

Independent Auditors' REPORT

We have audited the accompanying consolidated statements of financial condition of Philadelphia Federal Credit Union and subsidiary as of September 30, 2008 and 2007, and the related consolidated statements of income, changes in 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 consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statement referred to above present fairly, in all material respects, the financial position of Philadelphia Federal Credit Union and subsidiary as of September 30, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Connolly, Grady & Cha, P.C.
Certified Public Accountants
Philadelphia, Pennsylvania

Mission Statement

The mission of the Philadelphia Federal Credit Union is to provide for the financial well-being of our membership through a dedicated and unique combination of professional and personal service. As a member-owned institution, we will invest daily in building one-on-one relationships with our membership community through uncompromising service, convenience and a complete offering of competitive financial products and services. It is our fundamental belief, and the pride of the Philadelphia Federal Credit Union, that our members and employees are owners of this institution. Therefore, we will become the leading credit union in the Delaware Valley, in recognition of our commitment to their ownership and as stewards of their financial independence.



Board of Directors

Board Members

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Paulette Chambers
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Joseph McHugh
Elaine Melchiorre
Kathleen Meyer
Charles Zacney

Chairman

Michael J. McAllister, Esq.

Vice Chairman

Matthew M. Tierney

Treasurer

Dennis McBride

Secretary

Anna DeFusco

Operations Center/ Mailing Address

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pfcu.com

24 Hour Account Access

Teller Phone: 877-835-7328

Teller Net: enter through our web
site at pfcu.com



2008



ANNUAL REPORT

CHAIRMAN/PRESIDENT'S REPORT

The year 2008 will go down in the history books as a particularly challenging time for the economy. We saw Wall Street bailouts, massive foreclosures and job losses, and frankly many people were happy to see the year come to an end. Fortunately, while some Americans watched their banks struggle, merge, or simply disappear, PFCU members were able to rest easy knowing that their trusted financial institution remained safe and sound.

Subprime loans caused much of the turmoil in the financial industry. But here at PFCU, we have never participated in this type of risky lending. Our conservative lending and investment practices consistently safeguard the best interests of our members, and the careful oversight that is a hallmark of the credit union business model helped make PFCU a safe harbor during these uncertain times.

In April of 2008, PFCU was approved to offer our members excess share insurance through the Excess Share Insurance Corporation (ESI), a wholly owned subsidiary of American Share Insurance (ASI), the nation's largest private deposit insurer. This additional coverage provides our members with \$250,000 on their savings and retirement accounts. In October Congress approved a temporary increase in federally backed deposit insurance as part of the Emergency Economic Stabilization Act. With this combination of federal and private insurance in place, our savings and retirement accounts at PFCU are protected up to \$500,000 per account owner through the end of 2009. Our members can rest assured knowing not one penny of insured savings has even been lost by a member of a federally insured credit union.

Our products and services continue to expand

We found many opportunities throughout the year to make our members' financial lives more convenient and rewarding. New programs in 2008 included:

- **Our Northwest Branch expansion**, providing spacious accommodations for loan and investment consultations and friendly, personal service
- **Green Initiatives** such as eStatements, shredding days and discounts on hybrid vehicle loans
- **CU Realty Services**, providing a network of real estate agents and valuable rebates on qualifying transactions
- **Health Savings Accounts**, an excellent way for individuals and families to take control of health care costs
- **Small Business Administration (SBA) Loans**, helping us support the needs of small business owners
- **Improved ATM Access** through the Select-A-Branch Network
- **E-Alerts**, a convenient way for our members to monitor their accounts and identify pre-specified transactions
- **Check Card Rewards**, adding valuable reward points for qualifying Check Card transactions
- **Online Account Opening**, making it easier for consumers to begin or expand their relationship with us

2009 brings even more enhancements

We are excited about some of our new programs and facilities being developed in 2009, including:

