

A photograph of a white lighthouse on a cliffside at sunset. The lighthouse is illuminated from within, and the sun is low on the horizon, casting a warm glow over the scene. The ocean is visible in the foreground, and the sky is a mix of orange and blue.

American Share Insurance  
State of the Fund Report 2008  
Primary Share Insurance

STRONG  
INDEPENDENT  
RELIABLE







# Introduction

**We are pleased to present this State of the Fund Report, which provides an overview of the operating and financial performance of American Share Insurance (ASI) and a snapshot of the summary consolidated statistics and ratios for our primary insured member credit unions for the year ended December 31, 2008. To the extent possible, we have also commented on what we anticipate in 2009.**

The year 2008 will be one that none of us will likely soon forget. It began with national attention on housing and concluded with the official announcement that the US recession commenced a year earlier, in late 2007. With failures in the financial services sector becoming commonplace, in October the US Congress passed a \$700 billion federal bailout bill directed primarily at the banking industry; the first such government bailout since the rescue of the savings and loan industry in the late 1980s.

In 2008, the credit union industry remained relatively unscathed by the mortgage lending problems plaguing other financial institutions since credit unions generally avoided widespread sub-prime mortgage lending practices. The corporate credit union system, on the other hand, had significant exposure to these types of loans through their ownership of certain mortgage-backed securities. However, few anticipated the magnitude of the \$4.7 billion in losses from these securities that swamped the credit union system in late January 2009, when NCUA first announced its corporate credit union stabilization plan. This was followed in late March by the NCUA's conservatorship of the two largest corporate credit unions, US Central FCU and WesCorp, and the announcement that the losses had grown to \$5.9 billion. The losses in the corporate credit union system are borne primarily by federally insured natural person credit unions through the impairment, write-off and eventual reassessment of 69% of their 1.0% NCUA capitalization deposits and a premium assessment of 0.3% of insured shares, for a total cost of 99 basis points. And, this cost excludes the additional costs from the write-off of corporate credit union Member Capital Shares (MCS) and Paid-in-Capital shares (PIC) as discussed further below.

While many financial institutions are faced with significant losses on their risky portfolios of mortgage-backed and other exotic securities, ASI reports a balance sheet comprised of 24% in cash or cash equivalents, 71% in short-term US Government

guaranteed or US Treasury bonds and 5% in other assets. Further, ASI holds no mortgage-backed or exotic securities; and, even more comforting, the market value of ASI's investment portfolio exceeds its book value at year-end...something not many organizations can report.

Also, as government deposit insurers struggle with declining equity ratios, ASI reported a much improved equity ratio of 1.48% at year-end 2008, up from 1.35% in 2007, and which compares favorably with NCUA's reported year-end equity ratio of 1.27%. Contributing to our equity ratio and solid balance sheet was the seamless divestiture of our largest primary insured credit union in May 2008, accounting for a \$35.5 million reduction in capital contributions on our balance sheet. More important, this credit union's conversion to federal insurance relieved ASI of almost \$4 billion in liability, resulting in a significant reduction in our concentration risk by state and individual credit union, further strengthening the ASI fund.

Similar to other financial institutions, during 2008 ASI felt the pressure on its earnings of declining yields on government and federal agency bonds as short-term rates fell by over 400 basis points during the year...this on top of a 100 basis point decline in the fourth quarter of 2007. Gross premiums from excess insurance also fell as fourth quarter premiums declined due to the increase in federal share insurance limits from \$100,000 to \$250,000 under the Emergency Economic Stabilization Act of 2008 (EESA). Even with these external pressures, ASI finished its 34th year of operations with total fund assets of \$239.9 million and net income for the year of over \$2.6 million, resulting in a respectable return on average assets of 1.04% in 2008. At year-end 2008, retained earnings had increased to \$49.2 million, reserves for guaranty losses (substantially unallocated) increased to \$10.3 million and liquidity stood at 24% of total assets. The Corporation's continued commitment to its risk monitoring and field examination functions helped us end the year with no claims being paid, allowing ASI to aggressively fund its loss reserves as it has consistently done in past years.

