



**2009  
SUNCORP  
ANNUAL  
REPORT**

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## Chairman's & President's Report



Mark Lau  
Chairman of the Board  
of Directors



Thomas R. Graham  
President and Chief  
Executive Officer

SunCorp is in the midst of significant regulatory reform attempts in the U.S. financial system. In November, the NCUA released its proposal for a massive revision to regulation 704, the rules that govern corporate credit union balance sheet activities, risk management, and capital requirements. We support reform that will improve the safety and soundness of SunCorp and the corporate credit union system for the benefit of members, but are wary of many provisions in the proposal that could dramatically affect the business model that has successfully served our members for 32 years. For SunCorp to be successful in the future, and for us to help you be successful, we will need your continued loyal support in the new world of lower risk and higher capital requirements. We are working hard every day to earn that support and rebuild the trust damaged by capital losses in 2009.

The Board and management of SunCorp are committed to providing honest, transparent communication as we navigate this historically difficult period. During 2009, we hosted monthly financial review webinars, detailing SunCorp's financial position. We provided members with detailed member updates from Tom Graham, informing them about our investment exposures and losses, the impact of

the U.S. Central and WesCorp conservation actions, regulatory actions affecting membership capital, charter conversion, the proposed revision to regulation 704, significant accounting standard changes, and expense cuts. The Board of Directors and senior management spent countless hours discussing the expected impact of all these critical items. Our business development officers follow a strict contact plan with members in order for us to get better two-way communication. We conducted another member survey in 2009 and learned that members were justifiably upset and disappointed about investment losses but they also acknowledged that we had significantly improved our member service profile.

Although it is difficult, we continue to look ahead to the other side of this situation in order to provide maximum value for our members while the federal rules are debated and rewritten. We continue to be active participants in striving to shape our future and it is vital to SunCorp and our members' interests to have frequent conversations about the best course for protecting current and potential capital investments in SunCorp. We are humbled and grateful for our members' backing and their willingness to support us and the cooperative system as their partner and solution provider. Clearly, there is no SunCorp without members' strong commitment and participation in our services.

SunCorp's market share of member deposits in our core field of membership remains strong at 24%, up from 15% four years ago. We appreciate our members support as we strive to add value through dividends, controlled fees and costs and strong member service.

## Chairman's & President's Report (Continued)

SunCapture, our branch capture solution, was launched in June 2007 and by year end 2009 was adopted by 148 CUs, implemented in over 450 branches. Operationally, SunCorp continues to automate processes as payments move from paper to electronic form. This automation reduces float cost significantly, allowing for higher dividend payouts and faster capital formation.

The financial marketplace remained difficult for credit unions in 2009 as the Federal Open Market Committee maintained short-term interest rates at effectively zero percent throughout the year, putting pressure on asset yields. This occurred just as credit union deposit growth swelled and loan demand plummeted during the recession. Loan delinquencies increased as unemployment soared and consumers struggled with mortgage payments and decreases in home values.

SunCorp's balance sheet growth was strong, growing 33% as members increased their investments with us throughout the year. Management continued to improve capital ratios to protect members from the storm. Member deposits rose by over \$641 million in 2009 and we cut leverage in the form of longer term borrowing from \$132 million to \$42 million. Loans to members decreased again this year, by \$32 million to \$46 million as member liquidity improved. We continue to drive efficiency in our quest to return value to our members. Operating expense came in \$1.27 million under budget, \$1.38 million less than 2008 figures, with more budget cuts planned for 2010. Our staff count is also down more than 50% since 2007 as we strive to get more efficient.

Despite the many cut backs in expenses, we partnered with the regional Credit Union Leagues and Associations again in 2009,

sponsoring many of their events for our members' benefit, participating in their annual meetings and providing speakers. We believe it is important to maintain strong, close partnerships with the leagues/associations and we enjoy working with them throughout the year.

Looking ahead to 2010, our plans are focused on continued efforts to improve operating efficiencies for greater value return to our members and adapting to a new landscape for corporate credit unions. We will continue to help our members save time and money and provide members seamless service during this important transition period.

The Board and management are committed to supporting your ongoing success. We will continue to solicit feedback from you to determine ways in which we can serve you better. We are committed to providing our members with superior service and competitive financial products.

Thank you to our valued members and business partners. We appreciate your continued support and look forward to a more positive 2010.

Sincerely,



Mark Lau, Chairman



Thomas R. Graham, President and CEO

## Board of Directors



Mark Lau  
Chairman



Kimberley Withers  
Vice Chairman



Steve Kelly  
Secretary/Treasurer



MJ Coon



Doug Ferraro



Don Killeen

## Treasurer's Report



Steve E. Kelly  
Secretary/Treasurer

The support of the membership of SunCorp was deeply appreciated as 2009 was a very difficult year due to the capital losses from U.S. Central investments, as well as impairment charges on once highly rated securities.

SunCorp ended 2009 with \$2.47 billion in assets. This is a \$614 million increase from year-end 2008 and is due primarily to increased deposits from member credit unions. Total deposits from members increased by \$641 million to \$2.51 billion as liquidity increased in the credit union system in 2009. Loans outstanding to members at December 31, 2009 decreased to \$46 million from \$78 million at year-end 2008. The results were better overall for net interest income for 2009 versus 2008, growing from \$11.7 million to \$13.1 million due to a larger balance sheet.

Retained earnings for 2009 increased by \$110 million due to an accounting standard change implemented Jan 1, 2009, reversing a large portion of the impairment charge booked under the previous standard at the end of 2008. Impairment charges on mortgage-backed securities of \$11.4 million in 2009 left SunCorp with a retained deficit of \$7.9 million

at the end of the year. Total capital decreased to \$55.7 million, including membership capital shares. As of December 31, 2009, SunCorp's total capital ratio was 2.49%. SunCorp continued to reduce leverage by paying down debt in 2009 in order to improve its capital position.

The U.S. capital markets appear to have stabilized in the second half of 2009, evidenced by tighter credit spreads and improving equity markets. The combination of unrealized losses and impairment charges on marketable securities held by SunCorp fell from \$175 million at the end of 2008 to \$128 million at the end of 2009. The unrealized losses reflected in other comprehensive income were \$90.3 million, a dramatic improvement from the \$169 million peak in the first quarter of 2009. The unrealized losses are a reflection of current market conditions and pricing, the strength of credit support and expectations of repayment from these investments.

It is a pleasure to serve on the Board of Directors, and as the Secretary and Treasurer for SunCorp. On behalf of the Board of Directors, I would like to thank SunCorp members, management and staff for their efforts during a trying year. The Board looks forward to a more prosperous year in 2010 and continued member support of SunCorp.

Respectfully submitted,

A handwritten signature in black ink that reads "Steve E. Kelly". The signature is fluid and cursive, with the first name "Steve" being the most prominent.

Steve E. Kelly, Secretary/Treasurer

## Asset Liability Committee Report



MJ Coon  
Chairman

The Asset Liability Committee (ALCO) is charged with overseeing SunCorp's investment and risk management operating policies which outline the overall strategies for the management of the credit union's investment portfolio along with the permissible investment types, limits and concentrations for execution of the strategies.

