

**CHEVRON FEDERAL CREDIT UNION**

**FINANCIAL STATEMENTS**  
December 31, 2010 and 2009

CHEVRON FEDERAL CREDIT UNION  
Oakland, California

FINANCIAL STATEMENTS  
December 31, 2010 and 2009

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## REPORT OF INDEPENDENT AUDITORS

Supervisory Committee  
Chevron Federal Credit Union  
Oakland, California

We have audited the accompanying statements of financial condition of Chevron Federal Credit Union (a federally chartered credit union) as of December 31, 2010 and 2009, 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 that 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 Chevron Federal Credit Union as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Crowe Horwath LLP*

Crowe Horwath LLP

Sherman Oaks, California  
March 24, 2011

CHEVRON FEDERAL CREDIT UNION  
 STATEMENTS OF FINANCIAL CONDITION  
 December 31, 2010 and 2009  
 (Dollar amounts in thousands)

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 60,093	\$ 38,824
Investments		
Available-for-sale	229,173	198,630
Held-to-maturity (fair value 2010 - \$112,018, 2009 - \$191,543)	107,897	187,152
Restricted stock in FHLB SF	10,203	9,033
Loans to members, net	1,096,404	929,364
Accrued interest receivable	4,444	4,326
Property and equipment, net	2,297	2,196
National Credit Union Share Insurance Fund (NCUSIF) deposit	12,130	11,138
Derivative Assets	16,771	16,149
Other assets	<u>4,172</u>	<u>5,202</u>
	<u>\$ 1,543,584</u>	<u>\$ 1,402,014</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
Liabilities		
Members' shares	\$ 1,361,735	\$ 1,212,546
Accrued expenses and other liabilities	4,644	4,268
Borrowed funds	<u>-</u>	<u>15,000</u>
Total liabilities	1,366,379	1,231,814
Commitments and contingent liabilities		
Members' equity		
Retained earnings	173,918	165,819
Accumulated other comprehensive income	<u>3,287</u>	<u>4,381</u>
Total members' equity	<u>177,205</u>	<u>170,200</u>
	<u>\$ 1,543,584</u>	<u>\$ 1,402,014</u>

See accompanying notes to financial statements.

CHEVRON FEDERAL CREDIT UNION  
 STATEMENTS OF INCOME  
 December 31, 2010 and 2009  
 (Dollar amounts in thousands)

	<u>2010</u>	<u>2009</u>
Interest income		
Interest on loans to members	\$ 52,234	\$ 47,286
Interest on investments and cash equivalents	<u>10,687</u>	<u>15,953</u>
	62,921	63,239
Interest expense		
Dividends on members' shares	16,120	20,056
Interest on borrowed funds	399	664
Derivative interest expense	<u>2,788</u>	<u>1,413</u>
	<u>19,307</u>	<u>22,133</u>
<b>Net interest income</b>	43,614	41,106
Provision for loan losses	<u>4,343</u>	<u>4,690</u>
<b>Net interest income after provision for loan losses</b>	39,271	36,416
Non-interest income		
Card interchange income	1,532	1,354
Service charges and other fees	3,162	3,217
Other non-interest income	<u>2,113</u>	<u>1,705</u>
	6,807	6,276
General and administrative expenses		
Salaries and benefits	16,319	15,304
NCUSIF premium assessment	3,134	1,671
Operations	10,651	9,455
Occupancy	1,769	1,565
Change in fair value of derivatives	<u>6,106</u>	<u>(4,639)</u>
	<u>37,979</u>	<u>23,356</u>
<b>Net income</b>	<u>\$ 8,099</u>	<u>\$ 19,336</u>

See accompanying notes to financial statements.

CHEVRON FEDERAL CREDIT UNION  
STATEMENTS OF COMPREHENSIVE INCOME  
For the years ended December 31, 2010 and 2009  
(Dollar amounts in thousands)

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	<u>2010</u>	<u>2009</u>
<b>Net income</b>	\$ 8,099	\$ 19,336
Other comprehensive income		
Unrealized holding gains (losses) on investments classified as available-for-sale	(1,204)	3,885
Change in fair value of derivatives previously used for cash flow hedges	<u>110</u>	<u>684</u>
<b>Comprehensive income</b>	<u>\$ 7,005</u>	<u>\$ 23,905</u>

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See accompanying notes to financial statements.