**Despite all that has occurred, we are proud to report that ASI remains safe and sound, as do our insured credit unions.**

**ASI reported record levels of retained earnings, loss reserves and liquidity...all benchmarks of stability.**



ASI's member credit unions also felt the pressure from historically low interest rates and higher than normal loan losses resulting from weak economic conditions, but, under the circumstances, still managed to post a reasonably good year in 2008. Our insured credit unions reported a positive return on average assets, in a year when net losses prevailed throughout the financial institutions industry. Our insured credit unions also reported a higher average net capital-to-assets ratio of 11.43% at year-end 2008, whereas credit unions nationally reported lower net capital ratios. We believe that the combination of the sound performance of our insured credit unions and ASI's above-mentioned corporate financial results speaks to the safety and soundness of ASI-insured credit unions and the ASI share insurance fund during these unusual economic times.

Although credit unions in general, and ASI's primary insured credit unions specifically, have little or no direct exposure to many of the problems plaguing the financial markets, avoiding the direct impact of the sub-prime mortgage mess, credit unions may still be vulnerable to losses - case in point, the recent announcement concerning impairment of member capital accounts at corporate credit unions caused by mortgage-backed securities losses. Unfortunately, as a result of the WesCorp conservatorship, all member credit unions must write-off their MCS and PIC shares with WesCorp. This \$1.2 billion loss in credit union capital nationwide adversely affects both federally insured credit unions, on top of the above-mentioned 99 basis points recapitalization and premium assessment for federally insured credit unions, and ASI's primary insured credit unions. Our preliminary analysis shows that 44 of our primary insured credit unions have a total of \$36.9 million invested in WesCorp MCS and/or PIC share accounts. After writing these amounts off, the collective capital ratios of the affected privately insured credit unions fall from 10.76% to 10.08%. This loss of capital does not measurably affect our current level of monitoring of the subject credit unions.

The conservatorship of US Central could also impact privately insured credit unions since most corporate credit unions have MCS and PIC accounts with US Central, and these accounts are impaired. If the write down of a corporate credit union's investment in US Central depletes its respective retained and undivided

earnings (RUDE), then natural person member credit unions may also suffer at least a partial impairment of their respective MCS and PIC accounts. We estimate the "worst case" effect on privately insured credit unions, in the unlikely event of an impairment of all corporate credit unions' MCS and PIC, would be to reduce the average net capital ratio from 11.43% to 10.80%. This degree of loss, while material, would not dramatically change our course of action with respect to those credit unions currently being closely monitored.

Looking forward, continued tight credit conditions between consumers and banks and other lenders will likely result in credit unions seeing an increase in loan

demand from consumers that are denied access to credit by banks; however, a portion of this loan demand will likely represent weak credit relationships that would best be avoided. This can best be accomplished by maintaining stronger than normal operations and safe and sound lending and collections programs.

ASI remains committed to our member credit unions and is confident that our partnership with them will provide for their continued good health and the stability of the ASI insurance fund — a high-quality program that is established so as to always be around for its members regardless of changes in economic conditions.

Respectfully submitted,

Dennis R. Adams  
 President/CEO  
 April 2009

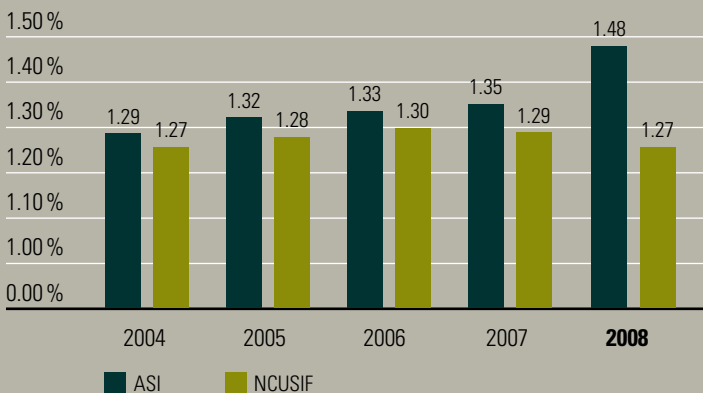
**Credit unions should continue to be vigilant against the expected fallout from the current economic conditions and the impact on their members and their operations caused by higher unemployment and escalating loan delinquency rates.**

