

**SunCorp Corporate Credit Union  
and Subsidiaries**

**Audit of Consolidated Financial Statements**

**For the Years Ended  
December 31, 2005 and 2004**

**McGladrey & Pullen**

Certified Public Accountants

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## CONTENTS

<b>INDEPENDENT AUDITOR'S REPORT</b> .....	1
<b>CONSOLIDATED FINANCIAL STATEMENTS:</b>	
Consolidated Statements of Financial Condition .....	2
Consolidated Statements of Income .....	3
Consolidated Statements of Members' Equity and Accumulated Other Comprehensive Income (Loss) .....	4
Consolidated Statements of Cash Flows .....	5
Notes to Consolidated Financial Statements .....	6 - 17

# McGladrey & Pullen

Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

Supervisory Committee  
SunCorp Corporate Credit Union and Subsidiaries  
Westminster, Colorado

We have audited the accompanying consolidated statements of financial condition of SunCorp Corporate Credit Union (a Colorado state chartered credit union) and Subsidiaries as of December 31, 2005 and 2004 and the related consolidated statements of income, members' equity and comprehensive income, and cash flows for the years 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 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 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 our audits provide a reasonable basis for our opinion.

SunCorp Corporate Credit Union and Subsidiaries has reported members' accounts as members' equity in the accompanying consolidated financial statements that, in our opinion, should be reported as liabilities in order to conform to accounting principles generally accepted in the United States of America. If these members' accounts were properly reported in conformity with accounting principles generally accepted in the United States of America, liabilities would increase and members' equity would decrease by \$2,086,374,287 and \$2,300,998,839, respectively, as of December 31, 2005 and 2004.

In our opinion, except for the effect of the accounting practice described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SunCorp Corporate Credit Union and Subsidiaries as of December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*McGladrey & Pullen, LLP*

Brisbane, California  
February 2, 2006

suncor.br.corp-fs.ann.05.ac

**SUNCORP CORPORATE CREDIT UNION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**  
**DECEMBER 31, 2005 AND 2004**

<b>ASSETS</b>	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 31,681,885	\$ 58,606,705
Uncollected cash items	137,118,996	143,661,262
Interest bearing deposits in financial institutions (Note 2)	1,628,092,385	1,771,999,945
Federal funds sold	343,046	340,670
Investment securities (Note 3)		
Available-for-sale	516,882,621	582,478,261
Investment in credit union service organization (Note 1)	4,431,554	3,437,393
Loans to members (Note 4)	149,054,576	112,952,448
Accrued interest and fee income receivable	8,357,676	6,511,123
Intangible assets, net (Note 1)	7,256,775	7,530,095
Office properties and equipment, net (Note 5)	2,193,738	2,771,014
National Credit Union Share Insurance Fund Deposit	391,682	419,229
Other assets	5,406,445	3,595,035
	<u>\$ 2,491,211,379</u>	<u>\$ 2,694,303,180</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
LIABILITIES		
Borrowed funds (Note 6)	\$ 200,734,666	\$ 190,195,853
Uncollected deposits due to member accounts	137,118,996	143,661,262
Accrued interest and dividends payable	6,108,894	3,983,910
Accrued expenses and other liabilities	6,254,839	3,015,823
	<u>350,217,395</u>	<u>340,856,848</u>
Total liabilities		
Commitments and contingent liabilities (Note 8)		
MEMBERS' EQUITY		
Members' accounts (Note 7)	2,086,374,287	2,300,998,839
Statutory reserve	20,167,463	20,167,463
Undivided earnings	38,310,127	36,121,592
Accumulated other comprehensive income (loss)	(3,857,893)	(3,841,562)
	<u>2,140,993,984</u>	<u>2,353,446,332</u>
Total members' equity		
	<u>\$ 2,491,211,379</u>	<u>\$ 2,694,303,180</u>

The accompanying notes are an integral part of these statements.