CHEVRON FEDERAL CREDIT UNION  
 STATEMENTS OF MEMBERS' EQUITY  
 For the years ended December 31, 2010 and 2009  
 (Dollar amounts in thousands)

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	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Members' Equity</u>
<b>Balance, December 31, 2008</b>	\$ 146,483	\$ (187)	\$ 146,296
Net income	19,336	-	19,336
Net change in unrealized gains (losses) on available-for-sale investments	-	3,884	3,884
Change in fair value of derivatives previously used for cash flow hedges	-	684	684
<b>Balance, December 31, 2009</b>	165,819	4,381	170,200
Net income	8,099	-	8,099
Net change in unrealized gains (losses) on available-for-sale investments	-	(1,204)	(1,204)
Change in fair value of derivatives previously used for cash flow hedges	-	110	110
<b>Balance, December 31, 2010</b>	<b>\$ 173,918</b>	<b>\$ 3,287</b>	<b>\$ 177,205</b>

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See accompanying notes to financial statements.

CHEVRON FEDERAL CREDIT UNION  
 STATEMENTS OF CASH FLOWS  
 For the years ended December 31, 2010 and 2009  
 (Dollar amounts in thousands)

	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities</b>		
Net income	\$ 8,099	\$ 19,336
Adjustment to reconcile net income to net cash provided by operating activities		
Amortization of securities, net	220	439
Provision for loan losses	4,343	4,690
Depreciation and amortization	1,179	1,136
Change in fair value of derivatives	8,629	(4,523)
Net change in:		
Accrued interest receivable	(118)	551
Other assets	1,140	1,134
Accrued expenses and other liabilities	376	(134)
Net cash provided by operating activities	23,868	22,629
<b>Cash flows from investing activities</b>		
Purchases of available-for-sale investments	(237,705)	(109,096)
Proceeds from maturities of available-for-sale investments	205,873	85,792
Purchases of held-to-maturity investments	(10,000)	(54,990)
Proceeds from maturities of held-to-maturity investments	89,120	98,164
Proceeds from redemption of corporate credit union certificates	-	4,405
Purchase of derivative instruments	(9,251)	(9,710)
Net change in restricted stock FHLB SF	(1,170)	(1,338)
Net change in loans to members	(171,383)	(168,740)
Increase in the National Credit Union Share Insurance Fund deposit	(992)	(3,421)
Purchases of property and equipment	(1,280)	(997)
Net cash used in investing activities	(136,788)	(159,931)
<b>Cash flows from financing activities</b>		
Net increase in members' shares	149,189	124,572
Repayment of borrowed funds	(15,000)	-
Net cash provided by financing activities	134,189	124,572
Increase (decrease) in cash and cash equivalents	21,269	(12,730)
Cash and cash equivalents at beginning of year	38,824	51,554
<b>Cash and cash equivalents at end of year</b>	\$ 60,093	\$ 38,824
<b>Supplemental cash flow information</b>		
Dividends paid on members' shares and interest rate risk hedging expenses	\$ 19,205	\$ 21,737

See accompanying notes to financial statements.

CHEVRON FEDERAL CREDIT UNION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2010 and 2009  
(Dollar amounts in thousands)

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Operations and Principles of Consolidation: Chevron Federal Credit Union (the Credit Union) is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act. Participation in the Credit Union is limited to those individuals that qualify for membership, including employees and retirees of Chevron Corporation, its wholly-owned subsidiaries, selected affiliated companies of Chevron Corporation and family of Credit Union members. The field of membership is defined in the Credit Union's Charter and Bylaws.

Subsequent Events: The Credit Union has evaluated subsequent events for recognition and disclosure through March 24, 2011, which is the date the financial statements were available to be issued.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The allowance for loan losses, and fair values of financial instruments, including derivative instruments, are particularly subject to change.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions with maturities fewer than 90 days. Net cash flows are reported for member loan and share transactions and interest bearing certificates in corporate credit unions.