The Board ALCO incorporates information from a staff ALCO comprised of individuals from SunCorp's Capital Markets Group, Risk Management, Accounting, Operations and Sales and Marketing departments. This committee is lead by SunCorp's Executive Vice President/Chief Investment Officer, Executive Vice President/Chief Financial Officer and Senior Vice President of Risk Management in support of SunCorp's Board ALCO.

SunCorp gained significant member deposit growth during 2009. Deposits rose 34% (\$641 million) as the U.S. recession dampened consumer loan demand, leading to higher investment balances at member credit unions. The growth in deposits was invested almost entirely in NCUSIF-guaranteed investments at U.S. Central (+\$580 million) and WesCorp (+\$50 million). Some of the growth was used to pay down term debt, with balances down 68% to \$42.5 million. Net interest income rose by \$1.4 million, a 12% increase over 2008. This was mainly a result of the growth in deposits throughout the year.

68% of the balance sheet is invested in NCUSIF-guaranteed investments at U.S. Central and WesCorp, while securities holdings make up just

25%. Asset quality declined further in 2009 as the U.S. housing market remained very weak. AAA-rated or GSE securities comprised 59% of the securities' portfolio, compared to over 96% AAA-rated or GSE at the time of the initial investment. 17.5% of assets (\$433 million) are invested in RMBS, with \$123 million of that figure invested in Agency MBS. At year end 2009, SunCorp owned 21 securities that were out of compliance (less than AA- rating) with NCUA rules and regulations. SunCorp applied and received waivers from the NCUA to continue holding these positions as the expected cash flow should greatly exceed currently depressed market values.

In addition, Net Economic Value (NEV) volatility (+48%) exceeded the regulatory limit of -20% in a +300 rate shock environment. This is due to the reduction in capital after the total write-off of U.S. Central capital investments and impairment charges on select non-agency RMBS. SunCorp received a waiver from the NCUA on this limit, subject to investing only in certain short-term, highly rated investments. Since the financial market crisis, which began in the second half of 2008, our investments have been extremely conservative, with a particular emphasis on maintaining ample liquidity.

SunCorp continues to work diligently to provide value in a competitive marketplace. We're planning for major changes in NCUA regulation 704, which governs our asset-liability management and investment activity. The rule changes proposed by the NCUA could have significant impact on our business model and greatly improve safety and soundness through higher capital requirements.

Respectfully submitted,



MJ Coon, Chairman

## Asset Liability Committee



MJ Coon  
Chairman



Steve Kelly  
Vice Chairman



Darren Godfrey



Brandt Peterson



Mark Schieffer

## Supervisory Committee Report



Brad Harvey  
Chairman



Greg Hill  
Vice Chairman



Gail DeBoer



Kimberley Withers

The Supervisory Committee is charged with performing an audit of the financial results for SunCorp and ensuring that management maintains adequate controls over operations and financial reporting. With these two objectives in mind, SunCorp engaged Orth, Chakler, Murnane and Company, CPAs as its auditing partner for financial audit work and Protiviti for expanded internal control audit work during 2009.

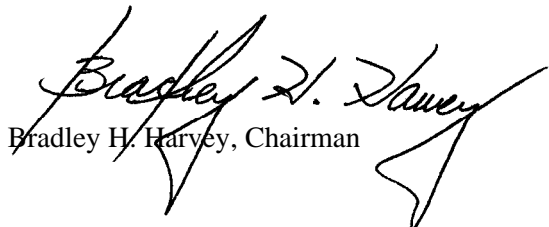
It is our duty to present the 2009 financial results for your review. In the event this electronic version is not suitable and you desire a hard copy of the annual report or the audited statements, they are available upon request.

The Committee retained Protiviti to complete internal control reviews covering all major operating and financial reporting functions within SunCorp. The risk assessment and reviews provide assurance to the Committee, Board of Directors, management and members that SunCorp has sound internal controls over its operations. In addition, the committee engages a SAS 70 audit that is available to members upon request.

The State of Colorado and the National Credit Union Administration also examined SunCorp in 2009. The Committee is responsible for ensuring that management addresses all examination comments and establishes processes to address their findings. The Committee monitors the corrective actions taken by SunCorp on a quarterly basis to ensure timely correction of all items from the examination and internal audit findings.

Based on the audits and examinations performed and reviewed during 2009, the Committee submits that SunCorp maintains sound financial and internal controls. I encourage all members and business partners to download the 2009 Audited Financial Statements or contact SunCorp for a hard copy of the same report. On behalf of the Supervisory Committee, I would like to thank SunCorp's members, Board of Directors and management for their assistance during 2009 and we look forward to a successful new year.

Respectfully submitted,

  
Bradley H. Harvey, Chairman

# Orth, Chakler, Murnane and Company, CPAs

A Professional Association

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Douglas J. Orth, CPA, CFE, Managing Partner

Hugh S. Chakler, CPA, CFE, CITP, CISA

John J. Murnane, CPA

James A. Griner, CPA

Lori J. Carmichael, CPA

Daniel C. Moulton, CPA

## **INDEPENDENT AUDITORS' REPORT**

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May 7, 2010

To the Supervisory Committee of  
System United Corporate Federal Credit Union

We have audited the accompanying statement of financial condition of System United Corporate Federal Credit Union as of December 31, 2009, and the related statements of operations, comprehensive operations, members' equity, and cash flows for the year 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 audit. The financial statements of System United Corporate Federal Credit Union as of December 31, 2008, were audited by other auditors whose report dated December 18, 2009, expressed a qualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In their report dated December 18, 2009, the other auditors expressed an opinion that the financial statements as of December 31, 2008, did not fairly present the financial position of the Credit Union in conformity with accounting principles generally accepted in the United States of America because members' share and certificate accounts were classified as equity rather than as liabilities as required.

System United Corporate Federal Credit Union has reported members' share and certificate accounts as equity in the accompanying statements of financial condition that, in our opinion, should be reported as liabilities to conform with accounting principles generally accepted in the United States of America. If members' share and certificate accounts were properly recorded, liabilities would increase and members' equity would decrease by \$2,514,131,103 and \$1,905,248,584 as of December 31, 2009 and 2008, respectively.

In our opinion, except for the classification of members' share and certificate accounts as equity as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of System United Corporate Federal Credit Union as of December 31, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



To the Supervisory Committee of  
System United Corporate Federal Credit Union  
Page 2

As discussed in Notes 7, 11, and 15, the Credit Union has suffered substantial losses due to the impairment of paid-in capital and membership capital share investments in U.S. Central Federal Credit Union which have caused a deficit in the retained earnings. As a result, the Credit Union's capital ratio and retained earnings ratio have fallen below the minimum regulatory requirements. In April 2009, the NCUA issued an order permitting an alternative capital level for purposes of regulatory compliance. As a result of the order, System United Corporate Federal Credit Union is allowed to use capital levels reported in its November 2008 Call Report, for purposes of determining regulatory compliance with its capital ratio requirement and earnings retention requirement. Should the NCUA change its position on the measurement of regulatory capital, the Credit Union would be in regulatory noncompliance and potentially subject to intervention by the NCUA.

