

## TYCO FEDERAL CREDIT UNION: OWNER'S REPORT 2008

### Chairman's Report

This past year has been a financially difficult one for many individuals, families and businesses. In particular, home owners with sub-prime mortgages and financial institutions such as banks and investment firms have suffered great losses. Expectations are that 2009 will also be a difficult year for many people with continuing job losses and home foreclosures.

One bright spot in the financial area is Credit Unions which have, in general, weathered the crisis well due to conservative lending practices and prudent investments. Many Credit Unions, including your Tyco Federal Credit Union, are in a good financial position and will be able to help members through this difficult period. At no time in the recent past has the main purpose of TFCU: Helping Members Get Ahead Financially been more relevant than it is today. Your management staff, lead by CEO Chris Petro and assisted by all TFCU employees, stand ready to assist members whenever possible.

For TFCU, the past year has been one in which growth has continued. Significant progress has been made positioning ourselves to better serve the total potential membership base we have with Tyco Electronics, Tyco International and Covidien, our three sponsors. With respect to growth, the following statistics show how TFCU changed from 2007 to 2008:

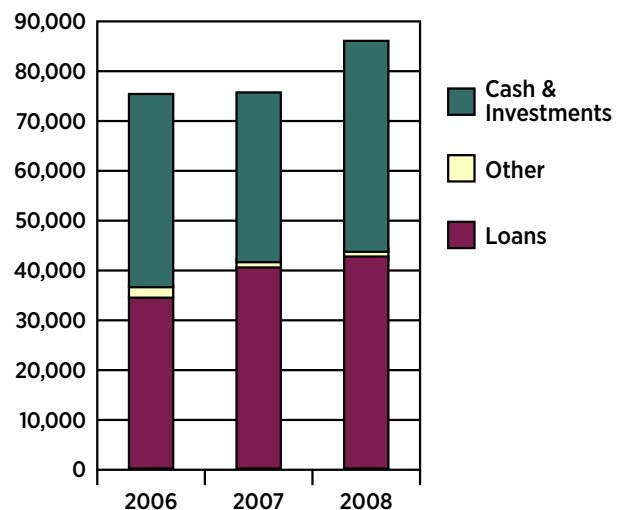
- Membership growth – 3% with 609 new members added
- Share growth – over 15% with a year end total over \$75 million
- Total asset growth – 13.5 % with a year end total of over \$85 million
- Loan growth – nearly 5% with a year end total of over \$42.5 million

In addition, TFCU retained its Bauer Five Star Rating, the highest possible rating for a financial institution.

On the negative side there has been an increase in loan delinquencies in the past year (2007 monthly average of ~ \$112,000 compared to ~\$147,000 in 2008) and net charge-offs increased from ~ \$102,000 in 2007 to ~ \$126,000 in 2008. This trend is indicative of the current economic environment and is likely to last into 2009. For TFCU, the amount of this loss is still small compared to many financial institutions, again reflecting our careful operating procedures. Loan growth was significantly less this past year compared to 2007 and showed a very large shift in the types of loans granted. Prior to 2008 auto loans were the main vehicle by which TFCU lent money. In this past year, auto loans dropped off significantly due initially to high fuel prices and then the poor economy. The management and staff of our CU have worked hard to make up for this decrease in auto loans by emphasizing home mortgages and home equity loans, where appropriate, among other types of loans.

In last year's Chairman's Report I outlined several initiatives that TFCU was undertaking to allow us to better serve the geographically diverse potential field of membership available to us through Tyco Electronics, Tyco International and Covidien. Significant progress has been made with respect to these goals. Two new senior management positions have been filled. Leading the drive to get the word out to new and potential members is Jason Vitug, our new Vice President for Membership Development. Jason, working together with Chris Petro, has established relationships with many parts of TE and is making in-roads at Tyco International. Visits to select Covidien plants were also made in the last year. Increasing our recognition and acceptance throughout our potential field of membership by continuing to establish contacts at our sponsors' main offices, plant visits and providing financial literacy and education will continue to be a main focus in the coming year.

TFCU Assets \$(000s)



The position of Vice President for Information Services has also been filled. Lester Warby III joined us on December 1st. He will take a leading role in developing our new website and enhancing our virtual banking services. The general requirements for the new website have been established using the consulting firm of Lasselle-Ramsay. They provided a detailed report on the different needs of TFCU diverse current and potential field of membership. This report will become the basis for further development of our web presence and the services we will provide. Rapid development and deployment of this website is key to our being able to effectively serve all potential TFCU members and will be the other main focus in the 2009.