## ASI Corporate Data

### PRIMARY INSURANCE EQUITY RATIO ANALYSIS

The ASI share insurance fund has never been more secure than it is now. We are proud to report that ASI was able to implement a new, lower-cost primary pricing model at year end 2008 to benefit our members. More importantly, we have not had to charge any special premiums or other assessments and we report a very strong primary insurance equity ratio of 1.48% at December 31, 2008; higher than that reported by NCUSIF (Chart 1).

**Chart 1: Primary Insurance Equity Ratio** (Ratio of fund equity to primary insured shares)



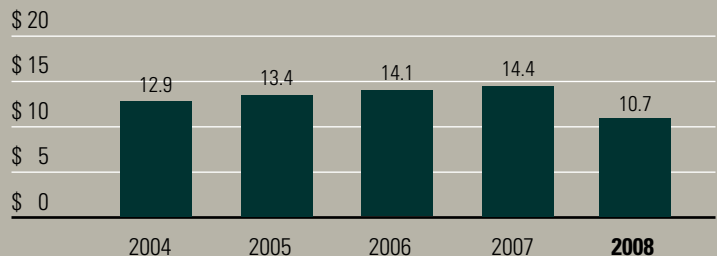
Source: NCUA website.

The significant improvement in ASI's equity ratio in 2008 is positively correlated with the company's strong earnings trends and the slower industry share growth. Also favorably impacting the equity ratio beginning January 1, 2008, was the voluntary termination of coverage by the Corporation's largest primary insured credit union as a result of its conversion to federal insurance on that date. This event resulted in an improvement in risk concentration within a single insured credit union, as the percent of the fund's primary insurance-in-force represented by its largest primary insured credit union declined from 24% to 7%.

### PRIMARY SHARE INSURANCE-IN-FORCE

ASI's primary insurance-in-force decreased by approximately \$3.7 billion in 2008, primarily due to the voluntary termination of coverage by ASI's largest primary insured credit union, ending the year at \$10.7 billion (Chart 2). Excluding the impact of this voluntary insurance conversion, insurance-in-force actually would have increased approximately 5% over 2007, an improvement from prior years' growth levels and slightly less than the 7% growth rate exhibited by the credit union industry as a whole in 2008. Although credit unions have experienced slower share growth in the last few years than they did earlier in the decade, consumers were attracted to the quality, safety and security of insured credit union deposits.

**Chart 2: Primary Share Insurance-in-Force** (in Billions)

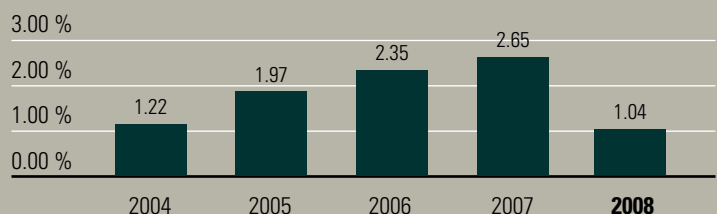


### CONSOLIDATED PRE-TAX RETURN ON AVERAGE ASSETS

ASI's 2008 net income declined from the record levels set in 2007 due to an 18% decrease in investment income, which resulted in a decrease in pre-tax return on average assets from 2.65% set in 2007 to a respectable 1.04% in 2008 (Chart 3). Investment income was adversely impacted by the sharp and unprecedented decline in market interest rates of over 500 basis points since late 2007 to their historical lows at the end of 2008 and the loss of interest earnings from the participants' capital contribution balance that was refunded in May 2008 as a result of the voluntary termination of the Corporation's largest primary insured credit union.