Interest-Bearing Certificates in Corporate Credit Unions: Interest-bearing certificates in corporate credit unions mature within one year and are carried at cost. There were no Interest-Bearing Certificates in Corporate Credit Unions at December 31, 2010.

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

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation.

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 of San Francisco in an amount equal to the greater of 1% of a majority of its outstanding mortgage loans and investments or 5% of advances from the FHLB. No ready market exists for the FHLB stock, and it has no quoted market value.

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(Continued)

CHEVRON FEDERAL CREDIT UNION  
NOTES TO FINANCIAL STATEMENTS  
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(Dollar amounts in thousands)

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The Credit Union views its investment in the FHLB stock as a long-term investment. Accordingly, when evaluating FHLB stock for impairment, the value is determined based on the adequacy of capital levels after other than temporary impairment rather than recognizing temporary declines in values. The determination of whether a decline affects the ultimate recovery is influenced by criteria such as: (1) the significance of the decline in net assets of the FHLBs as compared to the capital stock amount and length of time a decline has persisted; (2) impact of legislative and regulatory changes on the FHLB; and (3) the liquidity position of the FHLB. The Credit Union does not believe its investment is impaired at December 31, 2010. However, this estimate could change in the near term as a result of any of the following events: (1) significant OTTI losses are incurred on their mortgage-backed securities (MBS) causing a significant decline in their regulatory capital status; (2) the economic losses resulting from credit deterioration on the MBS increases significantly; and (3) capital preservation strategies being utilized by the FHLB become ineffective.

Loans to Members: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, less deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income on mortgage loans is discontinued at the time the loan is 90 days delinquent. Consumer loans are typically charged off no later than 180 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 collection of principal or interest is considered doubtful.

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

Concentration of Credit Risk: Most of the Credit Union's business activity is with its members who are or were employed by Chevron Corporation or affiliated companies. The majority of the Credit Union's loan portfolio is comprised of real estate loans. The Credit Union does not originate subprime mortgage loans. Additionally, 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 California.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors.

Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

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(Continued)

CHEVRON FEDERAL CREDIT UNION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

A loan is impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Factors considered by management in determining impairment include payment status and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan's effective rate at inception including the probability of redefault. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Credit Union, 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 the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

NCUSIF Deposit: The National Credit Union Share Insurance Fund ("NCUSIF") deposit is in accordance with National Credit Union Administration ("NCUA") regulations and requires 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. Refer to Note 13 for further information on this asset.

NCUSIF Insurance Premiums: A credit union is required to pay an annual insurance premium equal to one-twelfth of one percent of its total insured shares, unless the payment is waived or reduced by the NCUA Board. In January 2009, the NCUA Board approved a premium assessment of 30 basis points of insured deposits held at December 31, 2008. In June 2009, the NCUA Board reduced the approved premium assessment from 30 basis points to 15 basis points of insured deposits held at June 30, 2009. The premium assessment of \$1,671 was expensed and paid in 2009.

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(Continued)

CHEVRON FEDERAL CREDIT UNION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

From January 2010 going forward, assessments will be determined by the NCUA Board and will be expensed at the date they are assessed by the NCUA Board. In July 2010 the NCUA Board assessed a premium of 13 basis points on Insured Shares as of March 31, 2010. In August 2010, the NCUA Board assessed a premium of 12 basis points on Insured Shares as of June 30, 2010. The total premium assessment expensed and paid for 2010 was \$3,134.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives of approximately 30 years. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 5 years.

Derivatives: At the inception of a derivative contract, the Credit Union designates the derivative as one of three types based on the Credit Union's intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("stand-alone derivative"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as noninterest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Credit Union formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Credit Union also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The Credit Union discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as noninterest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

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(Continued)

CHEVRON FEDERAL CREDIT UNION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2010 and 2009  
(Dollar amounts in thousands)

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Comprehensive Income (Loss): Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale which are recognized as separate components of equity, as well as the fair value of derivatives previously used for cash flow hedges.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation.