*Orth, Chakler, Murnane & Co.*

Orth, Chakler, Murnane & Company  
Certified Public Accountants



<b>SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION</b> <b>STATEMENTS OF FINANCIAL CONDITION</b>
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**ASSETS**

	As of December 31,	
	2009	2008
Cash	\$114,240,511	\$33,336,534
Uncollected cash items	327,718	122,468
Interest bearing deposits in financial institutions	1,673,012,695	632,575,743
Federal fund sold	-	412,910,409
Available-for-sale investment securities	617,309,732	677,675,124
Investment in credit union service organization	1,278,244	2,413,875
Loans to members (Note 3)	45,265,859	77,212,008
Accrued interest receivable and fee income	3,385,572	6,888,389
Property and equipment, net	1,226,325	1,039,393
National Credit Union Share Insurance Fund deposit	809,702	124,496
Other assets	9,252,962	8,205,091
Total assets	\$2,466,109,320	\$1,852,503,530

**LIABILITIES AND MEMBERS' EQUITY**

	As of December 31,	
	2009	2008
Liabilities:		
Borrowed funds (Note 6)	\$42,500,000	\$132,500,000
Deposits in collection	327,718	122,468
Accrued interest payable	4,245,261	8,349,077
Accrued expenses and other liabilities	3,095,061	8,512,051
Total borrowings and other liabilities	50,168,040	149,483,596
Members' Equity:		
Share and certificates	2,447,570,016	1,788,778,972
Membership capital shares	66,561,087	83,797,391
Paid-in-capital shares	-	32,672,221
Undivided earnings (Note 7)	(7,861,956)	(117,824,322)
Accumulated other comprehensive loss	(90,327,867)	(84,404,328)
Total members' equity	2,415,941,280	1,703,019,934
Total liabilities and members' equity	\$2,466,109,320	\$1,852,503,530

The accompanying notes are an integral part of  
these financial statements.

<b>SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION</b> <b>STATEMENTS OF OPERATIONS</b>
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	For the years ended	
	December 31,	
	2009	2008
Interest Income:		
Investments	\$41,579,472	\$83,954,581
Loans	1,201,420	2,948,285
Total interest income	42,780,892	86,902,866
Interest Expense:		
Members' accounts	25,017,129	67,918,974
Borrowed funds	4,660,013	7,276,346
Total interest expense	29,677,142	75,195,320
Net interest income	13,103,750	11,707,546
Non-Interest Income/(Loss):		
Fees and other income	8,610,615	7,791,113
Gain on sale of investments	541,982	954,428
Gain/(loss) on loans	26,338	(538,479)
Gain/(loss) from CU investment	3,057	(65,754)
Gain/(loss) on sale of assets	2,050	(11,261)
US Central impairment	-	(88,549,092)
Intangible impairment	-	(5,116,315)
Income from NCUSIF	251,566	-
NCUSIF impairment	-	(251,566)
Securities other than temporary impairment	(11,426,720)	(90,978,792)
Total non-interest income/(loss)	(1,991,112)	(176,765,718)
Non-Interest Expense:		
Salaries and benefits	5,907,545	6,704,874
Office operations	1,881,211	1,500,276
Education and promotion	347,482	561,231
Occupancy	742,989	1,011,226
Data processing	3,660,458	3,045,021
Office property and equipment maintenance	707,930	928,533
Outside services	1,126,677	1,116,889
Intangible asset amortization	-	935,928
Association fees	134,747	138,265
Operating fees	48,156	59,494
Other	99,358	36,589
Total non-interest expense	14,656,553	16,038,326
Net loss	(\$3,543,915)	(\$181,096,498)

The accompanying notes are an integral part of  
these financial statements.

<b>SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION</b> <b>STATEMENTS OF COMPREHENSIVE OPERATIONS</b>
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	For the years ended	
	December 31,	
	2009	2008
Net loss	(\$3,543,915)	(\$181,096,498)
Other Comprehensive Loss:		
Net unrealized holding losses on investments classified as available-for-sale	(16,808,277)	(154,885,580)
Reclassification adjustment for net investment losses included in net loss	10,884,738	90,628,597
Other comprehensive loss	(5,923,539)	(64,256,983)
Comprehensive loss	(\$9,467,454)	(\$245,353,481)

The accompanying notes are an integral part of  
these financial statements.

**SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION**  
**STATEMENTS OF MEMBERS' EQUITY**

For the years ended  
December 31, 2009 and 2008

	Member Accounts	Member Capital Shares	Paid-in Capital	Corporate Reserve	Undivided Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2007	\$2,463,852,222	\$80,245,124	\$32,672,221	\$20,167,463	\$43,104,713	(\$20,147,345)	\$2,619,894,398
Net loss			-	(20,167,463)	(160,929,035)	-	(181,096,498)
Change in member accounts	(675,073,250)	-	-	-	-	-	(675,073,250)
Transfer	-	3,552,267	-	-	-	-	3,552,267
Other comprehensive loss	-	-	-	-	-	(64,256,983)	(64,256,983)
Balance, December 31, 2008	1,788,778,972	83,797,391	32,672,221	-	(117,824,322)	(84,404,328)	1,703,019,934
Net loss	-	-	-	-	(3,543,915)	-	(3,543,915)
Change in member accounts	658,791,044	-	-	-	-	-	658,791,044
Transfer	-	(1,407,187)	-	-	-	-	(1,407,187)
Depletion of paid-in-capital	-	-	(32,672,221)	-	32,672,221	-	-
Depletion of member capital shares	-	(15,829,117)	-	-	15,829,117	-	-
Reclassify non-credit other than temporary impairment loss	-	-	-	-	65,004,943	-	65,004,943
Other comprehensive loss	-	-	-	-	-	(5,923,539)	(5,923,539)
Balance, December 31, 2009	\$2,447,570,016	\$66,561,087	-	-	(\$7,861,956)	(\$90,327,867)	\$2,415,941,280

The accompanying notes are an integral part of  
these financial statements.