- New branches in Lower Northeast and South Philadelphia
- A rebuilding project for our West Philadelphia branch
- E-Transfers and E-Signatures, adding even more online convenience for busy members
- FHA Loans, which provide money-saving options for home purchases and mortgage refinancing

Community outreach is an ongoing priority

At PFCU, we actively support the communities we serve. In 2008, our staff and members generously donated their time, talents and money for the following activities and projects:

- **Garden Project:** The PFCU garden, tended by staff members, grew fruits and vegetables and raised funds for Aid for Friends Outreach Center.
- **Shredding Days:** More than 300 people took advantage of our free events, shredding more than 15,000 pounds of paper which was then recycled, savings trees, water and oil.
- **Race for the Cure:** PFCU employees laced up their running and walking shoes to participate in the Susan G. Komen Race for the Cure event held annually on Mother's Day.
- **Annual Scholarship Program:** We awarded six \$1,000 scholarships to deserving high school seniors on their path to securing their educational future.
- **Supporting Troops Overseas:** We collected nonperishable foods, toiletries and other items and donated them to the "Work Horses" platoon, a group of soldiers stationed in Iraq.
- **Warmth for the Holidays:** Members and local residents were encouraged to drop off winter coats, which were donated to the St. Vincent DePaul Society.
- **Local Fairs and Festivals:** PFCU was happy to support and participate in many community events throughout the year including the Cedar Park Neighbors Association's Annual Fair and the 19th Annual Neighborhood-to-Neighborhood Festival in West Philadelphia.
- **MDA Telethon:** PFCU employees volunteered their time to appear on the Muscular Dystrophy Association (MDA) Labor Day Telethon to make a donation and to help answer phones.

The future looks bright

It is always gratifying when our efforts gain an enthusiastic response from members. In 2008 we were delighted to be named as having the "Best Banking Services" in the Philadelphia Daily News People Paper Award Contest. We take this as an indication that our programs and priorities are heading in the right direction. In the years to come, we will continue to provide exceptional value, service and security for our members, knowing that your loyalty is the foundation for any future success.

Sincerely,

Michael J. McAllister, Esq.
Chairman

James M. McAneney
President/CEO



Supervisory Committee REPORT

Philadelphia Federal Credit Union's Supervisory Committee is charged with the audit function of the Credit Union to ensure that PFCU's strength is fairly represented. The committee oversees the internal and external auditors who make sure that the Credit Union is sound and functioning well with the mandated guidelines and policies set forth by the governing bodies.

An external audit was conducted in 2008 by the Certified Public Accounting firm of Connolly, Grady and Cha, P.C. The federal examiners of the National Credit Union Administration (NCUA) also audited the Credit Union. These examinations of PFCU's financial statement and practices, along with audits conducted by the Internal Audit Department, have revealed Philadelphia Federal Credit Union to be in excellent condition, both financially and administratively.

Due in part to the efforts of the Supervisory Committee and auditors throughout the credit union movement, credit unions as a whole are very sound financial institutions. Credit Unions provide an alternative to consumers and the fact is more individuals are choosing credit unions not only because of their services, but also because they know that their money is safe.

The Supervisory Committee is dedicated to ensuring that these beliefs are well founded. The committee welcomes all comments and suggestions from our members. You are invited to use the following address: PFCU Supervisory Committee, P.O. Box 21004, Philadelphia, PA 19114.

Timothy Lederer, Chair

Treasurer's REPORT

2008 was a challenging time for the U.S. economy. The effects of the subprime lending market reached deep into the financial sector. Institutions had to close their doors while others were bailed out by the government.

As a member-owned financial institution, we have always practiced sound lending practices and we have money to lend. Our mission is to help our members in times of financial need. Our safety and soundness was never more evident than in the past year.

As a result, members entrusted us to their hard-earned money and increased their savings in the credit union by 11.54% to \$504,098,556 as testament of our stability. Our assets grew by 8.52% to \$586,617,467 as of December 31, 2008. Even during the economic uncertainty, our members still turned to us for loans. Our portfolio grew by 7.35% to \$474,400,293.