**SUNCORP CORPORATE CREDIT UNION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>INTEREST AND DIVIDEND INCOME</b>		
Interest on investments	\$ 64,887,269	\$ 48,353,944
Interest on loans	6,657,836	2,165,176
<b>Interest income</b>	<u>71,545,105</u>	<u>50,519,120</u>
<b>INTEREST AND DIVIDEND EXPENSE</b>		
Dividends on members' account	56,829,456	39,501,982
Borrowed funds	6,932,325	3,181,838
<b>Interest and dividend expense</b>	<u>63,761,781</u>	<u>42,683,820</u>
<b>Net interest and dividend income</b>	<u>7,783,324</u>	<u>7,835,300</u>
<b>NON-INTEREST INCOME</b>		
Fees and other income	10,041,104	9,236,055
Loss on sale of assets	0	(1,622)
Gain on sale of investments	232,467	1,740,544
<b>Non-interest income</b>	<u>10,273,571</u>	<u>10,974,977</u>
<b>Income before general and administrative expenses</b>	<u>18,056,895</u>	<u>18,810,277</u>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Salaries and benefits	6,203,689	6,528,164
Office operations	2,352,021	2,318,517
Education and promotion	1,218,023	1,349,445
Occupancy	916,834	845,253
Data processing	3,270,730	3,115,174
Office property and equipment maintenance	711,316	700,204
Outside services	647,079	810,032
Intangible asset amortization	273,320	273,320
Association fees	155,219	142,406
Operating fees	55,464	55,581
Miscellaneous expense	64,665	17,257
<b>Total general and administrative expenses</b>	<u>15,868,360</u>	<u>16,155,353</u>
<b>NET INCOME</b>	<u>\$ 2,188,535</u>	<u>\$ 2,654,924</u>

**SUNCORP CORPORATE CREDIT UNION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	Comprehensive Income	Members' Accounts	Statutory Reserve	Undivided Earnings	Total	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2003		\$ 2,174,252,900	\$ 20,167,463	\$ 33,466,668	\$ 2,227,887,031	\$ (113,401)
Net income	\$ 2,654,924			2,654,924	2,654,924	
Unrealized losses on available-for-sale securities	(4,547,274)					(4,547,274)
Reclassification adjustment for realized gains (losses) on investments previously included in comprehensive income	819,113					819,113
<b>Comprehensive income</b>	<u><u>\$ (1,073,237)</u></u>					
Net increase in members' accounts		126,745,939			126,745,939	
Balance, December 31, 2004		2,300,998,839	20,167,463	36,121,592	2,357,287,894	(3,841,562)
Net income	\$ 2,188,535			2,188,535	2,188,535	
Unrealized losses on available-for-sale securities	(58,010)					(58,010)
Reclassification adjustment for realized gains (losses) on investments previously included in comprehensive income	41,679					41,679
<b>Comprehensive income</b>	<u><u>\$ 2,172,204</u></u>					
Net decrease in members' accounts		(214,624,552)			(214,624,552)	
Balance, December 31, 2005		<u><u>\$ 2,086,374,287</u></u>	<u><u>\$ 20,167,463</u></u>	<u><u>\$ 38,310,127</u></u>	<u><u>\$ 2,144,851,877</u></u>	<u><u>\$ (3,857,893)</u></u>

The accompanying notes are an integral part of these statements.

**SUNCORP CORPORATE CREDIT UNION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 2,188,535	\$ 2,654,924
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,581,624	1,441,250
Net loss on sale of fixed assets	0	1,622
Net gain on sale of investment securities	(232,467)	(1,740,544)
Net amortization and accretion of premiums and discounts on investments	1,507,377	4,065,700
Increase in accrued interest and fee income receivable	(1,846,553)	(352,210)
Increase in other assets and National Credit Union Share Insurance Fund deposit	(2,778,024)	(5,354,563)
Increase (decrease) in accrued expenses and other liabilities	2,124,984	(288,791)
Increase (decrease) in accrued interest and dividends payable	3,239,016	(821,013)
	<u>5,784,492</u>	<u>(393,625)</u>
<b>Net cash provided by (used in) operating activities</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net decrease (increase) in interest bearing deposits and investments	143,907,560	(432,654,020)
Purchases of available-for-sale investments	(327,312,999)	(277,307,877)
Proceeds from maturities of available-for-sale investments	306,970,244	361,730,972
Proceeds from sales of available-for-sale investments	84,647,154	227,994,877
(Increase) decrease in federal funds sold	(2,376)	321,668
Net increase in loans to members	(36,102,128)	(55,574,416)
Proceeds from sale of fixed assets	0	(9,200)
Purchases of property and equipment	(731,028)	(961,880)
	<u>171,376,427</u>	<u>(176,459,876)</u>
<b>Net cash provided by (used in) investing activities</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in deposits in collection	(6,542,266)	(47,697,197)
Net increase in borrowed funds	10,538,813	29,120,738
Net (decrease) increase in members' accounts	(214,624,552)	126,745,939
	<u>(210,628,005)</u>	<u>108,169,480</u>
<b>Net cash (used in) provided by financing activities</b>		
Decrease in cash and cash equivalents	(33,467,086)	(68,684,021)
Cash and cash equivalents at beginning of year	202,267,967	270,951,988
	<u>\$ 168,800,881</u>	<u>\$ 202,267,967</u>
Cash and cash equivalents at end of year		
	<u>\$ 168,800,881</u>	<u>\$ 202,267,967</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Dividends paid on deposits and interest on borrowed funds	\$ 61,636,754	\$ 39,386,288

**SUNCORP CORPORATE CREDIT UNION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

SunCorp Corporate Credit Union (SunCorp) is a Colorado state chartered corporate credit union, organized to provide liquidity, financial, payment, and other correspondent services, under a national field of membership, to its members who are primarily Colorado, Utah, Wyoming, Nebraska and Idaho credit unions. The corporate credit union provides these services at three locations in Westminster, Colorado; Salt Lake City, Utah; and Omaha, Nebraska. SunCorp operates in an environment that is regulated by the State of Colorado's Division of Financial Services (CDFS) and the National Credit Union Administration (NCUA).