More importantly, ASI has reported 34 consecutive years of positive earnings and has achieved a record level of retained earnings of \$49.2 million at December 31, 2008.

**Chart 3: Consolidated Pre-tax Return on Average Assets**



# ASI Corporate Data

## DISTRIBUTION OF PRIMARY INSURANCE RISK

ASI's primary insurance coverage of \$250,000 per each individual account has allowed our insured credit unions to attract and serve an ever-growing number of individual members. The nine states where ASI primary share insurance has been approved and is in effect are: Alabama, California, Idaho, Illinois, Indiana, Maryland, Nevada, Ohio and Texas. These states represent four distinct regions of the country that provide geographical diversification for the fund (Chart 4). ASI's geographic dispersion became better balanced during 2008, with the largest concentration in any one state reduced from 42% (California) to 24% (California and Illinois). Also, in March 2008, ASI insured its first credit union in the State of Texas since it received authorization to do business in that state in June 2006.

**Chart 4: Distribution of Primary Insured Shares by State**

State	2008	2007
California	24 %	42 %
Illinois	24	18
Nevada	21	15
Ohio	15	11
Indiana	11	8
Alabama	2	4
Idaho	1	1
Maryland	1	1
Texas	1	0
Total	100 %	100 %

We recognize that diversification is an important factor to the long-term success of the insurance fund. In addition to geographic diversification, as noted above, our insured credit unions' individual members represent a wide array of sponsor groups and sponsoring industries (Chart 5). ASI's sponsor group distribution became better balanced in 2008, with the largest concentration in any one industry reduced from 32% (utilities) to 25% (government). This added diversity mitigates the risk of loss due to an economic downturn within any one particular industry or business sector.

**Chart 5: Distribution of Primary Insured Shares by Main Sponsor**

Primary Sponsor Classification	2008	2007
Government	25 %	18 %
Associations/Community	24	20
Education	15	10
Manufacturing/Labor	14	10
Agriculture	9	6
Utilities	6	32
Healthcare	5	3
Others	2	1
Total	100 %	100 %

## PROBLEM CREDIT UNIONS AND LOSS RESERVES

While the balance sheet strength of the ASI insurance fund can be measured by reference to its primary insurance equity ratio relative to prior years' equity ratios, and as compared to the equity ratio of the NCUSIF as previously discussed, the equity ratio alone does not present a complete picture of the Corporation's insuring strength relative to its risks. To complete the assessment of ASI's relative strength, three additional key insurance fund statistics are presented along with industry comparisons (Chart 6). ASI's percent of problem credit unions, as to both the numbers of problem credit unions and as to shares in problem credit unions, demonstrate that ASI has a significantly lower distribution of problem credit unions compared to national averages, largely due to sound credit union management and ASI's tightened underwriting standards and heightened examination efforts over the past several years. Furthermore, in addition to its on-book financial strength as measured by the equity ratio, ASI's loss reserves in relation to its insured risk continues to be higher than that reported by the NCUSIF.

**Chart 6: Problem Credit Unions and Loss Reserves**

	December 31, 2008		December 31, 2007	
	ASI	NCUSIF (1)	ASI	NCUSIF (1)
No. of Problem CUs as Percent of Total CUs (2)	<b>1.85%</b>	3.47%	<b>2.41%</b>	2.60%
Shares of Problem CUs as Percent of Total Shares (2)	<b>1.30%</b>	2.70%	<b>0.26%</b>	1.04%
Loss Reserve to Insurance-in-Force (basis points)	<b>6.0bps</b>	4.6bps	<b>4.6bps</b>	3.8bps

(1) Source: NCUA website and/or calculated from data from the NCUA website.

(2) Problem credit unions are defined as those credit unions with a CAMEL/CAE rating of 4 or 5 (note: ASI has no credit unions with CAMEL/CAE 5 ratings).