<b>SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION</b> <b>STATEMENTS OF CASH FLOWS</b>
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	For the years ended	
	December 31,	
	2009	2008
Cash flows from operating activities:		
Net loss	(\$3,543,915)	(\$181,096,498)
Adjustments:		
Depreciation and amortization	475,762	1,521,065
(Gain)/loss on sale of property and equipment	(2,050)	11,261
Gain on sale of investment securities	(545,039)	(350,195)
Other than temporary impairment charges on investments	11,426,720	90,978,792
Other than temporary impairment charges on U.S. Central member capital shares	-	88,549,092
Net amortization and accretion of premiums and discounts on investments	(4,861,572)	599,749
Intangible asset impairment	-	5,116,315
Change in operating assets and liabilities:		
Accrued interest and fee income receivable	3,502,817	13,648,958
Accrued expenses and other liabilities	(5,416,990)	3,403,024
Accrued interest and dividends payable	(4,103,816)	(8,382,680)
Net cash provided by operating activities	(3,068,083)	13,998,883
Cash flows from investing activities:		
Net (increase)/decrease in interest bearing deposits and investments	(1,040,436,952)	1,331,445,825
Purchases of available-for-sale investments	(367,410,729)	(504,725,744)
Proceeds from maturities of available-for-sale investments	403,764,670	107,455,390
Proceeds from sales of available-for-sale investments	77,072,746	168,272,561
Decrease/(increase) in federal funds sold	412,910,409	(412,910,409)
Increase in NCUSIF deposit and other assets	(1,733,077)	(2,774,342)
Increase in CUSO investments	1,135,631	-
Net decrease in loans to members	31,946,149	20,424,279
Proceeds from sale of property and equipment	3,000	29,104
Purchases of property and equipment	(663,644)	(662,758)
Net cash (used in)/provided by investing activities	(483,411,797)	706,553,906

The accompanying notes are an integral part of  
these financial statements.

<b>SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION</b> <b>STATEMENTS OF CASH FLOWS</b>
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*Cash flows: (continued)*

	For the years ended	
	December 31,	
	2009	2008
Cash flows from financing activities:		
Increase/(decrease) in deposits in collection	205,250	(149,263)
Proceeds from borrowed funds	-	20,000,000
Repayment of borrowed funds	(90,000,000)	(57,004,312)
Net increase/(decrease) in members' accounts and shares	657,383,857	(671,520,983)
Net cash provided by /(used in) financing activities	567,589,107	(708,674,558)
Net change in cash and uncollected cash items	81,109,227	11,878,231
Cash and uncollected cash items at beginning of year	33,459,002	21,580,771
Cash and uncollected cash items at end of year	\$114,568,229	\$33,459,002
Supplemental Cash Flow Disclosures:		
Interest paid on deposits and borrowed funds	\$33,780,957	\$83,578,000
Schedule of Non-Cash Transactions:		
Other comprehensive loss	(\$5,923,539)	-
Depletion of paid-in capital	(\$32,672,221)	-
Depletion of membership capital shares	(\$15,829,117)	-
Reversal of non-credit OTTI losses	\$65,004,943	-

The accompanying notes are an integral part of these financial statements.

# **SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION**

## **NOTES TO THE FINANCIAL STATEMENTS**

### *NOTE 1: SIGNIFICANT ACCOUNTING POLICIES*

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#### **ORGANIZATION**

System United Corporate Federal Credit Union (the "Credit Union") is a nonprofit financial cooperative organized to serve as a central money facility for investments and correspondent banking activity for their member credit unions through the broader financial system. The Credit Union provides a wide range of investment, liquidity, and correspondent banking services for its member credit unions and affiliated organizations principally located in Colorado, Utah, Nebraska and Wyoming. During 2009, the Credit Union changed their charter from that of a state to a federal charter.

#### **FINANCIAL STATEMENTS/USE OF ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenses for the periods then ended. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the fair value of financial instruments. The significant accounting principles and policies used in the preparation of these financial statements, together with certain related information, are summarized below.

#### **CASH**

Cash includes amounts due from the Federal Reserve Bank, other banks and credit unions as well as cash in transit to member credit unions. Amounts due from banks and credit unions may, at times, exceed federally insured limits.

#### **INVESTMENTS**

Investments are classified into the following categories: available-for-sale and other. Investment securities classified as available-for-sale are measured at fair value as of the statement of financial condition date. Unrealized gains and losses for available-for-sale investments are reported as a separate component of members' equity as accumulated other comprehensive loss. Realized gains and losses on disposition, if any, are computed using the specific identification method. Investments are adjusted for amortization of premiums and accretion of discounts over the term of the investment by a method that approximates the interest method. Adjustments are recognized to interest income on investments.

The Credit Union has elected to classify certain cash equivalents as other investments. This election is available to the Credit Union according to the terms of Statement of Cash Flows Topic of the FASB Accounting Standards.

U.S. Central Federal Credit Union is a federally chartered financial services cooperative which operates for the benefit of its members under the Federal Credit Union Act. The principal activity of U.S. Central Federal Credit Union is to provide wholesale investment, liquidity, custody and payment-system services to its members, primarily corporate credit unions. U.S. Central Federal Credit Union investments are generally interest bearing with various maturity dates. The investments are carried at cost. Based on an action taken by the NCUA in 2009 and 2010, the remaining

# **SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION**

## **NOTES TO THE FINANCIAL STATEMENTS**

*Note 1: (continued)*

investments in excess of insurable limits maintained at U.S. Central Federal Credit Union were temporarily guaranteed through June 30, 2012.

### **LOANS TO MEMBERS**

Loans to members are stated at the amount of unpaid principal. Interest on loans is calculated using the simple-interest method on principal amounts outstanding. The accrual of interest is discontinued when management believes that collection of interest is doubtful. Management reviews each member credit union's creditworthiness on a periodic basis as well as the current economic conditions affecting the collection risks of the loan portfolio. No allowance for loan losses account has been established.

### **PROPERTY AND EQUIPMENT**

Property and equipment are carried at cost less accumulated depreciation. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are carried at cost less accumulated amortization. The cost of leasehold improvements is amortized using the straight line method over the term of the lease, or the estimated life of the asset, whichever is less. The Credit Union reviews property and equipment (long-lived assets) for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

### **NCUSIF DEPOSIT**

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union. 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. (See Note 14)

### **NCUSIF INSURANCE PREMIUMS**

Credit unions are 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. The NCUA Board assessed a 15 basis point insurance premium during 2009. The NCUA Board waived the 2008 insurance premium. (See Note 14)

### **MEMBERS' SHARE AND SAVINGS ACCOUNTS**

Members' shares are subordinated to all other liabilities of the Credit Union other than membership capital share deposits and member paid-in capital deposits upon liquidation. Interest rates on members' share and savings accounts are set by management based on a daily assessment of available earnings and are not guaranteed by the Credit Union.

### **MEMBERSHIP CAPITAL SHARE DEPOSITS**

Membership capital share deposits require a notification term of three years prior to their withdrawal from the Credit Union. In the event of the Credit Union's liquidation, membership capital share deposits are payable only after satisfaction of all liabilities of the Credit Union, including uninsured share obligations to members and the NCUSIF, but excluding paid-in capital deposits. (See Notes 7 and 14)

<b>SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b>
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*Note 1: (continued)*

**MEMBERSHIP PAID-IN CAPITAL**

Paid-in capital is a hybrid, non-voting equity instrument which has a 20 year scheduled maturity date but is callable by the Credit Union at the Board's discretion. The paid-in capital is a wholly at-risk investment for the member credit unions that subscribe and neither the dividends nor the repayment of principal are guaranteed by any share or deposit insurance fund. In the event of liquidation, the paid-in capital account is subordinate to payment of the all shares, including membership capital shares. There is no public or private market for paid-in capital, although the investment may be transferred between credit unions holding membership capital shares in the Credit Union, subject to certain regulatory limits and the approval of the boards of directors of the member credit unions. (See **Notes 7 and 14**)

**FEDERAL AND STATE TAX EXEMPTION**

The Credit Union is exempt from most federal, state, and local income taxes under the provisions of section 501(c) of Internal Revenue Code.