**Subsidiaries:** The accompanying financial statements include the accounts of the credit union's subsidiaries Credit Union Service Organization, LLC (CUSO), Primary Financial Company, LLC (PF), Corporate Access, LLC, (CA), Centennial Lending, LLC (CL), and Members Trust Company (MTC).

CUSO was organized in 1999 to provide mortgage services to credit unions in Nebraska. SunCorp owns this subsidiary 100% and has the ability to exercise significant influence over its operation. Accordingly, the credit union has fully consolidated the CUSO. All significant inter-company balances and transactions have been eliminated in consolidation.

PF was organized by corporate credit unions to sell non-corporate certificates of deposit to credit union members through the corporate credit union network. The credit union purchased eight membership units for \$400,000 on January 10, 2003. The carrying amount of this investment as of December 31, 2005 and 2004 was \$400,000 and \$400,000, respectively. SunCorp's ownership is 6.72% and does not have the ability to exercise significant influence over its operation. Accordingly, the credit union has used the cost method to account for this subsidiary.

CA was organized by five credit unions for the purpose of developing new products and services. As of December 31, 2004, SunCorp had a 20% ownership and had the ability to exercise significant influence over the CUSO. Accordingly, the credit union has used the equity method to account for this subsidiary in 2004. CA was dissolved in November 2005.

CL was organized in 2000 to provide mortgage lending services to various credit unions. In January 2004, SunCorp purchased 10 units of membership interest in CL for \$1,250,000, which reflected a 25% equity position. Accordingly, SunCorp used the equity method to account for the subsidiary activity. During 2004, SunCorp received an equity distribution and sold 1.5 units reducing its equity position to 21%. After the unit sale SunCorp continued to account for the activity using the equity method. The carrying amount of this investment as of December 31, 2005 is \$1,120,754.

Members Trust Company (MTC) was organized in 2001 to educate and inform credit union members about trusts and its benefits. MTC provides trust services to natural person members with net worth from \$150,000 to \$1,000,000 and above. MTC also provides asset custody, investment management and retirement planning services. In 2005, the Credit Union purchased 11,385 shares of preferred stock in the amount of \$910,800. The Credit Union's ownership is 19.5% and does not have the ability to exercise significant influence over the company's operation. Accordingly, the credit union has used the cost method to account for this subsidiary.

**Basis of financial statement presentation and accounting estimates:**

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, except for the classification of members' accounts as members' equity, which conforms to the statutory definition in the Colorado Credit Union Act. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheets and revenues and expenses for the period. Actual results could differ from those estimates.

**SUNCORP CORPORATE CREDIT UNION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Cash, cash equivalents, and cash flows:**

For purposes of reporting the consolidated statement of cash flows, cash and cash equivalents include cash on hand, non-interest-bearing deposits due from correspondent institutions, and uncollected cash items. Cash flows from loans, U.S. Central share and certificate accounts, members' accounts, and borrowed funds are reported net.

**Uncollected cash items and uncollected deposits due to member accounts:**

Uncollected cash items represent deposits made by SunCorp's members that have not cleared the Credit Union's various banks. Such amounts generally become available for investment or withdrawal by members within one to three business days. Uncollected deposits due to member accounts represent related amounts due SunCorp's members when funds become available. These amounts are not interest bearing.

**Federal funds sold:**

Federal funds sold are unsecured short-term investments entered into with various financial institutions. SunCorp considers federal funds sold to be an investing activity. Federal funds sold are stated at cost, which approximates fair value.

**Available-for-sale securities:**

Securities classified as available-for-sale are those debt securities that SunCorp intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of SunCorp's assets and liabilities, liquidity needs, change in credit profile, and other similar factors. Securities available for sale are carried at fair value. Unrealized gains or losses are reported as a separate component of other comprehensive income. Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in earnings. Amortization of premiums and discounts are recognized in interest income over the period to maturity. Declines in the fair value of individual available-for-sale securities below their costs that are other than temporary will result in write-downs of the individual securities to their fair value.