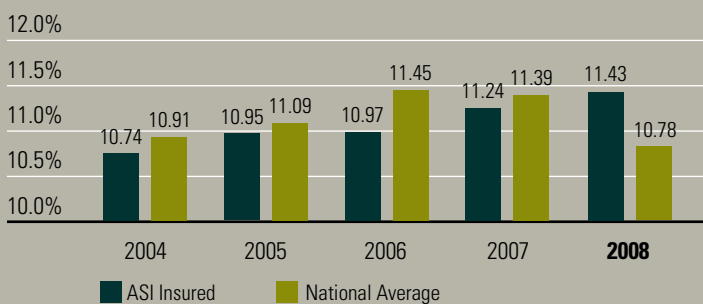
## Primary Insured Credit Union Analysis

### NET CAPITAL RATIO

The net capital-to-total assets ratio remains the core benchmark for measuring a credit union's financial solvency and stability. Net capital provides a cushion against future loan losses or other operating losses, such as the write-off of corporate credit union MCS and PIC shares, that are often the result of economic factors beyond the control of a credit union's board of directors or management.

Slightly slower share growth in 2008 of 5% for ASI primary insured credit unions, along with continued positive earnings, contributed to the fourth annual increase in the average net capital ratio for ASI primary insured credit unions, while for the second year in a row on a national level, credit unions reported a decline in their net capital ratios. For the year ended December 31, 2008, our primary insured credit unions reported an aggregate net capital ratio of 11.43%, an increase from 11.24% in 2007 (Chart 7).

**Chart 7: Net Capital Ratio\***



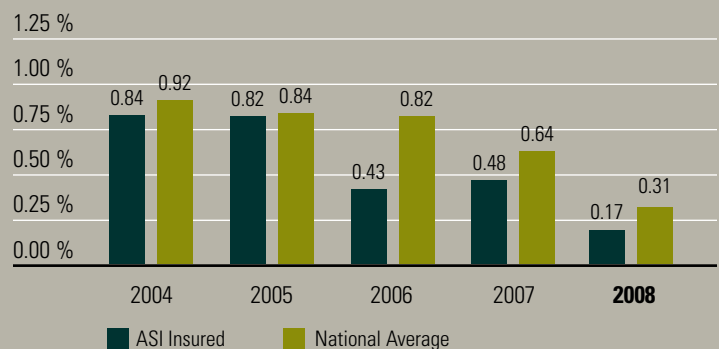
\*The net capital ratio is computed to include the effect on net capital of unrealized gains and losses on investments available for sale.

### RETURN ON AVERAGE ASSETS (ROA)

Over the past two years, the US economic slowdown, due to a weak housing market, lower productivity and other factors, spurred the beginnings of a recession in late 2007. To combat the economic slowdown, the Federal Reserve Board of Governors' ("the Fed") steadily loosened credit by reducing short-term interest rates in the second half of 2007 and into 2008, eventually landing at historically low interest rates of 0%-0.25%. Weak loan demand, due to a decline in consumer spending, combined with increased liquidity from the consumers "flight to quality" in the fall of 2008, limited credit unions' ability to expand their holdings of higher-yielding assets and forced them to accept relatively lower yields on their investment portfolios. Credit losses also began to noticeably show up in credit union financial results in 2008, particularly for those credit unions with operations in the far western and southwestern US. As a result, credit unions have been experiencing continued pressure on their net interest margins and higher loan losses, resulting in lower ROAs than were reported just a few years earlier during the economic expansion that ended in 2006.

As a result of tighter spreads and growing loan losses, our insured credit unions generated a lower level of net earnings in 2008 compared to prior years, but comparable to that experienced on a national level. The collective ROA for all ASI primary insured credit unions in 2008 was 0.17%, down from 0.48% in 2007 (Chart 8). It is worthwhile to note that four of ASI's eleven largest credit unions paid interest rebates and/or bonus dividends to their members in 2008. This member benefit reduced consolidated ROA by nearly one-half, from 0.30% to 0.17%, but had no meaningful effect on capital adequacy.

