

CONSOLIDATED FINANCIAL STATEMENTS

U.S. Central Federal Credit Union and Subsidiaries
Years Ended December 31, 2007, 2006 and 2005
With Report of Independent Auditors

U.S. Central Federal Credit Union and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2007, 2006 and 2005

Contents

Report of Independent Auditors	1
Audited Financial Statements	
Consolidated Balance Sheets	2
Consolidated Statements of Income (Loss)	3
Consolidated Statements of Comprehensive Income (Loss)	4
Consolidated Statements of Members' Equity	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7

Report of Independent Auditors

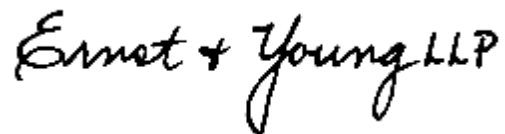
The Board of Directors and Supervisory Committee of
U.S. Central Federal Credit Union

We have audited the accompanying consolidated balance sheets of U.S. Central Federal Credit Union and subsidiaries (U.S. Central) as of December 31, 2007 and 2006, and the related consolidated statements of income (loss), comprehensive income (loss), members' equity, and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of U.S. Central's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of U.S. Central's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of U.S. Central's internal control over financial reporting. Accordingly, we express no opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

U.S. Central has reported members' share and certificate accounts and Membership Capital Shares as equity in the accompanying consolidated balance sheets and consolidated statements of members' equity, as defined in credit union law. In our opinion, these accounts should be reported as liabilities in order to conform with U.S. generally accepted accounting principles. If these accounts were reported as liabilities, liabilities would increase and equity would decrease by \$38,428,467,000, \$35,706,962,000 and \$30,360,079,000 as of December 31, 2007, 2006 and 2005, respectively. The presentation followed by U.S. Central has no effect on the classification of assets or on the determination of income or expenses.

In our opinion, except for the effect of the classification of members' share and certificate accounts and Membership Capital Shares as described above, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of U.S. Central at December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with U.S. generally accepted accounting principles.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

August 8, 2008

U.S. CENTRAL FEDERAL CREDIT UNION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (in thousands)

DECEMBER 31, 2007 AND 2006

Assets	2007	2006
Cash	\$ 29,420	\$ 17,612
Time deposits	85,518	850,000
Federal funds sold	500,000	987,000
Securities purchased under agreements to resell	2,046,937	4,142,736
Investment securities, at fair value	36,671,647	34,351,624
Loans	3,426,071	1,011,765
Stock of the Central Liquidity Facility	1,565,647	1,479,256
Other assets	<u>408,452</u>	<u>517,834</u>
Total assets	<u>\$ 44,733,692</u>	<u>\$ 43,357,827</u>
Liabilities and Members' Equity		
Liabilities:		
Short-term borrowings	\$ 6,374,488	\$ 5,857,897
Notes payable	32,674	414,629
Other liabilities	<u>498,401</u>	<u>419,609</u>
Total liabilities	6,905,563	6,692,135
Members' equity:		
Members' share and certificate accounts	36,994,406	34,539,521
Membership Capital Shares	1,434,061	1,167,441
Paid-in capital	300,000	300,000
Retained earnings	<u>598,260</u>	<u>668,094</u>
Total capital	2,332,321	2,135,535
Accumulated other comprehensive loss	<u>(1,498,598)</u>	<u>(9,364)</u>
Total members' equity	<u>37,828,129</u>	<u>36,665,692</u>
Total liabilities and members' equity	<u>\$ 44,733,692</u>	<u>\$ 43,357,827</u>

See notes to consolidated financial statements.

U.S. CENTRAL FEDERAL CREDIT UNION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (LOSS) (in thousands) FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

	2007	2006	2005
Interest and dividend income:			
Time deposits	\$ 10,978	\$ 24,441	\$ 6,653
Federal funds sold	59,358	50,154	45,073
Securities purchased under agreements to resell	181,919	211,594	128,905
Investment securities	2,160,793	1,507,521	927,780
Loans	81,051	60,552	49,677
Stock of the Central Liquidity Facility	<u>85,634</u>	<u>74,930</u>	<u>44,909</u>
Total interest and dividend income	2,579,733	1,929,192	1,202,997
Interest and dividend expense:			
Dividends on members' share and certificate accounts	1,957,131	1,455,552	902,772
Interest on short-term borrowings and notes payable	<u>404,963</u>	<u>305,723</u>	<u>162,119</u>
Total interest and dividend expense	<u>2,362,094</u>	<u>1,761,275</u>	<u>1,064,891</u>
Net interest income, excluding dividends on Membership Capital Shares	217,639	167,917	138,106
Fee income	19,414	18,886	20,526
Net gains (losses) on financial instruments	(154,658)	629	14,322
Operating expenses:			
Salaries and benefits	28,234	30,072	29,640
Data processing	14,417	13,433	15,496
Professional and outside services	9,571	10,148	9,280
Office occupancy and administration	3,317	3,425	3,495
Travel and entertainment	1,765	1,731	1,914
Marketing and public relations	1,108	1,362	1,418
Other	1,554	2,678	3,018
Fixed asset impairment charges	<u>-</u>	<u>-</u>	<u>6,312</u>
Total operating expenses	<u>59,966</u>	<u>62,849</u>	<u>70,573</u>
Income before dividends on Membership Capital Shares	22,429	124,583	102,381
Dividends on Membership Capital Shares	<u>73,022</u>	<u>61,788</u>	<u>43,400</u>
Income (loss) before minority interest	(50,593)	62,795	58,981
Minority interest	<u>(102)</u>	<u>64</u>	<u>180</u>
Net income (loss)	<u>\$ (50,695)</u>	<u>\$ 62,859</u>	<u>\$ 59,161</u>

See notes to consolidated financial statements.