**Loans to members:**

Loans to members are stated at the unpaid principal amount. At December 31, 2005 and 2004, no allowance for loan losses was deemed necessary. Management's periodic evaluation of the adequacy of or need for an allowance is based on SunCorp's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, and current economic conditions. In addition, member credit union assets generally collateralize all loans.

**Intangible assets:**

Assets and liabilities of businesses acquired in transactions accounted for as purchases are recorded at their estimated fair value at the acquisition date. Acquired intangible assets arising from contractual or other legal rights, and those that are separable from the acquired entity are recorded at their estimated fair value, and are amortized using the straight-line method over the shorter of the contractual or estimated life of the assets. As of January 2006, the estimated useful life were decreased based on a study performed by an independent third party. As such the useful life were decreased from 40 to 24 years. This had no financial impact for the 2005 reporting period.

**SUNCORP CORPORATE CREDIT UNION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NCUSIF deposits and premiums:**

SunCorp is federally insured by the National Credit Union Share Insurance Fund (NCUSIF). National Credit Union Administration (NCUA) regulations require the maintenance of a deposit by each insured credit union in an amount equal to 1 percent of its insured shares. SunCorp's NCUSIF deposit aggregated \$391,682 and \$419,229 at December 31, 2005 and 2004, respectively. The deposit would be refunded to SunCorp 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. SunCorp is required to pay an annual insurance premium equal to one-twelfth of one percent of its total insured accounts, unless the payment is waived or reduced by the NCUA Board. The NCUA Board waived the 2005 and 2004 insurance premiums.

**Members' accounts:**

Members' accounts are subordinated to all other liabilities of SunCorp upon liquidation. Interest on members' accounts is based on available earnings at the end of an interest period and is not guaranteed by SunCorp. Interest rates on members' accounts and certificates are set by management and approved by the Board of Directors, based on an evaluation of current and future market conditions.

Member capital shares (MCS) have a three-year maturity, once notice has been given by a member credit union. Paid-in capital (PIC) is a form of membership capital subject to the following terms. SunCorp's paid in capital has a scheduled maturity of 20 years, is callable by SunCorp, and is not subject to share insurance coverage by the NCUSIF. Dividends on paid in capital are noncumulative and are paid quarterly. Rates are declared quarterly by the board of directors based upon market conditions with the objective that rates are higher than member accounts.

Members' accounts have been classified as members' equity on the statements of financial condition. It is SunCorp's position that members' accounts represent an ownership interest and are properly classified as equity. This classification conforms to the statutory definition in the Colorado Credit Union Act. However, such classification is not in accordance with accounting principles generally accepted in the United States of America, which require members' accounts to be classified as liabilities.

**Capital requirements:**

SunCorp is subject to various regulatory capital requirements administered by the NCUA and the Colorado State Banking Department. Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by the NCUA that, if undertaken, could have a direct material effect on SunCorp and the financial statements. Management believes, as of December 31, 2005, that SunCorp meets all capital adequacy requirements to which it is subject.

**Income taxes:**

SunCorp is exempt, by statute, from federal and state income taxes.

**Unrelated Business Income Tax risk:**

The Internal Revenue Service ("IRS") and certain state taxing authorities are currently revisiting what, if any, products and services provided by state chartered credit unions are subject to unrelated business income tax ("UBIT"). There is currently very little guidance in the IRS code on what activities should be subject to UBIT. The IRS has indicated that they are studying the issue and may issue additional guidance.

**SUNCORP CORPORATE CREDIT UNION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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As a result, at this time there is uncertainty regarding whether state chartered credit unions should pay income tax on certain types of net taxable income from activities that may be considered by taxing authorities as unrelated to the purpose for which the credit union was granted non-taxable status. The credit union has not filed any tax returns in the past for potential taxable activities.

The taxing authorities have the ability to assess taxes, penalties and interest for any years for which no tax return was filed. In the opinion of management, any liability resulting from taxing authorities imposing income taxes on the net taxable income from activities deemed to be unrelated to the credit union's non-taxable status is not expected to have a material effect on the credit union's financial position or results of operations.

**Comprehensive Income:** Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the members' equity section of the statements of financial condition.

**Reclassifications:**

Selected 2004 amounts have been reclassified to conform to the 2005 presentation. These reclassifications had no effect on net income or members' equity.

**NOTE 2. INTEREST BEARING DEPOSITS IN FINANCIAL INSTITUTIONS**

	<b>Years Ended December 31</b>	
	<b>2005</b>	<b>2004</b>
U.S. Central Daily and overnight share accounts	\$ 586,411,054	\$ 469,876,250
U.S. Central Term certificates	467,674,400	487,574,900
U.S. Central Structured certificates	490,675,810	729,585,373
U.S. Central Membership capital shares	67,577,121	60,581,422
U.S. Central Member paid-in capital	15,400,000	15,400,000
Certificates of deposit in other credit unions	354,000	403,000
Certificates of deposit in other financial institutions	0	8,579,000
	<hr/>	<hr/>
Total interest-bearing deposits	\$ 1,628,092,385	\$ 1,771,999,945

Contractual maturities of U.S. Central share and certificate accounts are between zero and six years.