**Chart 8: Return on Average Assets (ROA)**



### LOAN AND SHARE GROWTH

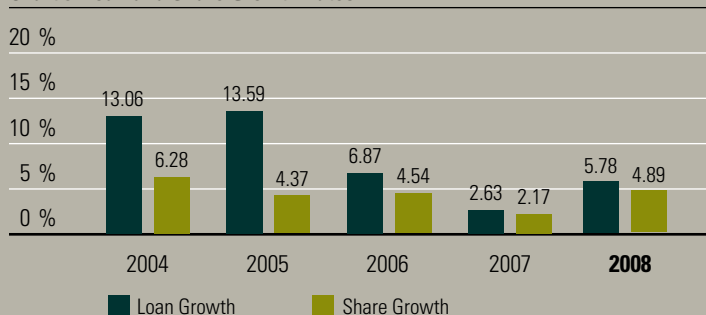
Reflecting the economic slowdown that began in 2007, for the second year in a row loan growth was only fractionally higher than share growth rates, as compared to loan growth rates of one and one-half to three times the share growth rates realized during the period 2004-2006 (Chart 9). Share growth rates in 2008 recovered to their highest levels in four years as the 2005-2007 trend of funds flowing into the stock market and other uninsured investment vehicles reversed when consumers sought insured deposits in the aftermath of various financial institution failures and the collapse of the stock market in the fourth quarter of 2008.

Based on preliminary financial data reported by ASI primary insured credit unions through March 2009, and general economic conditions, we anticipate higher share growth rates in 2009, fueled by a continuation of the "flight to quality" by consumers, which should increase share growth rates to their highest levels since at least 2004, resulting in higher liquidity levels for credit unions in 2009. Continued tight credit conditions between consumers and banks and other lenders will likely result in credit unions also seeing an increase in loan demand from consumers that are denied access to credit by banks. Unfortunately, a portion of this loan demand will likely represent weak credit relationships that would best be avoided. Excluding this component of the anticipated 2009 loan demand, credit unions are likely to see a

# Primary Insured Credit Union Analysis

continuation of the slower loan growth that approximates the rate of growth of the last three years. This will require credit union managers to invest their higher liquidity levels in a low interest rate environment and share accounts will need to be priced at historically low levels in order to earn sufficient spreads.

**Chart 9: Loan and Share Growth Rates**



## ASSET DISTRIBUTION

Net loans at the end of 2008 accounted for approximately 70% of the collective total assets of all ASI primary insured credit unions, or about the same percentage as 2007 and for all credit unions nationally. Real estate loans continue to comprise a significant portion of the average loan portfolio of ASI's insured credit unions, representing more than 59% of total loans, up from 54% just three years ago. Approximately 70% of real estate loans are first mortgages, slightly higher than the national average of 68%; additionally, 80% of the first mortgage loans are fixed rate as compared to 93% nationally. The mix of credit card and unsecured loans to total loans has remained relatively stable over the past few years, while cautionary consumer spending has resulted in a decline in the mix of auto and other loans. (Charts 10 and 11)

Mortgage-backed securities (MBS) comprise approximately 20.2% of ASI-insured credit unions' investment portfolios; however, nearly 95% of the MBS are in US Government agency securities. Private issue MBS comprise less than 0.2% of ASI-insured credit union assets.

In 2009, credit unions will need to be vigilant against the expected fallout from the current economic conditions and the impact on their members and their operations caused by higher unemployment and escalating loan delinquency rates. This can best be accomplished by maintaining stronger than normal operations and safe and sound lending and collections programs. While some credit unions will feel pressure to take on a greater degree of risk in order to attempt to improve earnings that are hampered by increasing loan losses, write-offs of corporate credit union MCS and PIC shares, or other factors, we believe most credit unions will accept the uniqueness of the times and remain cautious as

the recession plays out. As a result, we do not anticipate any significant changes in credit union asset distributions in 2009.