Aggressively working throughout Tyco Electronics, Tyco International and Covidien to attract more members coupled with continuing efforts to increase services per member are the keys to the long term growth and success of TFCU. Tools to accomplish this include having a world class website that makes it easy and safe for our members to maintain their financial accounts with us, continuing to provide the friendly, knowledgeable professional service that is the hallmark of how we do business and providing financial literacy to current and potential members. Success in providing these tools and in growing membership will allow us to attain our goal of Helping Members Get Ahead Financially. I would like to thank all the staff and management of the TFCU and the volunteers who serve on the Board of Directors and the Supervisory Committee for their hard work, professionalism and dedication in the past year.

David Vroom, *Chairman of the Board*

### Treasurer's Report

The past year saw a dramatic downturn in the U.S. and then the world's economies. Extremely high energy and commodity prices, coupled with a deteriorating housing market, prompted the U.S. Federal Reserve Board to ease monetary policy through a series of interest rate cuts that brought the federal funds rate down from 4.25% to almost 0% at year end. The collapse of the subprime mortgage-backed securities market severely impacted many major lending institutions, to the point that worldwide credit markets ceased to function effectively. In response, the U.S. government engaged in the largest intervention in the U.S. financial markets since the Great Depression.

Against this backdrop, Tyco Federal Credit Union continued to perform in a solid and reliable manner and continued to grow its assets and membership. Assets increased from \$75.3 to \$85.4 million at the end of the year, an increase of 13.5%. Net Loans increased by \$1.9 or approximately 4.8%. Share balances increased by \$10.0 million or 15.3% over the prior year, reflecting increased membership and an increase in average balances per member.

Net Income was a loss of \$(8,403) for the year, versus a planned loss of \$(73,518) and prior year net income of \$184,790. Gross Income declined by less than 2 tenths of a percent as higher loan balances and miscellaneous income more than offset lower average interest rates in 2008 than 2007. Dividends paid decreased by 15% from the prior year as significantly lower rates on shares more than offset increased share balances. Expenses were approximately 19% higher than the prior year, primarily due to increased compensation and office operation costs. We increased spending on marketing efforts in terms of personnel, travel and marketing literature in an ongoing effort to reach out to new potential members. We also invested in preparations for a new website and the development of services to meet the requirements of our increasingly on-line members. The Provision for Loan

Losses was higher as a percentage of gross income than the prior year (3.9% of gross income in 2008 versus 2.8% of gross income in 2007), but remained low compared to the industry norm.

In conclusion, the credit union remains financially strong and is continuing to expand products and services to meet the needs of our members, particularly in these difficult times

Lynne Fovinci, *Treasurer*

### Income Statement

	2007	2008
<b>Total Income</b>	<b>\$5,019,462</b>	<b>\$5,010,102</b>
Compensation	1,348,722	1,585,086
Office Operations	680,193	811,297
Marketing	73,143	107,242
Loan Loss Provision	141,056	194,903
Other Expenses	391,371	448,845
<b>Total Expenses</b>	<b>2,634,485</b>	<b>3,147,373</b>
<b>Dividends Paid to Members</b>	<b>2,200,187</b>	<b>1,871,132</b>
<b>To Reserves and Undivided Earnings</b>	<b>\$184,790</b>	<b>\$(8,403)</b>

### Balance Sheet

	12/31/07	12/31/08
<b>Assets</b>		
Loans (net)	\$40,310,266	\$42,237,636
Cash & Investments	33,834,491	41,899,122
Other Assets	1,112,974	1,278,368
<b>Total Assets</b>	<b>75,257,732</b>	<b>85,415,126</b>
<b>Liabilities</b>		
Dividends Payable	259,124	211,196
Other Liabilities	607,435	649,380
<b>Total Liabilities</b>	<b>866,559</b>	<b>860,576</b>
<b>Shares &amp; Equity</b>		
Shares	65,337,576	75,326,229
Regular Reserves	1,510,614	1,510,614
Undivided Earnings	7,542,982	7,717,706
<b>Total Equity</b>	<b>74,391,172</b>	<b>84,554,549</b>
<b>Total Liabilities &amp; Equity</b>	<b>\$75,257,732</b>	<b>\$85,415,126</b>

### Supervisory Committee's Report

The Supervisory Committee is appointed annually by the Board of Directors. The role of the committee is to ensure that TFCU's financial objectives have been met and that the proper management practices and procedures safeguard members' assets. To discharge these responsibilities the committee performed the following functions:

- Retained McGladrey and Pullen, LLP, to conduct an independent external audit of the financial statements.
- Conducted a Bank Securities Act audit. Conducted audits of various activities based on list provided by NCUA.
- Reviewed the TFCU Policy Manual and made recommendations or revisions where required.

The independent auditor found that TFCU's financial statements present fairly its financial position in conformity with Generally Accepted Accounting Principles. The Supervisory Committee finds that the required policies and procedures are in place and that TFCU's controls are effective.

Catherine McIntosh, *Supervisory Committee Chair*