**NOTE 2 - INVESTMENTS**

The following table summarizes the amortized cost and fair value of the available-for-sale securities and held-to-maturity investment securities portfolio at December 31, 2010 and 2009 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<u>2010</u>				
Available-for-sale				
U.S. Treasury and federal agency	\$ 132,352	\$ 106	\$ (85)	\$ 132,373
Adjustable rate mortgage-backed securities: residential	<u>93,603</u>	<u>3,197</u>	<u>-</u>	<u>96,800</u>
Total available-for-sale	<u>\$ 225,955</u>	<u>\$ 3,303</u>	<u>\$ (85)</u>	<u>\$ 229,173</u>
Held-to-Maturity				
Fixed rate mortgage-backed securities: residential	\$ 20	\$ 2	\$ -	\$ 22
Adjustable rate mortgage-backed securities: residential	<u>107,877</u>	<u>4,174</u>	<u>(55)</u>	<u>111,996</u>
Total Held-to-Maturity	<u>\$ 107,897</u>	<u>\$ 4,176</u>	<u>\$ (55)</u>	<u>\$ 112,018</u>

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(Continued)

CHEVRON FEDERAL CREDIT UNION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2010 and 2009  
(Dollar amounts in thousands)

**NOTE 2 – INVESTMENTS (Continued)**

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<u>2009</u>				
Available-for-sale				
U.S. Treasury and federal agency	\$ 50,000	\$ 226	\$ -	\$ 50,226
Adjustable rate mortgage-backed securities: residential	<u>144,209</u>	<u>4,196</u>	<u>(1)</u>	<u>148,404</u>
Total available-for-sale	<u>\$ 194,209</u>	<u>\$ 4,422</u>	<u>\$ (1)</u>	<u>\$ 198,630</u>
Held-to-Maturity				
U.S. Treasury and federal agency	\$ 34,990	\$ 7	\$ -	\$ 34,997
Adjustable rate mortgage-backed securities: residential	<u>152,162</u>	<u>4,385</u>	<u>(1)</u>	<u>156,546</u>
Total Held-to-Maturity	<u>\$ 187,152</u>	<u>\$ 4,392</u>	<u>\$ (1)</u>	<u>\$ 191,543</u>

The amortized cost and fair value of the investment securities portfolio are shown by expected maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Amortized Cost</u>	<u>Fair Value</u>
<u>December 31, 2010</u>		
Maturity		
Available-for-sale		
Within one year	\$ 15,000	\$ 15,060
One to five years	117,352	117,313
Five to ten years	-	-
Beyond ten years	-	-
Mortgage-backed securities: residential	<u>93,603</u>	<u>96,800</u>
Total	<u>\$ 225,955</u>	<u>\$ 229,173</u>
Held-to-maturity		
One to five years	\$ -	\$ -
Mortgage-backed securities: residential	<u>107,897</u>	<u>112,018</u>
Total	<u>\$ 107,897</u>	<u>\$ 112,018</u>

At year-end 2010 and 2009, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

There were no securities in a continual unrealized loss position greater than 12 months at December 31, 2010 or 2009.

(Continued)

CHEVRON FEDERAL CREDIT UNION  
NOTES TO FINANCIAL STATEMENTS  
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(Dollar amounts in thousands)

**NOTE 2 – INVESTMENTS** (Continued)

At December 31, 2010 and 2009, all of the securities held by the Credit Union were issued by U.S. government-sponsored entities and agencies, primarily Fannie Mae, Freddie Mac, and FHLB, which the government has affirmed its commitment to support. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Credit Union does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Credit Union does not consider these securities to be other-than-temporarily impaired at December 31, 2010 and 2009.

**NOTE 3 - LOANS**

Loans at year end were as follows:

	<u>2010</u>	<u>2009</u>
Real estate:		
Fixed rate	\$ 667,376	\$ 512,730
Variable rate	233,526	218,226
Home equity line of credit, variable rate	<u>60,143</u>	<u>58,264</u>
	961,045	789,220
Vehicle loans	112,916	117,906
Consumer loans, unsecured	27,164	23,520
Sponsored corporation secured loans	<u>5,453</u>	<u>6,019</u>
	1,106,578	936,665
Less: Net deferred loan fees	(1,601)	(453)
Allowance for loan losses	<u>(8,573)</u>	<u>(6,848)</u>
Loans, net	<u>\$ 1,096,404</u>	<u>\$ 929,364</u>