Subscriptions to PIC were voluntary and were funded by a conversion on a dollar-for-dollar basis for SunCorp's existing MCS with U.S. Central. PIC has no maturity and can only be called by U.S. Central. MCS are subordinate to other members' shares, certificates and liabilities and can only be withdrawn after giving U.S. Central three years written notice.

Certificates are generally non-negotiable and non-transferable, and would incur a market-based adjustment for withdrawal prior to maturity.

**SUNCORP CORPORATE CREDIT UNION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 3. INVESTMENT SECURITIES**

<b>December 31, 2005</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>Available-for-sale:</b>				
Asset-backed securities	\$ 242,501,093	\$ 248,854	\$ (1,294,993)	\$ 241,454,954
Federal agency securities	9,998,765	0	(76,765)	9,922,000
Collateralized mortgage obligations	269,349,175	40,588	(3,884,096)	265,505,667
Total available-for-sale	<u>\$ 521,849,033</u>	<u>\$ 289,442</u>	<u>\$ (5,255,854)</u>	<u>\$ 516,882,621</u>

<b>December 31, 2004</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>Available-for-sale:</b>				
Asset-backed securities	\$ 163,427,284	\$ 169,245	\$ (138,274)	\$ 163,458,255
Federal agency securities	9,996,424	0	(130,324)	9,866,100
Collateralized mortgage obligations	365,896,115	60,015	(3,699,274)	362,256,856
Collateralized corporate notes	47,000,000	0	(102,950)	46,897,050
Total available-for-sale	<u>\$ 586,319,823</u>	<u>\$ 229,260</u>	<u>\$ (4,070,822)</u>	<u>\$ 582,478,261</u>

Gross realized gains and losses on investments available for sale were \$833,106 and \$600,639 for the year ended December 31, 2005, and \$3,071,675 and \$1,331,181 for the year ended December 31, 2004.

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2005 and 2004 are as follows:

<b>December 31, 2005</b>	<b>Fair Value</b>	<b>Continuous Unrealized Losses Existing For:</b>		<b>Total Unrealized Losses</b>
		<b>Less Than 12 Months</b>	<b>More Than 12 Months</b>	
<b>Available-for-sale</b>				
Asset-backed securities	\$ 177,129,642	\$ (1,254,841)	\$ (40,152)	\$ (1,294,993)
Federal agency securities	9,922,000	0	(76,765)	(76,765)
Collateralized mortgage Obligations	228,724,102	(1,922,210)	(1,961,886)	(3,884,096)
Total available-for-sale	<u>\$ 415,775,744</u>	<u>\$ (3,177,051)</u>	<u>\$ (2,078,803)</u>	<u>\$ (5,255,854)</u>

<b>December 31, 2004</b>	<b>Fair Value</b>	<b>Continuous Unrealized Losses Existing For:</b>		<b>Total Unrealized Losses</b>
		<b>Less Than 12 Months</b>	<b>More Than 12 Months</b>	
<b>Available-for-sale</b>				
Asset-backed securities	\$ 81,750,905	\$ (138,274)	\$ 0	\$ (138,274)
Federal agency securities	9,866,100	(130,324)	0	(130,324)
Collateralized mortgage Obligations	347,339,190	(3,699,274)	0	(3,699,274)
Collateralized corporate notes	8,891,400	(102,950)	0	(102,950)
Total available-for-sale	<u>\$ 447,847,595</u>	<u>\$ (4,070,822)</u>	<u>\$ 0</u>	<u>\$ (4,070,822)</u>

**SUNCORP CORPORATE CREDIT UNION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

There are a total of 51 and 50 investments with unrealized losses as of December 31, 2005 and 2004. The unrealized losses associated with these investments are considered temporary as SunCorp has the ability to hold these investments for a period of time sufficient to allow for any anticipated recovery in fair value. In addition, the securities unrealized losses are primarily due to changes in market interest rates.