**NOTE 2: INVESTMENTS**

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The amortized cost and estimated market value of investments are as follows:

<u>Available-for-Sale:</u>	<b>As of December 31, 2009</b>			
	Amortized Cost	Gross	Gross	Fair Value
		Unrealized	Unrealized	
Asset-backed	\$402,852,068	\$1,993,261	(\$48,292,083)	\$356,553,246
Collateralized-mortgage obligations	284,775,838	990,459	(44,285,211)	241,481,086
Corporate note	20,009,693	-	(734,293)	19,275,400
	<u>\$707,637,599</u>	<u>\$2,983,720</u>	<u>(\$93,311,587)</u>	<u>\$617,309,732</u>

<u>Available-for-Sale:</u>	<b>As of December 31, 2008</b>			
	Amortized Cost	Gross	Gross	Fair Value
		Unrealized	Unrealized	
Asset-backed	\$448,278,322	\$379,915	(\$55,369,211)	\$393,289,026
Collateralized-mortgage obligations	228,799,522	11,349	(25,979,223)	202,831,648
Corporate note	20,014,089	-	(3,082,289)	16,931,800
U.S. government agencies	64,987,519	128,131	(493,000)	64,622,650
	<u>\$762,079,452</u>	<u>\$519,395</u>	<u>(\$84,923,723)</u>	<u>\$677,675,124</u>

<b>SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b>
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*Note 2: (continued)*

The amortized cost and estimated fair value of investments by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay certain obligations without call or prepayment penalties.

<u>Available-for-Sale:</u>	<b>As of December 31, 2009</b>	
	Amortized Cost	Fair Value
Maturity within:		
1-5 years	\$20,009,693	\$19,275,400
5-10 years	-	-
Mortgage and asset-backed securities	687,627,906	598,034,332
Total	\$707,637,599	\$617,309,732

The following tables show the gross unrealized losses and fair value of investments aggregated by length of time that individual securities have been in a continuous unrealized loss position.

	<b>As of December 31, 2009</b>					
	<b>Available-for-sale</b>					
	<u>Less than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	Gross Unrealized Fair Value	Gross Unrealized Fair Value	Gross Unrealized Fair Value	Gross Unrealized Fair Value	Gross Unrealized Fair Value	Gross Unrealized Fair Value
	Losses	Losses	Losses	Losses	Losses	Losses
Asset-backed securities	\$17,797,963	(\$11,178)	\$164,783,593	(\$48,280,905)	\$182,581,556	(\$48,292,083)
Collateralized-mortgage obligations	49,707,995	(234,215)	138,964,997	(44,050,996)	188,672,992	(44,285,211)
Corporate note	-	-	19,275,400	(734,293)	19,275,400	(734,293)
	\$67,505,958	(\$245,393)	\$323,023,990	(\$93,066,194)	\$390,529,948	(\$93,311,587)

<b>SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b>
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Note 2: (continued)

	As of December 31, 2008					
	Available-for-sale					
	<u>Less than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	Gross Unrealized Fair Value	Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Asset-backed securities	\$2,120,067	(\$2,697)	\$343,173,935	(\$55,366,514)	\$345,294,002	(\$55,369,211)
Collateralized-mortgage obligations	587,255	(234,215)	202,244,394	(25,745,008)	202,831,649	(25,979,223)
Corporate note	-	-	16,931,800	(3,082,289)	16,931,800	(3,082,289)
U.S. government agencies	49,507,000	(493,000)	-	-	49,507,000	(493,000)
	<u>\$52,214,322</u>	<u>(\$729,912)</u>	<u>\$562,350,129</u>	<u>(\$84,193,811)</u>	<u>\$614,564,451</u>	<u>(\$84,923,723)</u>

Management believes that the decline in fair values of the asset-backed securities and non-agency collateralized mortgage obligations is mainly due to the current inactive market, downgrading of insurers, and credit exposures for these types of securities. As a result, the discount rate used to value these securities was substantially higher in most cases than the purchase yields. The fair values of the securities are expected to be recovered as the market for these securities improves and/or these securities approach their maturity dates. Management has the ability to hold these securities for the foreseeable future, which may be maturity.

Unrealized losses on securities issued by the U.S. Government and its Agencies, including the mortgage-backed securities, have not been recognized into income because of the implicit guarantee of the principal balances of these securities by the U.S. Government. The fair values of the securities are expected to be recovered as the market for these securities improves and/or these securities approach their maturity dates. Management has the ability to hold these securities for the foreseeable future, which may be maturity.

<u>U.S. Central Federal Credit Union:</u>	As of December 31,	
	<u>2009</u>	<u>2008</u>
Daily shares	\$2,333,500	\$3,080,500
High yield principal	1,022,369,071	-
Share certificates	463,077,509	494,819,545
	<u>\$1,487,780,080</u>	<u>\$497,900,045</u>

<b>SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b>
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*Note 2: (continued)*

Included in the investments at U.S. Central Federal Credit Union are membership capital shares and paid-in capital accounts. These investments are not insured by the NCUA. Management has performed a review of the financial condition of U.S. Central Federal Credit Union and determined that there has been an impairment of these investments in U.S. Central Federal Credit Union that is other than temporary. Accordingly, an impairment loss of \$88,549,092 has been recognized for the year ended December 31, 2008 reflecting 100% of the PIC and MCS investments.

<u>Other Investments:</u>	<b>As of December 31,</b>	
	<b>2009</b>	<b>2008</b>
Daily shares	\$58,628,615	\$27,871,698
Money market account	100,000	100,000
Certificates of deposit	126,504,000	106,704,000
Total	\$185,232,615	\$134,675,698

<u>CUSOs:</u>	<b>As of December 31,</b>	
	<b>2009</b>	<b>2008</b>
Primary Financial	\$1,229,544	\$605,976
Corporate Network Processing	48,700	-
Centennial Lending	-	1,807,899
Total	\$1,278,244	\$2,413,875

**NOTE 3: LOANS TO MEMBERS**

The composition of loans to members is as follows:

	<b>As of December 31,</b>	
	<b>2009</b>	<b>2008</b>
Loans outstanding:		
Term	\$37,600,000	\$22,410,000
Overnight, UCC1 secured	7,665,859	34,302,008
Other (CLF, Certificate)	-	20,500,000
	\$45,265,859	\$77,212,008

Term loan denotes that a payment is due on the term loan upon maturity. The Credit Union has the option to pay off the loan early based on the prevailing market interest rate rather than the contract rate.