Activity in the allowance for loan losses was as follows:

	<u>2010</u>	<u>2009</u>
Beginning balance	\$ 6,848	\$ 4,700
Provision for loan losses	4,343	4,690
Loans charged-off	(2,944)	(2,934)
Recoveries	<u>326</u>	<u>392</u>
Ending balance	<u>\$ 8,573</u>	<u>\$ 6,848</u>

Individually impaired loans were as follows:

	<u>2010</u>	<u>2009</u>
Year-end loans with no allocated allowance for loan losses	\$ 2,077	\$ 578
Year-end loans with allocated allowance for loan losses	<u>10,498</u>	<u>8,787</u>
Total	<u>\$ 12,575</u>	<u>\$ 9,365</u>
Amount of the allowance for loan losses allocated	\$ 2,397	\$ 1,351

(Continued)

CHEVRON FEDERAL CREDIT UNION  
NOTES TO FINANCIAL STATEMENTS  
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(Dollar amounts in thousands)

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**NOTE 3 - LOANS** (Continued)

Average of individually impaired loans during year	\$ 11,332	\$ 7,648
Interest income recognized during impairment	501	331
Cash-basis interest income recognized	70	124

No loans past 90 days were on accrual status at December 31, 2010 and 2009.

The Credit Union has allocated \$1,452 and \$872 of specific reserves to members whose loan terms have been modified in troubled debt restructurings (TDR's) as of December 31, 2010 and 2009 respectively. Loans considered as TDR's at December 31, 2010 and 2009 totaled \$7.8 million and \$6.4 million respectively. The Credit Union has not committed to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

**NOTE 4 - FAIR VALUE**

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

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 company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Credit Union used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Investments: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2).

Derivatives: The fair value of derivatives are based on valuation models using observable market data as of the measurement date (Level 2).

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on appraisals or discounted cash flows. Appraisals utilize a comparable sales approach, adjusted for cost to sell, to determine collateral value (Level 3).

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(Continued)

CHEVRON FEDERAL CREDIT UNION  
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**NOTE 4 - FAIR VALUE** (Continued)

Assets and liabilities measured at fair value on a recurring basis, including financial assets and liabilities for which the Credit Union has elected the fair value option, are summarized below:

	Carrying Value	Fair Value Measurements at December 31 Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>2010</u>				
Financial Assets				
Investment securities available-for-sale				
U.S. Treasury and federal agency	\$ 132,373	\$ -	\$ 132,373	\$ -
Adjustable rate mortgage-backed securities: residential	<u>96,800</u>	<u>-</u>	<u>96,800</u>	<u>-</u>
Total investment securities available-for-sale	<u>\$ 229,173</u>	<u>\$ -</u>	<u>\$ 229,173</u>	<u>\$ -</u>
Derivative Assets				
Caps	\$ 15,708	\$ -	\$ 15,708	\$ -
OTC Options	1,063	-	1,063	-
<u>2009</u>				
Financial Assets				
Investment securities available-for-sale				
U.S. Treasury and federal agency	\$ 50,226	\$ -	\$ 50,226	\$ -
Adjustable rate mortgage-backed securities: residential	<u>148,404</u>	<u>-</u>	<u>148,404</u>	<u>-</u>
Total investment securities available-for-sale	<u>\$ 198,630</u>	<u>\$ -</u>	<u>\$ 198,630</u>	<u>\$ -</u>
Derivative Assets				
Caps	15,237	-	15,237	-
OTC option	912	-	912	-
Derivative Liabilities				
Swaps	(213)	-	(213)	-

There were no significant transfers between Level 1 and Level 2 during 2010 and 2009.

(Continued)

CHEVRON FEDERAL CREDIT UNION  
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**NOTE 4 - FAIR VALUE** (Continued)

Assets measured at fair value on a non-recurring basis are summarized below:

	Carrying Value	Fair Value Measurements at December 31 Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>2010</u>				
Impaired loans	\$ 5,576	\$ -	\$ -	\$ 5,576
<u>2009</u>				
Impaired loans	\$ 5,552	\$ -	\$ -	\$ 5,552

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$5,576, with a valuation allowance of \$1,015 at December 31, 2010, resulting in an additional provision for loan losses of \$1,015 for the year ending December 31, 2010. At December 31, 2009 collateral dependent loans had a carrying amount of \$5,552, with a valuation allowance of \$847 at December 31, 2009, resulting in an additional provision for loan losses of \$847 for the year ending December 31, 2009.

