Risk-based net worth requirement	\$ 45,408,064	5.27%	N/A	N/A	N/A	N/A

Because the RBNW ratio of 5.27% is less than the net worth ratio of 10.66%, the Credit Union retains its original category. Further, in performing its calculation of total assets, the Credit Union used the average of daily assets over the calendar quarter option, as permitted by regulation.

**ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006**

NOTE 14 – CAPITAL REQUIREMENTS (CONTINUED)

The Credit Union's actual capital amounts and ratios as of December 31, 2006 are as follows:

	<u>Actual</u>		<u>To Be Adequately Capitalized Under Prompt Corrective Action Provisions</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
Net worth	\$ 86,427,181	10.22%	\$ 50,764,268	6.0%	\$ 59,224,979	7.0%
Risk-based net worth requirement	\$ 41,965,128	4.96%	N/A	N/A	N/A	N/A

NOTE 15 – RELATED PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends credits to members of the Board of Directors, Supervisory Committee members and executive officers. The aggregate loans to related parties at December 31, 2007 and 2006 were approximately \$2,957,000 and \$2,945,000, respectively. Deposits from related parties at December 31, 2007 and 2006 amounted to approximately \$1,505,000 and \$1,779,000, respectively.

NOTE 16 – 401(k) RETIREMENT PLAN

The Credit Union provides a 401(k) employee benefit plan covering substantially all employees who have completed at least one year of service and met minimum age requirements. The Credit matches a portion of employees' wage reductions. Total pension expense under this plan was \$791,589 and \$719,900 for the years ended December 31, 2007 and 2006, respectively.

NOTE 17 - DEFERRED COMPENSATION PLAN [SECTION 457(b)]

The Credit Union has 457(b) non-qualified deferred compensation plans for members of management. The Credit Union makes discretionary contributions to the plans and employees are allowed to contribute to the plans. The deferred compensation accounts are shown as both assets and liabilities on the Credit Union's financial statements and are available to creditors in the event of the Credit Union's liquidation.

The balance of the deferred compensation arrangement was \$224,630 and \$184,065 as of December 31, 2007 and 2006, respectively.

**ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
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NOTE 18 - DEFERRED COMPENSATION PLAN [SECTION 457(f)]

The Credit Union has 457(f) non-qualified deferred compensation plans for members of management. Under the terms of the plans, some members of management receive the appreciation on the underlying annuity investments, which were \$423,175 and \$370,206 at December 31, 2007 and 2006, respectively. The President receives certain earnings on certificates of deposit accumulated in the plan and, beginning in January 2005, the Board of Directors elected to begin accruing an additional \$26,877 per month of benefits on the President's 457(f) plan. Deferred compensation investments were \$423,175 and \$370,206 at December 31, 2007 and 2006, respectively, and are shown as other assets on the Credit Union's financial statements and are available to creditors in the event of the Credit Union's liquidation. Deferred compensation expenses were \$369,834 and \$353,052 for the years ended December 31, 2007 and 2006, respectively.

NOTE 19 – FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Credit Union's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Credit Union.

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.

Available-For-Sale and Held-To-Maturity Securities: Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Other Investment Securities: The carrying amounts of other investment securities approximate their fair value.

Federal Home Loan Bank Stock: The carrying amount of the Federal Home Loan Bank stock approximates the fair value.

Loans Held-for-Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate.

Loans to Members: The fair value of fixed-rate loans is estimated by discounting the future cash flows for each loan category using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The fair value of adjustable-rate loans (primarily real estate and credit card) is assumed to approximate their carrying amount.

**ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
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NOTE 19 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Accrued Interest Receivable: The carrying amounts of accrued interest receivable approximate their fair value.

Member Share and Savings Accounts: The fair values disclosed for share draft, regular savings and money market accounts are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term share certificates approximate their fair values at the reporting date. Fair values for fixed-rate share certificates are estimated using a discounted cash flow calculation that applies interest rates currently being offered on share certificates to a schedule of aggregated expected monthly maturities on share certificates.

Borrowed Funds: The carrying amounts of borrowed funds maturing within 90 days approximate their fair values. Fair values of other borrowed funds are estimated using discounted cash flow analyses based on the Credit Union's current incremental borrowing rates for similar types of borrowing arrangements.

Deferred Compensation Payable: The carrying amounts of deferred compensation payable approximate their fair values.

Off-Balance-Sheet Instruments: Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the borrowers' credit standings.

**ORANGE COUNTY'S CREDIT UNION AND SUBSIDIARY
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NOTE 19 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The estimated fair values of the Credit Union's financial instruments are as follows:

	<u>2007</u>		<u>2006</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
FINANCIAL ASSETS				
Cash and cash equivalents	\$ 51,652,071	\$ 51,652,000	\$ 76,947,696	\$ 76,948,000
Investment securities:				
Available-for-sale	34,446,996	34,447,000	44,100,768	44,101,000
Held-to-maturity	999,790	1,000,000	1,999,230	1,976,000
Other investments	91,845,031	91,845,000	85,444,264	85,444,000
FHLB stock	2,924,700	2,925,000	2,776,000	2,776,000
Loans held for sale	88,301	88,000	3,253,700	3,254,000
Loans to members	646,128,022	642,697,000	597,416,445	588,840,000
Plus/less: net deferred loan origination fees and costs	467,593	468,000	923,968	924,000
Less: allowance for loan losses	<u>(3,887,923)</u>	<u>(3,888,000)</u>	<u>(3,953,409)</u>	<u>(3,953,000)</u>
Loans to members, net of allowance for loan losses	<u>642,707,692</u>	<u>639,277,000</u>	<u>594,387,004</u>	<u>585,811,000</u>
Accrued interest receivable	3,210,857	3,211,000	2,535,671	2,536,000
FINANCIAL LIABILITIES				
Members' share and savings accounts:				
Share, drafts, and money market accounts	\$ 421,284,738	\$ 421,285,000	\$ 431,158,927	\$ 431,159,000
Certificate accounts	335,130,073	336,766,000	315,121,582	314,454,000
Borrowed funds	7,850,000	7,921,000	9,350,000	9,067,000
Deferred compensation payable	1,706,802	1,707,000	1,241,973	1,242,000
UNRECOGNIZED FINANCIAL INSTRUMENTS				
Commitments to extend credit	\$ -	\$ 96,252,000	\$ -	\$ 102,126,000

This information is an integral part of the accompanying consolidated financial statements.