<b>SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b>
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***NOTE 4: PROPERTY AND EQUIPMENT***

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A summary of the Credit Union's property and equipment is as follows:

	As of December 31,	
	2009	2008
Furniture and equipment	\$5,099,275	\$7,148,339
Vehicles	86,146	86,146
Leasehold improvements	678,142	857,318
Assets in process	494,584	-
	6,358,147	8,091,803
Less accumulated depreciation	(5,131,822)	(7,052,410)
	\$1,226,325	\$1,039,393

***NOTE 5: MEMBERS' SHARE AND SAVINGS ACCOUNTS***

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Members' share and savings accounts are summarized as follows:

	As of December 31,	
	2009	2008
Daily investment shares	\$1,333,500	\$1,980,500
Cash management shares	224,911,032	97,100,357
Money market shares	1,340,420,215	759,376,947
Certificates	880,905,269	930,321,168
	\$2,447,570,016	\$1,788,778,972

The aggregate amount of members' time deposits in denominations of \$100,000 or more was approximately \$878,384,000 and \$926,365,000 as of December 31, 2009 and 2008, respectively.

<b>SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b>
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*Note 5: (continued)*

	As of December 31, 2009
Within 1 year	\$633,258,905
1 to 2 years	221,197,496
2 to 3 years	20,748,868
3 to 4 years	3,300,000
4 to 5 years	2,400,000
Thereafter	-
	\$880,905,269

**SHARE INSURANCE**

Members' shares are insured by the NCUSIF to a maximum of \$250,000 for each member.

**NOTE 6: BORROWED FUNDS**

The Credit Union also has available an advised line of credit with U.S. Central Federal Credit Union secured by certain assets of the Credit Union. Each line of credit advance is subject to approval by the lender. The terms of the agreement provide for aggregate borrowings up to \$500,000,000 with interest payable at a rate determined by the lender. U.S. Central Federal Credit Union is under no obligation to make advances under the advised line of credit and either party may cancel the agreement at any time. The balance outstanding under this agreement at December 31, 2009 and 2008 was \$42,500,000 and \$112,500,000, respectively. These borrowings have rates ranging from 5.54 percent to 5.83 percent and maturity dates ranging from 0.08 to 0.5 years as of December 31, 2009.

The Credit Union also borrowed \$20,000,000 from U.S. Central Federal Credit Union for CLF loans as of December 31, 2008. These loans are passed on to member credit unions, bear interest at 0.5 percent and matured on March 30, 2009.

The Credit Union also has available an advised line of credit with Western Corporate Federal Credit Union (WesCorp) secured by certain assets of the Credit Union. Each line of credit advance is subject to approval by the lender. The terms of the agreement provide for aggregate borrowings up to \$100,000,000 with interest payable at a rate determined by the lender. WesCorp is under no obligation to make advances under the advised line of credit and either party may cancel the agreement at any time. There was no balance outstanding as of December 31, 2009.

# **SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION**

## **NOTES TO THE FINANCIAL STATEMENTS**

### ***NOTE 7: PAID-IN-CAPITAL AND MEMBERSHIP CAPITAL SHARES***

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Under section 704.2 of the NCUA Rules and Regulations, paid-in capital and membership capital share accounts are available to cover losses that exceed retained earnings (corporate reserves and undivided earnings). In May 2009, the NCUA published Letter to Credit Unions 09-CU-10, reinforcing the regulatory requirement in section 704.2 of the NCUA Rules and Regulations, stating that paid-in capital and membership capital shares must be depleted to the extent necessary to eliminate any accumulated deficit in undivided earnings. NCUA's letter provided an exception which enabled corporate credit unions to maintain an accumulated deficit in undivided earnings for the non-credit portion of any impairment in investment securities due to the change in accounting rules under FASB FSP 115-2. The Credit Union maintained an accumulated deficit in retained earnings of approximately \$7,862,000 and \$117,824,000 as of December 31, 2009 and 2008, respectively. The accumulated deficit in retained earnings as of December 31, 2008, included the non-credit portion of OTTI of approximately \$65,005,000 as of December 31, 2008, which was reversed on January 1, 2009. Therefore, the Credit Union depleted member paid-in capital by approximately \$32,672,000 and member capital shares by approximately \$15,829,000 during 2009.

### ***NOTE 8: EMPLOYEE BENEFITS***

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#### **401(K)**

The Credit Union maintains a safe harbor 401(k) for its employees. All employees of the Credit Union are eligible for a company match contribution upon the completion of twelve months of service. The Credit Union matches up to 6% each of the participants' contribution. Additionally, employees may contribute up to the Internal Revenue Service limitations. All matching employer contributions are fully vested at time of contribution date. The total 401(k) pension expense approximated \$155,000 and \$192,000 for the years ended December 31, 2009, and 2008, respectively.

### ***NOTE 9: COMMITMENTS AND CONTINGENT LIABILITIES***

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#### **LINES OF CREDIT:**

As of December 31, 2009, the Credit Union maintained a \$500,000,000 line-of-credit agreement with U.S. Central Federal Credit Union. The terms of the agreement require the pledging of all share accounts, share certificate accounts, or other accounts maintained with U.S. Central Federal Credit Union as security for obligations under this line-of-credit agreement. The Credit Union also has the ability to pledge any securities held in safekeeping by U.S. Central Federal Credit Union as collateral for advances on the line of credit. As of December 31, 2009, the unused line of credit was \$457,500,000.

The Credit Union also has available an advised line of credit with WesCorp secured by certain assets of the Credit Union. Each line of credit advance is subject to approval by the lender. The terms of the agreement provide for aggregate borrowings up to \$100,000,000 with interest payable at a rate determined by the lender. WesCorp is under no obligation to make advances under the advised line of

<b>SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b>
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*Note 9: (continued)*

credit and either party may cancel the agreement at any time. There was no balance outstanding as of December 31, 2009.

**LEASE COMMITMENTS:**

The Credit Union leases the main office location. The minimum noncancellable lease obligations approximate the following as of December 31, 2009:

<b>Year ending December 31,</b>	<b>Amount</b>
2010	\$560,000
2011	612,000
2012	669,000
Thereafter	56,000
	<u>\$1,897,000</u>

Rental expense under operating leases was approximately \$520,000 and \$793,000 for the years ended December 31, 2009 and 2008, respectively.

***NOTE 10: OFF BALANCE SHEET RISK AND  
CONCENTRATIONS OF CREDIT RISK***

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The Credit Union is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its member credit unions and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the statements of financial condition. The Credit Union's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments.

Commitments to extend credit are agreements to lend to a member credit union as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments may expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. As of December 31, 2009, the members' total lines of credit approximated \$1,846,255,000, of which the Credit Union had unfunded commitments under such lines of credit of approximately \$1,802,742,000. The Credit Union evaluates each member credit union's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the member. Additionally, the Credit Union committed approximately \$2,209,000 for standby letters of credit for its members.

The Credit Union may be exposed to credit risk from a regional economic standpoint, since a significant concentration of its funded and unfunded loans are made primarily to member credit unions in the states of Colorado, Utah, Wyoming and Nebraska. In addition, as a normal course of

<b>SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b>
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*Note 10: (continued)*

business operation, the Credit Union maintains a significant amount of its investments with U.S. Central Federal Credit Union. As of January 28, 2009, all non-capital investments at U.S. Central Federal Credit Union were fully guaranteed by the National Credit Union Administration's Share Guarantee Program. (See Note 13)

**NOTE 11: REGULATORY CAPITAL**

The Credit Union is subject to various regulatory capital requirements administered by the 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. Failure to meet minimum capital requirements would require the Credit Union to submit a plan of action to correct the shortfall. Additionally, NCUA could require an increase in capital to specific levels, reduction of dividends, and ceasing or limiting the Credit Union's ability to accept deposits.