The carrying amounts and estimated fair values of financial instruments, at December 31 are as follows:

	Carrying Amount	Fair Value
<u>2010</u>		
Financial assets		
Cash and cash equivalents	\$ 60,093	\$ 60,093
Securities available-for-sale	229,173	229,173
Securities held-to-maturity	107,897	112,018
Restricted stock in FHLB SF	10,203	N/A
Loans, net	1,096,404	1,101,998
Accrued interest receivable	4,444	4,444
Derivatives	16,771	16,771
Financial liabilities		
Members' shares	\$ 1,361,735	\$ 1,363,448
Accrued dividends payable	1,064	1,064
<u>2009</u>		
Financial assets		
Cash and cash equivalents	\$ 38,824	\$ 38,824
Securities available-for-sale	198,630	198,630
Securities held-to-maturity	187,152	191,543
Restricted stock in FHLB SF	9,033	N/A
Loans, net	929,364	926,730
Accrued interest receivable	4,326	4,326
Derivatives	15,937	15,937
Financial liabilities		
Members' shares	\$ 1,212,546	\$ 1,215,319
FHLB advances	15,000	15,389
Accrued dividends payable	962	962

(Continued)

CHEVRON FEDERAL CREDIT UNION  
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**NOTE 4 - FAIR VALUE (Continued)**

The methods and assumptions, not previously presented, used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, interest bearing deposits, accrued interest receivable and payable, restricted stock, derivatives, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. The methods for determining the fair values for securities were described previously. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair value of debt is based on current rates for similar financing. It was not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability. The fair value of off-balance-sheet items, which are unfunded loan commitments, is not considered material.

**NOTE 5 - PREMISES AND EQUIPMENT**

Year-end premises and equipment were as follows:

	<u>2010</u>	<u>2009</u>
Buildings	\$ 871	\$ 871
Leasehold improvements	1,475	1,212
Furniture and equipment	<u>11,892</u>	<u>10,947</u>
	14,238	13,030
Less: Accumulated depreciation	<u>(11,941)</u>	<u>(10,834)</u>
	<u>\$ 2,297</u>	<u>\$ 2,196</u>

Depreciation expense was \$1,179 and \$1,136 for 2010 and 2009 respectively.

Operating Leases: The Credit Union leases certain office and branch properties and equipment under operating leases. Rent expense was \$1,533 and \$1,440 for 2010 and 2009 respectively. Rent commitments, before considering renewal options that generally are present, were as follows:

2011	\$ 1,500
2012	516
2013	162
2014	149
2015	152
2016	115
Thereafter	<u>-</u>
Total	<u>\$ 2,594</u>

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(Continued)

CHEVRON FEDERAL CREDIT UNION  
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**NOTE 6 - MEMBERS' SHARES**

Members' shares are summarized as follows:

	<u>2010</u>	<u>2009</u>
Regular shares	\$ 162,754	\$ 146,049
Share draft accounts	134,611	118,571
Money market accounts	733,435	653,616
Individual retirement accounts	15,575	14,460
Share certificates	266,795	235,579
Equity-indexed certificates	3,538	5,377
Individual retirement certificates	43,479	37,398
Equity-indexed individual retirement certificates	<u>484</u>	<u>585</u>
	1,360,671	1,211,635
Dividends payable	<u>1,064</u>	<u>911</u>
	<u>\$ 1,361,735</u>	<u>\$ 1,212,546</u>

Share certificates of \$100 thousand or more were \$143,841 and \$126,718 at year-end 2010 and 2009 respectively.

Scheduled maturities of share certificates for the next five years were as follows:

2011	\$ 251,077
2012	35,221
2013	15,087
2014	4,229
2015	8,681

**NOTE 7 - FEDERAL HOME LOAN BANK ADVANCES**

At year end, advances from the Federal Home Loan Bank were as follows:

	<u>2010</u>	<u>2009</u>
Maturities June 2010 through November 2010, fixed rate at rates from 4.2% to 4.6%, averaging 4.4%	\$ -	\$ 15,000

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by securities pledged as safekeeping at the FHLB. The Credit Union is eligible to borrow up to \$71 million at year-end 2010.