Chart 10: Percent of Total Loans	ASI	NATIONAL
Real Estate-secured	59.46%	53.79%
Misc. Secured	18.75%	21.55%
New Auto	13.41%	14.41%
Unsecured	3.36%	4.47%
Credit Card	5.02%	5.78%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

Chart 11: Asset Distribution	ASI	NATIONAL
<b>Net Loans</b>	<b>70.01%</b>	<b>68.84%</b>
Cash	6.79%	5.96%
Investments less than 1 year	12.34%	14.93%
Investments more than 1 year	6.12%	5.51%
Fixed/Other	4.74%	4.76%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

## LOANS/SHARES, DELINQUENCIES AND NET CHARGE-OFFS

The effects of increased mortgage-based and non-traditional lending programs, combined with slower share growth, caused the aggregate loan-to-share ratio of ASI-insured credit unions to climb to a record 82% at year-end 2008 (Chart 12), a rate that approximates the national average of 83%.

Reflecting the current economic climate, both ASI's delinquency and net charge-off ratios increased in 2008 to 1.52% and 0.64%, respectively (Chart 12). These ratios approximate the national average delinquency and net charge-off ratios of 1.37% and 0.84%, respectively. ASI insured credit unions' combined delinquency and net charge-off ratio of 2.16% compares favorably with the 2.21% national average combined ratio.

**Chart 12: Loan and Delinquency Ratios**

Year	Loans/Shares Ratio	Delinquency Ratio	Net Charge-off Ratio
<b>2008</b>	<b>82.17 %</b>	<b>1.52 %</b>	<b>0.64 %</b>
2007	81.01%	0.95 %	0.54 %
2006	80.65 %	0.74 %	0.30 %
2005	78.88 %	0.72 %	0.38 %
2004	72.48 %	0.68 %	0.38 %

# Primary Insured Credit Union Analysis

## SHARE ACCOUNT DISTRIBUTION

Approximately 40% of ASI's primary insured credit unions' shares are in regular shares ("core" deposits) at December 31, 2008, with a growing portion of the share base in IRA and other shares (27%) (Chart 13). ASI insured credit unions' share account distribution and the trend away from regular shares and towards time, IRA and other deposits, is comparable to the national averages and trend.

**Chart 13: Share Account Distribution**

Year	Regular Shares	Time Deposits	Other (IRAs/MMAs)	Total
<b>2008</b>	<b>39.62 %</b>	<b>33.03 %</b>	<b>27.35 %</b>	<b>100%</b>
2007	40.52 %	33.39 %	26.09 %	100%
2006	44.12 %	31.28 %	24.60 %	100%
2005	48.92 %	26.59 %	24.49 %	100%
2004	48.45 %	25.84 %	25.71 %	100%

## INVESTMENT MATURITIES AND LIQUIDITY

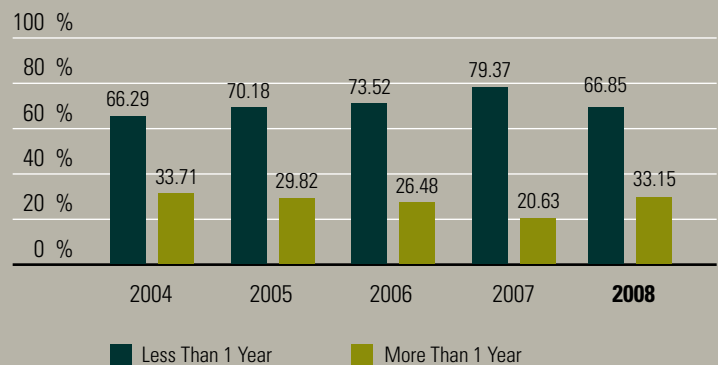
Over the course of the last two years, as a result of the slowdown in loan demand and slower share growth, credit union cash and investment portfolio balances have remained relatively stable at 25%-26% of total assets. Liquidity ratios declined in 2008 and are at the lowest level in four years as credit unions struggle with investing at sufficient rates in the current low interest rate environment. Aggregate cash and investments with maturities of less than one year for ASI's primary insured credit unions declined from 22.5% of total assets in 2007 to 19.1% at the end of 2008, as credit unions sought higher yields farther out on the yield curve during the current slow loan growth period (Chart 14). In addition, borrowed funds continue to be an insignificant part of most credit union's balance sheets, averaging less than 2.0% of total assets over the past five years.