PFCU remains, strong, safe and secure because of our loyal member-owners. We are not bankers. Our credit union includes family members, co-workers, friends and neighbors working together to get ahead. It is through your support that we continue to prosper and develop convenient services that complement your busy lifestyles. Membership has many benefits and our cooperative effort will always prevail through the hard times for you to achieve your financial goals.

Balance Sheet

	Dec 2008	Dec 2007	Net Change 2008-2007	% Change
ASSETS				
Loans to Members	474,400,293	441,905,707	32,494,586	7.35%
Allow for Loan Loss	(4,353,217)	(4,341,273)	(11,944)	0.28%
Notes Receivable	0	0	0	0.00%
Receivables	13,967,342	6,296,737	7,670,605	121.82%
Cash in Banks	7,232,109	7,372,726	(140,617)	-1.91%
Investments	68,701,168	65,053,577	3,647,591	5.61%
NCUA Share Insurance	4,552,307	4,251,222	301,085	7.08%
Prepaid Expenses	5,039,704	3,649,933	1,389,771	38.08%
Land-Bldg. - Equip.	13,951,854	13,801,452	150,403	1.09%
Accrued Income	2,868,166	2,577,505	290,661	11.28%
Other Assets	7,742	7,742	0	0.00%
Excess Share Insurance	250,000	0	250,000	100.00%
Total Assets	586,617,467	540,575,328	46,042,138	8.52%
LIABILITIES				
Accounts Payable	179,639	109,604	70,035	63.90%
Accrued Expenses	468,449	469,676	(1,227)	-0.26%
Borrowing	0	10,000,000	(10,000,000)	-100.00%
Other Liabilities	(158,378)	(1,401,066)	1,242,688	-88.70%
Total Liabilities	489,710	9,178,214	(8,688,504)	-94.66%
EQUITY				
Shares	311,122,265	290,861,542	20,260,723	6.97%
Certificates	192,976,291	161,097,662	31,878,629	19.79%
Total Shares	504,098,556	451,959,204	52,139,352	11.54%
Regular Reserves	4,172,269	4,172,269	0	0.00%
Undivided Earnings	78,421,740	71,063,192	7,358,549	10.35%
Unreal Gain/Loss-Pension FAS158	(5,449,355)	(3,158,887)	(2,290,468)	72.51%
Unreal Gain/Loss-Invest.	2,636	2,789	(153)	-5.48%
Net Income/Loss	4,881,910	7,358,549	(2,476,638)	-33.66%
Total Equity	82,029,201	79,437,911	2,591,289	3.26%
Liabilities & Equity	586,617,467	540,575,328	46,042,138	8.52%

Income & Distribution

	Dec 2008	Dec 2007	Net Change 2008-2007	% Change
Income				
Interest on Loans	34,040,009	34,170,773	(130,764)	-0.38%
Investment Income	1,974,815	2,476,134	(501,319)	-20.25%
Fee Income	8,983,425	8,988,616	(5,191)	-0.06%
Gain on Sale of Loans	0	100,724	(100,724)	100.00%
Other Income	4,339,420	3,929,767	409,653	10.42%
Gross Income	49,337,669	49,666,014	(328,345)	-0.66%
Distribution of Income				
Dividends to Members	11,268,757	10,495,142	773,615	7.37%
Interest on Borrowed \$\$\$	68,374	414,973	(346,599)	-83.52%
Provision Loan Losses	4,450,000	4,425,000	25,000	0.56%
Operational Expenses	28,945,949	26,561,217	2,384,732	8.98%
Non-Operational Expenses	(277,321)	411,133	(688,454)	-167.45%
Undivided Earnings	4,881,910	7,358,549	(2,476,639)	-33.66%
Total Distribution	49,337,669	49,666,014	(328,345)	-0.66%

*Continuing a
tradition of service*