**NOTE 8 - EMPLOYEE BENEFIT PLANS**

The Credit Union has a 401(k) benefit plan which allows employee contributions. Employee 401(k) and profit sharing plan expense is the amount of matching contributions. Contributions for 2010 and 2009 were \$907 and \$803 respectively.

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(Continued)

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**NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS**

The Credit Union originates and portfolios fixed rate mortgage loans with terms of 30, 20, 15, and 10 years along with hybrid adjustable rate mortgages that first reprice in as long as seven years. These are funded by deposits with short duration. The duration mismatch poses earnings exposure in rising interest rate environments. To mitigate the negative effects of rising interest rates, the Credit Union enters into interest rate swaps committing to pay a fixed rate and to receive a variable rate based on a notional amount over a set term. The Credit Union also enters into interest rate caps to limit the impact of interest rate increases on its variable rate sources of funds. Counterparties have credit ratings of AAA or better. These derivative instruments do not meet hedging requirements. These undersigned derivative instruments are recognized on the statement of financial condition at fair value, with changes in fair value recorded in earnings.

*Interest Rate Risk Management – Derivative Instruments not Designated as Hedging Instruments*

The outstanding balances of derivatives cap and swap instruments as of December 31, 2010 and 2009 which did not qualify as cash flow hedging instruments are as follows:

<u>Interest Rate Derivatives</u>	<u>Notional Amount</u>	<u>Fair Value</u>	<u>Weighted Average Rate</u>	<u>Weighted Average Years Remaining</u>
<u>2010</u>				
Caps	\$ 360,000	\$ 15,708	Strike rates from 2.21% to 5.25% on 3-month LIBOR Average of 3.12%	5.63
Total	<u>\$ 360,000</u>	<u>\$ 15,708</u>		<u>5.63</u>
<u>2009</u>				
Caps	\$ 235,000	\$ 15,237	Strike rates from 2.22% to 5.25% on 3-month LIBOR Average of 3.32%	5.46
Swaps	<u>10,000</u>	<u>(213)</u>	Pay average rate of 3.7% receive 3-month or 1-month LIBOR	<u>.58</u>
Total	<u>\$ 245,000</u>	<u>\$ 15,024</u>		<u>5.27</u>

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(Continued)

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**NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)**

The Credit Union issues Equity-Indexed Share Certificates (EISC) to its membership with final dividend payouts tied to the performance of the S&P 500 Index. The Credit Union purchases options tied to the S&P 500 Index with similar maturities to the related share and IRA certificates. Counterparties to the options have a credit rating of A or better. As of December 31, 2010 and 2009, the Credit Union had issued EISC's with a face value of \$4,023 and \$5,962, respectively. The options are recorded at fair value as of December 31, 2010 and 2009 of \$1,063 and \$912, respectively, and classified as a part of derivative assets on the statements of financial condition. The option costs are recognized as dividend expense over the life of the certificates. Option costs recognized as dividend expense were \$217 and \$275 in 2010 and 2009, respectively.

The fair value of the interest rate cap and EISC's at December 31, 2010 and 2009 is reflected as a separate line item in the asset section of the Statement of Financial Condition. The fair value of swaps at December 31, 2009 is included in other liabilities. The change in fair value resulted in \$6,106 of expense and \$4,639 of income for 2010 and 2009 respectively and is included in general and administrative expense. The amortization of the interest rate cap premium totaled \$2,788 and \$1,413 for 2010 and 2009 respectively and is included as a component of interest expense.

**NOTE 10 - MEMBERS' EQUITY**

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

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the following table) of net worth (as defined) to total assets (as defined). In performing its calculation of total assets, the Credit Union used the quarter-end balance. Credit unions are also required to calculate a risk-based net worth requirement (RBNWR) that establishes whether the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR ratios as of December 31, 2010 and 2009 were 6.5% and 6.1%. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes, as of December 31, 2010, that the Credit Union meets all of the capital adequacy requirements to which it is subject.