**Other than temporary impaired securities:**

At December 31, 2003, the credit union owned six asset-backed securities having an aggregate unamortized cost of \$28,062,956 and an estimated market value of \$23,088,493. At December 31, 2003, the credit union realized an other-than-temporary impairment on these available for sale securities in the accompanying consolidated statements of income in the amount of \$4,974,463, which represents the difference between the unamortized cost and the estimated market value on that date. In October 2003, these securities were downgraded from their original rating due to the uncertainty regarding the servicer who had declared bankruptcy. On February 24, 2003, the servicing rights were transferred to a new servicer, as approved by the bankruptcy court. On March 5, 2004, the securities were further downgraded to a level below investment grade. The credit union's board of directors approved a motion to divest of the securities on March 10, 2004. Shortly thereafter, the credit union sold the securities at a total loss of approximately \$6,000,000, of which \$4,974,463 was recognized in 2003 as noted above.

Investment securities by maturity as of December 31, 2005 are summarized as follows:

	<b>Available-for-sale</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>
No contractual maturity	\$ 0	\$ 0
Less than 1 year maturity	0	0
1 – 5 years maturity	64,679,395	64,497,687
Over 5 years maturity	187,820,463	186,879,267
Collateralized mortgage obligations	269,349,175	265,505,667
	<u>\$ 521,849,033</u>	<u>\$ 516,882,621</u>

**NOTE 4. LOANS TO MEMBERS**

Loans to members consist of the following:

	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
Settlement	\$ 3,025,010	\$ 14,451,261
Fixed-rate term	34,511,911	7,906,810
Open end variable	28,938,430	19,934,418
Certificate secured	15,362,788	8,300,000
Security liquidity	17,216,437	10,200,000
Loan participation	0	1,059,959
Floating rate	50,000,000	51,100,000
	<u>\$ 149,054,576</u>	<u>\$ 112,952,448</u>

**SUNCORP CORPORATE CREDIT UNION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

---

With the exception of fixed rate term loans and the loan participation, all loans made by SunCorp are at variable short-term market interest rates and all outstanding advances and accrued interest are due on demand.

In 2004, SunCorp entered into a loan participation agreement with one of its members. Under the loan participation agreement, SunCorp purchased an undivided interest in closed-end loans originated by the member credit union. In the event that any of the underlying loans becomes delinquent for more than 60 days, the member credit union will repurchase SunCorp's interest in the delinquent loan, including the unpaid accrued interest.

**NOTE 5. OFFICE PROPERTIES AND EQUIPMENT**

	December 31	
	2005	2004
Furniture, fixtures and equipment	\$ 7,636,618	\$ 6,732,248
Leasehold improvements	383,435	616,777
Automobiles	133,701	73,702
	8,153,754	7,422,727
Accumulated depreciation and amortization	(5,960,016)	(4,651,713)
	\$ 2,193,738	\$ 2,771,014

**NOTE 6. BORROWED FUNDS**

SunCorp's commercial paper has received the highest rating of A-1+ by Standard and Poor's and P-1 by Moody's Investors Service. Outstanding commercial paper is uncollateralized, bears interest at current market rates and matures in varying amounts, with maturities not exceeding 270 days from date of issuance. SunCorp had been authorized by its board of directors and its rating agencies to issue up to \$150,000,000 of commercial paper as of December 31, 2005 and 2004. By statute, the claims of creditors, including commercial paper note holders, are senior to those of members. Commercial paper outstanding at December 31, 2005 and 2004 totaled \$149,457,942 and \$139,725,083, respectively, with a weighted average yield of 4.37% and 2.38%, respectively. SunCorp has a commercial paper dealer agreement, which contains certain covenants and disclosure requirements. At December 31, 2005 and 2004, SunCorp is in compliance with all such requirements.

To maintain the commercial paper program, SunCorp is committed to paying certain annual rating agency and advisory fees. For the years ended December 31, 2005 and 2004, \$285,364 and \$272,140, respectively, of expenses were incurred to maintain the commercial paper program and are included in general and administrative expenses in the accompanying consolidated statements of income.

In 2002, SunCorp began participating in the Department of Treasury Investment Program (TIP). The TIP is used to temporarily invest excess operating funds in open-end notes of financial institutions designated as Investor Depositories. The TIP payable is callable subject to 48 hours notice by the Federal Reserve Bank and accrues interest at the Fed Funds rate less 0.25% (3.75% and 2.00% at December 31, 2005 and 2004). As of December 31, 2005 and 2004, SunCorp had pledged asset-backed securities with a carrying amount of \$9,817,737 and \$18,054,660, respectively, to secure outstanding TIP open-notes payable of \$1,276,724 and \$470,770, respectively, which has been included in borrowed funds in the accompanying consolidated statements of financial position.

**SUNCORP CORPORATE CREDIT UNION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

SunCorp also has available an advised line of credit and demand loan with U.S. Central secured by all assets of SunCorp. 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 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, 2005 and 2004 was \$50,000,000.

