



UNITED LABOR BANK f.s.b.
E X E C U T I V E O F F I C E S

September 11, 2008

I would like to begin this letter with a quiz.

QUESTION:

How do over 800 community banks and credit unions, who **DID NOT** participate in the heady and risky sub-prime lending of the past several years, become financially impacted as a result of sub-prime?

ANSWER:

Freddie Mac and or Fannie Mae!

In today's financial climate, it is impossible to pick up a trade journal, your hometown newspaper, or turn on a radio or television set and not have the first bit of news be about these two quasi government agencies that have just been taken over, rescued, nationalized (I am unsure which) by our federal government. So, how could these 800+ small conservative and successful community banks and credit unions get hurt by this government action? The answer is that we all owned either common or preferred stock in these organizations as part of our investment portfolio. As a consequence of the government action this past Sunday, the common stock has been essentially wiped out and the preferred stock has a value of less than 5% of its original value.

I cannot comment if these actions were warranted by our government, as my vision of the world is somewhat smaller. However, I can tell you that our financial world has changed and we must be very cautious and prudent in all future transactions. What we used to rely on cannot be trusted and must be tested.

How does this affect United Labor Bank?

Last year, United Labor Bank purchased \$1 million of Fannie Mae preferred stock, with a dividend coupon of 8.25% as part of our \$75+ million securities investment portfolio representing less than 1.5% of the total portfolio. At the time of the purchase it was considered a "high grade" investment. As a result of this recent government action, United Labor Bank will write the investment down to zero value as a prudent action. We will take a one time charge to income in September, the last month of our fiscal year. We will reduce our annual estimated net income by approximately 50% for the 2008.

On the positive side, we will remain well capitalized and still have a net income for 2008. Additionally, we have reserves established for events such as these for both the bank and the parent company. We remain a *strong and a viable enterprise* serving our clients and shareholders.



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Next Steps for United Labor Bank

We have completed a review of the balance of our investment portfolio. Management and the Board believe we are in a strong financial condition with the balance of the portfolio represented by U.S. Government Securities and mortgage backed obligations.

As a result of our strong lending activity in the last 6 months, we look forward to the 2009 business year to exceed the 2008 projected earnings (prior to the write down) by 18% to 20%.

In closing, I would like to assure you that Management and the Board of Directors will continue to make every effort to provide a safe environment for our Depositors, Shareholders and Team Members to **INVEST, BANK & WORK at United Labor Bank.**

With regards,

Malcolm F. Hotchkiss
President & Chief Executive Officer