As of December 31, 2010, the most recent call reporting period and December 31, 2009, the NCUA categorized the Credit Union as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized", the Credit Union must maintain a minimum net worth ratio of 7% of assets and exceed its RBNWR, if applicable. Because the RBNWR is less than the net worth ratio, the Credit Union retains its original category of "well capitalized". There are no conditions or events since that notification that management believes have changed the Credit Union's category.

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(Continued)

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**NOTE 10 - MEMBERS' EQUITY** (Continued)

Actual and required capital amounts (in thousands) and ratios are presented below at year end.

	<u>Actual</u>		Minimum Required to be <u>Well Capitalized</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>2010</u>				
Net worth to total assets	\$ 173,918	11.3%	\$ 108,050	7.0%
Risk-based net worth	173,918	11.3	100,179	6.5
<u>2009</u>				
Net worth to total assets	\$ 165,819	11.8%	\$ 98,141	7.0%
Risk-based net worth	165,819	11.8	85,242	6.1

**NOTE 11 - RELATED-PARTY TRANSACTIONS**

The Credit Union extends credit to directors, supervisory committee members and executive officers. The aggregate loans to related parties at December 31, 2010 and 2009 are \$2,917 and \$4,019, respectively. Shares from related parties at December 31, 2010 and 2009 amounted to \$2,071 and \$3,884, respectively.

**NOTE 12 - 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 which include lines of credit 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 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, 2010 and 2009 total approximately \$17,247 and \$5,420, respectively.

Unfunded loan commitments under lines of credit are summarized as follows:

	<u>2010</u>	<u>2009</u>
Home equity	\$ 48,266	\$ 51,347
Other consumer	<u>35,301</u>	<u>32,733</u>
	<u>\$ 83,567</u>	<u>\$ 84,080</u>

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(Continued)

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**NOTE 12 - OFF-BALANCE SHEET ACTIVITIES (Continued)**

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.

Unfunded commitments under revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines-of-credit are uncollateralized and usually do not contain a specified maturity date and ultimately may not be drawn upon to the total extent to which the Credit Union is committed.

**NOTE 13 - NCUSIF DEPOSIT**

In January 2009, U.S. Central Corporate Federal Credit Union (U.S. Central) announced that it was taking a \$1.2 billion charge during the fourth quarter of 2008 as a result of determining that certain of its investment securities were other-than-temporarily impaired. On January 28, 2009, the NCUA announced that it was injecting \$1 billion of capital into U.S. Central from the NCUSIF and offering a temporary guarantee through December 31, 2010 of all member shares in corporate credit unions to provide stability and help maintain liquidity in the corporate credit union system. All federally-insured credit unions were to share the cost of these actions proportionately through a partial write-off of the credit unions' existing 1% NCUSIF deposit and future assessments of additional premiums to return the NCUSIF to the normal operating level of 1.3% of insured deposits. The impairment of the deposit was estimated at 51% of the December 31, 2008 insured deposits with an additional assessment of 0.3% of insured deposits as of December 31, 2008.

On March 20, 2009, the NCUA announced that both U.S. Central and WesCorp were taken into conservatorship and the original January 2009 loss estimate had increased by \$1.2 billion. Based on this adjustment of the loss reserve estimate, the impairment of the NCUSIF deposit was revised to 69% of the insured deposits as of December 31, 2008. The additional assessment of 0.3% of insured deposits as of December 31, 2008 remained unchanged.

As a result of the need to stabilize the corporate credit union network in the first quarter of 2009, the NCUSIF incurred certain liabilities that caused the 1% (of insured shares) asset reflected on the financial statements of individual credit unions to be impaired. As a result, the Credit Union recognized an impairment of its NCUSIF deposit totaling \$6,059 in the first quarter of 2009. In the second quarter of 2009, the NCUA Board approved a plan that recapitalized the NCUSIF. This plan created the Corporate Credit Union Stabilization Fund to absorb losses associated with the corporate credit union stabilization actions and assess federally insured credit unions for associated costs over as much as a 7-year period. As a result, the Credit Union recognized \$6,059 of income as a recapitalization of its 1% of insured shares deposit and thus there was no impact on 2009 earnings.