**NOTE 7. MEMBER'S ACCOUNTS**

Members' accounts are summarized as follows:

	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
Money market shares	\$ 811,167,631	\$ 1,066,605,842
Certificates	1,070,550,209	971,389,256
Cash management shares	94,755,953	145,201,584
Membership shares	75,903,873	73,605,536
Investment shares	1,324,400	11,524,400
Paid-in capital accounts	32,672,221	32,672,221
Total member accounts	\$ 2,086,374,287	\$ 2,300,998,839

Shares by maturity are summarized as follows as of December 31, 2005:

Overnight deposits	\$ 905,923,584
0 – 1 year maturity	712,277,308
1 – 2 years maturity	257,805,895
2 – 3 years maturity	165,092,485
3 – 4 years maturity	9,453,139
4 – 5 years maturity	3,149,655
Over 5 years maturity	32,672,221
Total members' accounts	\$ 2,086,374,287

Paid-in capital accounts have a stated maturity of 20 years, with a call option in favor of SunCorp. Paid-in capital accounts were issued in years 2000, 2002, and 2003. Paid-in capital accounts bear interest at 3.10% as of December 31, 2005.

The aggregate amount of members' accounts with balances in excess of \$100,000 as of December 31, 2005 and 2004 is approximately \$2,049,722,000 and \$2,297,087,000, respectively.

**SUNCORP CORPORATE CREDIT UNION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 8. COMMITMENTS AND CONTINGENCIES**

**Lease commitments:**

At December 31, 2005, SunCorp was obligated under a noncancelable-operating lease for office space. SunCorp leases its Westminster, Salt Lake City and Omaha office space under operating leases which expire in 2013, 2008, and 2007, respectively. Minimum lease payments with initial or remaining terms of one year or more at December 31 are approximately as follows:

Years Ending <b>December 31</b>	
2006	\$ 752,000
2007	814,000
2008	791,000
2009	613,000
2010	617,000
Subsequent years	<u>1,389,000</u>
Total lease commitments	<u>\$ 4,976,000</u>

Rent expense for the year ended December 31, 2005 under operating leases totaled approximately \$828,100.

**Financial instruments with off-balance-sheet risk:**

SunCorp is a party to financial statements with off-balance-sheet risk in the normal course of business to meet the financing needs of its members. These financial instruments primarily include advised lines of credit to member credit unions. As of December 31, 2005, SunCorp did not have any outstanding committed lines of credit to its member credit unions.

SunCorp's exposure to credit loss in the event of nonperformance by the party to which the line of credit has been extended is represented by the contractual amount of those lines. SunCorp uses the same credit policies in making commitments as it does for on-balance-sheet instruments such as loans to members.

Lines of credit extended by SunCorp generally have no fixed expiration date and are cancelable at any time at the option of SunCorp. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. SunCorp evaluates each member credit union's creditworthiness on a case-by-case basis. The amount of collateral deemed necessary by SunCorp upon extension of credit is based on management's credit evaluation of the member credit union. Collateral held varies but generally includes member shares on deposit with SunCorp. Lines of credit totaling \$2,032,309,883 and \$1,890,832,658 to member credit unions were authorized at December 31, 2005 and 2004, respectively, of which \$1,883,255,307 and \$1,777,880,210 were available for use.

As of December 31, 2005 and 2004, SunCorp has outstanding irrevocable stand-by letters of credit for the purposes of guaranteeing obligations of certain members in the maximum amount of \$208,809 and \$337,773, respectively. These letters of credit expire on various dates through 2006 and are guaranteed by all of the members' assets. No amounts had been drawn upon under these letters of credit as of December 31, 2005 and 2004.

**SUNCORP CORPORATE CREDIT UNION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

---

**Financial instruments with concentrations of credit risk:**

The nature of SunCorp's business requires that it regularly maintain amounts on deposit at other financial institutions that exceed federally insured limits. At December 31, 2005, there were approximately \$1,633,018,000 in financial institution balances with individual balances in excess of the insured limit. SunCorp has not experienced any losses on these deposits.

**NOTE 9. RESERVES AND UNDIVIDED EARNINGS**

Reserves are established at the discretion of the Board of Directors to protect the interest of its members and meet regulatory requirements. The Board of Directors authorizes the transfer from undivided earnings to the reserve.

NCUA Regulation 704 is the regulation governing corporate credit unions. The regulation, among other provisions, defines classifications of required capital and includes minimum net economic value ratio. The regulation requires a capital ratio of 4% and a reserve and undivided earnings (RUDE) ratio of 2%.

As of December 31, 2005 and 2004, SunCorp computed its capital ratio to be 7.16% and 6.36%, its net economic value ratio to be 6.59% and 5.89%, its RUDE ratio to be 2.51% and 2.21%, and its CORE ratio to be 3.92% and 3.50%, respectively. SunCorp is in compliance with all minimum requirements provided in the regulation.