Financial statements filed to date in the first three months of 2009 indicate that share growth is accelerating. The increasing share growth rate, should it continue into the balance of 2009, combined with the timing of the recent steepening of the yield curve in early 2009 should be welcome news to credit unions, as it provides the opportunity to invest what may be plentiful levels of inexpensive funds at higher interest rates. For example, the benchmark spread between the two-year and the ten-year US Treasury yield has increased by 40 basis points (bp) from a 150 bp spread at the end of 2008 to 190 bp in late March 2009, despite the Federal Reserve's recently enacted program to purchase US Treasuries on

the open market in order to keep interest rates down. Credit unions may be entering a period over the coming year wherein the combination of share growth and higher interest spreads on investment securities could result in growth in incremental net interest income in 2009, even though the overall average spreads may not increase as they would in the event of an increase in loan growth.

Although credit unions should take advantage of the steep yield curve today, they must also exercise some caution since the Fed's actions to encourage economic growth along with the US Government's recently enacted spending programs, will likely spawn inflationary pressures down the road. This will, in turn, eventually lead the Fed to invoke higher short-term interest rates, and such rate increases could rise faster than the re-pricing of a credit union's interest-earning assets, resulting in an ALM mismatch and downward earnings pressure. A steady-as-she-goes approach and sound ALM planning is still important as credit unions take advantage of the opportunities presented by the current yield curve.

**Chart 14: Investment Maturities**





# Primary Insured Credit Union Analysis

## INCOME AND EXPENSE RATIOS

Despite the Fed's move from credit tightening (2004-2006) to credit easing beginning in 2007 and through today, fluctuations in interest rates have only modestly affected ASI-insured credit unions' net interest margins. For example, the spread between interest-earning assets and cost of funds has consistently remained in a tight range above 4.0% over the last five years, averaging 4.20%. In 2008 the spread actually widened to 4.49% from the 4.03% reported in 2007. As long as short-term interest rates remain at the current low historical levels and the yield curve remains steep, credit unions will likely maintain these higher spreads for the foreseeable future; however, the potential for rapidly rising interest rates in the next few years, should anticipated inflationary pressures develop, may place downward pressure on the interest rate spread. On average, gross income as a percentage of assets decreased slightly to 6.80% in 2008, just below the highest level in the past five years, while the average cost of funds declined over 50 basis points to 2.31%, reflecting the movement to historically low interest rates at the end of 2008 (Chart 15).

Additionally, credit union management has generally been successful in controlling operating expenses; however, weak economic conditions in the United States, that are impacting all financial institutions, have resulted in higher provision for loan losses (PLL), which, when compared to the previous four years, nearly tripled to 0.68% of total assets in 2008. The 2008 increase in PLL of 0.25% of assets is less than the increase in the operating and PLL expense from 3.58% of assets in 2007 to 4.32% in 2008 (Chart 15) due to the impact on the 2008 ratio of the departure of ASI's largest insured credit union at the beginning of 2008. This credit union had a relatively low operating and PLL expense ratio of approximately 2.52%, which reduced the average operating and PLL expense ratio for ASI primary insured credit unions in 2004-2007 by approximately 50 basis points each year.

**Chart 15: Income and Expense Ratios**

Year	Gross Income/Assets	Operating and PLL	Cost of Funds
<b>2008</b>	<b>6.80 %</b>	<b>4.32 %</b>	<b>2.31 %</b>
2007	6.91 %	3.58 %	2.88 %
2006	6.61 %	3.42 %	2.45 %
2005	6.04 %	3.36 %	1.90 %
2004	5.77 %	3.31 %	1.58 %





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MEMBERS' ACCOUNTS ARE NOT INSURED OR GUARANTEED  
BY ANY GOVERNMENT OR GOVERNMENT-SPONSORED AGENCY.