Corporate credit unions must maintain a minimum capital ratio of 4% of its daily average net assets. A corporate credit union's capital consists of retained earnings as well as membership capital and paid-in capital deposits. Corporate credit unions that maintain a retained earnings ratio of less than 2% of daily average net assets must meet certain minimum earnings requirements as established by the NCUA.

The Credit Union's actual and required capital and retained earnings ratios are as follows:

	As of		As of	
	December 31, 2009		December 31, 2008	
	Amount	Ratio	Amount	Ratio
<b><u>Capital ratio:</u></b>				
Actual capital:				
Undivided earnings	(\$7,861,956)		(\$117,824,322)	
Membership capital shares	63,509,907		81,931,877	
Paid-in capital	-		32,672,221	
Amortizing portion of capital under notification	3,051,180		1,865,514	
	\$58,699,131	2.63%	(\$1,354,710)	-
Required capital ratio	\$89,283,414	4.00%	\$93,525,876	4.00%
<b><u>Required earnings ratio:</u></b>				
Actual retained deficit	(\$7,861,956)	-	(\$117,824,322)	-
Retained earnings target ratio	\$44,641,707	2.00%	\$46,762,938	2.00%

<p style="text-align: center;"><b>SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b></p>
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*Note 11: (continued)*

The Credit Union is no longer compliant with all capital requirements as of December 31, 2009; however, the Credit Union was not subjected to supervisory action based on the April 21, 2009 NCUA Board order permitting corporate credit unions to use capital levels as reported on the November 30, 2008 Call Report for regulatory compliance. The NCUA could retract this temporary approval at any time which could result in regulatory noncompliance. The Credit Union was in compliance with capital requirements as of November 30, 2008. This exception is expected to remain in place until NCUA issues new corporate credit union regulations in 2010.

**NOTE 12: RELATED PARTY  
TRANSACTIONS**

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The Credit Union serves as a central credit union for its members and substantially all transactions (with the exception of certain banking transactions and the purchase and sale of securities through outside brokers) are with other credit unions and related organizations, many of which are affiliated through common membership. Transactions with such affiliated organizations include the borrowing and lending of money and sale of securities under agreements to repurchase.

Each of the directors of the Credit Union is affiliated with credit unions that, in the ordinary course of business, may engage in financial transactions with the Credit Union. All such credit union transactions have been made on the same terms, including interest rates, as those prevailing at the time for comparable transactions with unrelated parties.

**NOTE 13: FAIR VALUES OF FINANCIAL  
INSTRUMENTS**

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The Credit Union adopted the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards of Codification, which provides a framework for measuring fair value that requires an entity to derive fair value from the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date within its principal market for the asset or liability, or in the absence of a principal market, the most advantageous market for the asset or liability. To increase consistency and comparability in fair value measurements and related disclosures, a three-level hierarchy prioritizes the inputs to valuation techniques used to measure fair value with the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3) as further described below:

***Level 1***

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. The Credit Union maintained no level 1 assets or liabilities as of December 31, 2009 or 2008.

<b>SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b>
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*Note 13: (continued)*

**Level 2**

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are inactive; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 2 assets include certain securities that are held in the Credit Union's available-for-sale portfolio as of December 31, 2009 and 2008.

**Level 3**

Level 3 inputs are unobservable inputs for the asset or liability which reflect the Credit Union's own assumptions about the assumptions that market participants would use in pricing the asset or liability. Assumptions about risk include risk inherent in a particular valuation technique used to measure fair value, typically pricing models and/or discounted cash flow methodologies. The Credit Union maintained no level 3 assets or liabilities as of December 31, 2009 or 2008.

The methodologies and associated inputs used may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Credit Union believes its valuation methods and associated inputs are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement.

The following table sets forth by level, within the fair value hierarchy, the Credit Union's financial instruments at fair value as of December 31, 2009 and 2008.

<b>Assets at Fair Value as of December 31, 2009</b>				
	<b>in Active Markets for Identical Assets</b>	<b>Significant Other Observable Inputs</b>	<b>Significant Unobservable Inputs</b>	<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Assets:				
Available for sale securities:				
Asset-backed	-	\$356,553,246	-	\$356,553,246
Collateralized-mortgage obligations	-	241,481,086	-	241,481,086
Corporate note	-	19,275,400	-	19,275,400
	-	\$617,309,732	-	\$617,309,732

<b>SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b>
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*Note 13: (continued)*

**Assets at Fair Value as of December 31, 2008**

	<b>in Active Markets for Identical Assets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>	<b>Total</b>
Assets:				
Available for sale securities:				
Asset-backed	-	\$393,289,026	-	\$393,289,026
Collateralized-mortgage obligations	-	202,831,648	-	202,831,648
Corporate note	-	16,931,800	-	16,931,800
U.S. government agencies	-	64,622,650	-	64,622,650
	-	<u>\$677,675,124</u>	-	<u>\$677,675,124</u>

The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of amounts that could be realized in a market exchange. The use of different assumptions and estimation methodologies may have a material effect on the estimated fair value amounts. The following methods and assumptions were used to estimate fair value of each of the financial instruments for which it is practicable to estimate.

**CASH**

The carrying amount is a reasonable estimation of fair value.

**INVESTMENTS**

Estimated fair values for investments are obtained from quoted market prices where available. The fair value of fixed-maturity certificates of deposit was estimated by discounting the estimated cash flows using the current rate at which similar certificates would be issued.

**LOANS TO MEMBERS**

The estimated fair value for lines of credit is the current carrying amount due to the short-term, variable-rate nature of these instruments. The fair value of fixed-term loans was estimated by discounting the estimated cash flows using the current rate at which similar loans would be issued.

**ACCRUED INTEREST RECEIVABLE**

The carrying amount is a reasonable estimation of fair value.

<b>SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b>
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*Note 13: (continued)*

**MEMBERS' SHARE AND SAVINGS ACCOUNTS, CAPITAL SHARES, AND PAID-IN CAPITAL**

The estimated fair value of demand deposit accounts is the carrying amount. The fair value of fixed-rate certificates of deposit was estimated by discounting the estimated cash flows using the current rate at which similar certificates would be issued.

**BORROWED FUNDS**

The estimated fair value of the variable-rate and short-term borrowed funds are the carrying amount. The estimated fair value of the fixed-rate borrowed funds was estimated by discounting the projected cash flows using the current rate at which funds could have been borrowed under similar terms.

**ACCRUED INTEREST PAYABLE**

The carrying amount is a reasonable estimation of fair value.

**COMMITMENTS TO EXTEND CREDIT**

The fair value of commitments to extend credit is equivalent to the amount of credit extended since the Credit Union does not charge fees to enter into these commitments and the commitments are not stated at fixed rates.