**NOTE 10. CONCENTRATIONS OF CREDIT RISK**

Participation in the credit union is limited to those credit unions that qualify under its state charter. All SunCorp's members are affiliated with the credit union industry and, the majority of the member credit unions are located in the states of Colorado, Utah, Wyoming, Nebraska, and Idaho.

**NOTE 11. RELATED PARTY TRANSACTIONS**

SunCorp serves as a central credit union for its members and substantially all transactions (except 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 included the borrowing and lending of money and sale of securities under agreements to repurchase.

Each of the directors of SunCorp is affiliated with credit unions that, in the ordinary course of business, may engage in financial transactions with SunCorp. 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. One director of SunCorp serves as a director of CCUL.

**NOTE 12. EMPLOYEE BENEFITS**

Substantially all employees are eligible to participate in a defined contribution 401(k). All full-time employees are eligible to participate after at least one full year of continuous service. Under the plan, participants may make contributions up to 50 percent of the participant's gross earnings. In addition, SunCorp contributes on a matching basis, on behalf of each of the employees who are members of the 401(k) plan, up to an amount equal to 6% of their annual compensation. Contributions to the plan totaled \$181,776 and \$197,792 during 2005 and 2004, respectively.

**SUNCORP CORPORATE CREDIT UNION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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SunCorp has several deferred compensation plans for eligible employees. These plans have been developed to attract and retain key employees. During 2005 and 2004, SunCorp has recorded expense of \$191,710 and \$446,971, respectively, related to the plans, which has been included as a component of salary and benefits expense in the accompanying consolidated statement of income. Under the plans, SunCorp agrees to pay out various amounts at given dates to the covered employees over time if they remain in continuous employment through those dates. At December 31, 2005 and 2004, the balance of accrued compensation related to the plans was \$607,586 and \$773,718, respectively, which has been included as a component of the other liabilities on the accompanying consolidated statements of financial condition.

**NOTE 13. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The estimated fair value amounts have been determined by the credit union 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 herein are not necessarily indicative of the amounts the credit union could realize in a market exchange. The use of different assumptions and/or 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 class of financial instruments for which it is practicable to estimate fair value. For all other categories the carrying amount is a reasonable estimate of fair value based on maturity and interest rate reset frequency:

U.S. Central Credit Union share and certificate amounts

The carrying amount of daily shares and short-term certificates (three months or less) approximates fair value as the balances are due on demand or reprice frequently based on current market rates. For fixed-term certificates with maturities beyond three months, fair value is estimated by discounting the future cash flows under rates currently available for similar share certificates.

Investment securities

Fair value approximates dealer quotations of market price.

Loans to members

The fair value of loans to members are estimated using discounted cash flow analyses of homogenous groupings of loans, with discount rates equal to the interest rates currently being offered for loans with similar terms to members of similar credit quality.

Members' accounts

The fair value of accounts maturing within the next three months or that reset to market rates at least quarterly are estimated to approximate the carrying value of such accounts. The fair value of fixed-maturity certificates is estimated based on the present value of the future cash flows discounted at interest rates currently offered for certificates of similar maturities.

For certificates that do not have fixed terms, the fair values are estimated based on the fair value of related matched assets. Those values are adjusted for the present value of the estimated earnings to be retained by SunCorp over the weighted average life of the related certificates.

**SUNCORP CORPORATE CREDIT UNION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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Off-Balance-Sheet Financial Instruments

The fair values for the credit union's off-balance sheet commitments are estimated based on fees charged to others to enter into similar agreements taking into account the remaining terms of the agreements and credit standing of the members. The estimated fair value of these commitments is not significant.

The estimated fair values of the credit union's financial instruments are summarized as follows:

	December 31			
	2005		2004	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Assets:</b>				
Cash and cash equivalents	\$ 31,681,885	\$ 31,682,000	\$ 58,606,705	\$ 58,607,000
Interest bearing deposits in financial institutions	1,628,092,385	1,617,814,000	1,771,999,945	1,766,428,000
Federal fund sold	343,046	343,000	340,670	341,000
Investment securities available-for-sale	516,882,621	516,883,000	582,478,261	582,478,000
Loans to members	149,054,576	148,561,000	112,952,448	112,656,000
Accrued interest and fee income receivable	8,357,676	8,358,000	6,511,123	6,511,000
<b>Liabilities:</b>				
Borrowed funds	\$ 200,734,666	\$ 200,735,000	\$ 190,195,853	\$ 190,196,000
Accrued interest and dividends payable	6,108,894	6,109,000	3,983,910	3,984,000
Members' accounts	2,086,374,287	2,075,086,000	2,300,998,839	2,294,657,000