The carrying value and estimated fair value of the Credit Union's financial instruments are as follows:

	As of December 31, 2009		As of December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<i>Financial assets:</i>				
Cash and cash equivalents	\$114,568,229	\$114,568,000	\$33,459,002	\$33,459,000
Interest bearing deposits in financial institutions	\$1,673,012,695	\$1,672,835,220	\$632,575,743	\$643,796,000
Federal funds sold	-	-	\$412,910,409	\$412,910,000
Investment securities AFS	\$617,309,732	\$617,310,000	\$677,675,124	\$677,675,000
Loans to members	\$45,265,859	\$45,554,000	\$77,212,008	\$77,753,000
Accrued interest and fee income receivable	\$3,385,572	\$3,386,000	\$6,888,389	\$6,888,000
<i>Financial liabilities:</i>				
Members' accounts, MCS and PIC	\$2,514,131,103	\$2,518,284,186	\$1,905,248,584	\$1,917,000,000
Borrowed funds	\$42,500,000	\$43,048,000	\$132,500,000	\$135,918,000
Accrued interest payable	\$4,245,262	\$4,245,000	\$8,349,077	\$8,349,000
<i>Unrecognized financial instruments:</i>				
Commitments:				
Advised lines of credit	-	\$1,846,254,949	-	\$1,955,463,260
Standby letters of credit	-	\$2,208,809	-	\$2,558,809

# **SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION**

## **NOTES TO THE FINANCIAL STATEMENTS**

### ***NOTE 14: NCUA CORPORATE STABILIZATION PROGRAM***

On January 28, 2009, all federally-insured credit unions were informed that actions taken by the NCUA to enhance and support the corporate credit union system would result in a partial write-down of the Credit Union's 1 percent NCUSIF deposit. It was also determined that an insurance premium would be assessed sufficient to return the NCUSIF's equity ratio to 1.30 percent. The Credit Union recognized the 69% impairment of the NCUSIF deposit of approximately \$252,000 during the year ended December 31, 2008.

Another action taken by the NCUA on January 28, 2009, was to provide a temporary guarantee on all deposits in excess of insurable limits maintained at corporate credit unions, other than membership capital shares and paid-in capital, through February 28, 2009. Corporate credit unions, including U.S. Central Federal Credit Union, were given the ability to voluntarily extend this guarantee on condition that the Board of Directors of the corporate credit union sign a Supervisory Agreement with the NCUA. Subsequently, the NCUA has extended this guarantee through June 30, 2012.

An additional action taken by the NCUA on January 28, 2009, was an infusion of capital from the NCUSIF of \$1 billion into U.S. Central Federal Credit Union.

On March 20, 2009, the NCUA placed U.S. Central Federal Credit Union into conservatorship in an effort to stabilize the corporate credit union system. In connection with this action, the NCUA announced that uninsured deposits maintained by corporate credit unions in membership capital shares and paid-in capital at U.S. Central Federal Credit Union were impaired. The NCUA delayed the issuance of December 31, 2008, financial statements of U.S. Central Federal Credit Union until a further evaluation of the investment securities maintained by the Credit Union could be performed.

On September 8, 2009, the audited financial statements of U.S. Central Federal Credit Union were issued for the period ended December 31, 2008. These financial statements indicated substantial losses at U.S. Central Federal Credit Union due to impairment charges related to the Credit Union's investment securities. These financial statements also indicated significant further deterioration in the values of the investment securities. As a result, the Credit Union has recognized an impairment loss of approximately \$88,549,000 for the year ended December 31, 2008, which represented 100% of the Credit Union's paid-in capital I and II and 100% of the Credit Union's membership capital shares at U.S. Central Federal Credit Union.

On March 2, 2010, the fourth-quarter financial statements (unaudited) of U.S. Central Federal Credit Union were issued for the period ended December 31, 2009. The financial statements indicated further losses at U.S. Central Federal Credit Union due to additional impairment charges related to the Credit Union's investment securities and full depletion of all membership capital shares. Additionally, U.S. Central Federal Credit Union has depleted approximately \$602 million of the \$1 billion infusion of capital noted above.

**SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION**  
**NOTES TO THE FINANCIAL STATEMENTS**

***NOTE 15: CAPITAL RESTORATION PLAN***

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The Credit Union has suffered substantial losses due to the impairment of paid-in capital and membership capital share investments in U.S. Central Federal Credit Union and the impairment of a portion of the investment securities portfolio which has caused a deficit in undivided earnings. Accordingly, the Credit Union has signed a Supervisory Agreement with the NCUA that requires, among other things, that the Credit Union develop a capital restoration plan. Management has developed and submitted a capital restoration plan that was accepted by the NCUA.

In January 2009, the NCUA issued an Advance Notice of Proposed Rulemaking (ANPR) to solicit comments and input from credit unions as to the future role of corporate credit unions. In December 2009, the NCUA issued their proposed corporate credit union regulation for review and comment which were due by March 9, 2010, with the final rule due to be issued during 2010. Management is required to amend their capital restoration plan to conform with the requirements of the new regulation once it is issued.

Based on the support by the NCUA for the corporate credit union network, the Credit Union continues to operate as a going concern and in accordance with its charter and bylaws. However, there is uncertainty about whether the Credit Union will be able to restore capital to a level necessary to meet the requirements of the new regulation.

**SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION**  
**NOTES TO THE FINANCIAL STATEMENTS**

***NOTE 16: NEW LEGISLATION***

On May 20, 2009, President Obama signed into law S.896, the Helping Families Save Their Homes Act of 2009. This legislation created the Corporate Credit Union Stabilization Fund and includes the following provisions with respect to mitigating the costs incurred by credit unions as a result of the NCUA's corporate stabilization program:

- Enables credit unions to spread the cost of the 69 percent NCUSIF deposit impairment over seven years;
- Extends to eight years the restoration period when the NCUSIF equity ratio falls below 1.20 percent. This provision applies to the 30 basis point premium assessment that would return the NCUSIF to an equity ratio of 1.30 percent.

On June 18, 2009, the NCUA Board met and approved the following action with respect to implementing the Helping Families Save Their Homes Act of 2009:

- Approved the legal transfer of assets and liabilities associated with the Corporate Stabilization Program to the Corporate Credit Union Stabilization Fund;
- Fully restored the Credit Union's NCUSIF deposit;
- Reduced the 2009 premium assessment from 30 basis points to 15 basis points.

The financial impact of these actions was to increase the Credit Union's non-interest income by approximately \$252,000 (the same amount as the impairment of the NCUSIF deposit) and the insurance premium assessment of approximately \$121,000 during the year ended December 31, 2009.

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## Senior Management



Thomas R. Graham  
President and Chief  
Executive Officer



Brandt Peterson  
Executive Vice  
President and Chief  
Financial Officer



Mark Schieffer  
Executive Vice  
President and Chief  
Investment Officer



Ken Hide  
Senior Vice President,  
Risk Management



Lynn Baalman  
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