U.S. CENTRAL FEDERAL CREDIT UNION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (in thousands) FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

	2007	2006	2005
Net income (loss)	\$ (50,695)	\$ 62,859	\$ 59,161
Other comprehensive income (loss):			
Net unrealized gains (losses) on investment securities	(1,597,511)	29,135	(48,884)
Net unrealized losses on cash-flow hedges	(9,017)	(11,007)	(403)
Less: net unrealized (gains) losses on investment securities reclassified to earnings on fair-value hedging relationships	(8,226)	(6,122)	30,817
Less: reclassification of net (gains) losses on cash-flow hedges included in net income	10,558	49,607	(8,417)
Less: reclassification of net realized (gains) losses on investment securities included in net income	<u>114,962</u>	<u>1,258</u>	<u>(14,226)</u>
Other comprehensive income (loss)	<u>(1,489,234)</u>	<u>62,871</u>	<u>(41,113)</u>
Total comprehensive income (loss)	<u>\$ (1,539,929)</u>	<u>\$ 125,730</u>	<u>\$ 18,048</u>

See notes to consolidated financial statements.

U.S. CENTRAL FEDERAL CREDIT UNION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY (in thousands) FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

	Total Members' Accounts	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)
Balance, January 1, 2005	\$ 30,776,338	\$ 300,000	\$ 577,510	\$ (31,122)
Net decrease in members' accounts	(416,259)	-	-	-
Net income	-	-	59,161	-
Dividends on paid-in capital	-	-	(13,040)	-
Other comprehensive loss	-	-	-	(41,113)
Balance, December 31, 2005	30,360,079	300,000	623,631	(72,235)
Net increase in members' accounts	5,346,883	-	-	-
Net income	-	-	62,859	-
Dividends on paid-in capital	-	-	(18,396)	-
Other comprehensive income	-	-	-	62,871
Balance, December 31, 2006	35,706,962	300,000	668,094	(9,364)
Net increase in members' accounts	2,721,505	-	-	-
Net loss	-	-	(50,695)	-
Dividends on paid-in capital	-	-	(19,139)	-
Other comprehensive loss	-	-	-	(1,489,234)
Balance, December 31, 2007	<u>\$ 38,428,467</u>	<u>\$ 300,000</u>	<u>\$ 598,260</u>	<u>\$ (1,498,598)</u>

See notes to consolidated financial statements.

U.S. CENTRAL FEDERAL CREDIT UNION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands) FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ (50,695)	\$ 62,859	\$ 59,161
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Depreciation and amortization	3,173	3,380	3,778
Net (gains) losses on financial instruments	154,658	(629)	(14,322)
Net (accretion) amortization of investment and loan (discounts) premiums	(65,608)	(36,214)	(2,797)
Minority interest	276	(64)	(180)
Fixed asset impairment charges	-	-	6,312
Purchases of loans held for sale	(51,772)	(75,179)	(311,579)
Proceeds from sales of loans held for sale	-	44,642	321,858
Principal payments of loans held for sale	10,254	7,244	11,501
Net proceeds (purchases) of trading securities	(797,863)	69,732	(178,327)
Changes in:			
Other assets	9,139	(44,616)	58,947
Other liabilities	68,601	98,381	(22,427)
Net cash provided by (used in) operating activities	(719,837)	129,536	(68,075)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Changes in:			
Time deposits	764,482	(350,000)	-
Federal funds sold	487,000	2,560,500	(2,069,000)
Securities purchased under agreements to resell	2,095,799	(965,410)	(134,932)
Loans	(2,370,983)	36,497	(270,410)
Net proceeds (purchases) of stock of the FHLB	110,922	(150,029)	(2,880)
Purchases of stock of the Central Liquidity Facility	(86,391)	(77,883)	(109,314)
Purchases of available-for-sale securities	(239,298,253)	(160,106,569)	(95,257,545)
Proceeds from sales of available-for-sale securities	8,847,853	11,599,320	14,358,851
Principal payments and maturities of available-for-sale securities	227,395,878	140,757,592	83,337,174
Net cash used in investing activities	(2,053,693)	(6,695,982)	(148,056)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Changes in:			
Short-term borrowings	516,591	1,306,655	637,649
Members' accounts	2,674,250	5,313,105	(377,071)
Repayments and reclassification to short-term borrowings of notes payable	(386,364)	(36,364)	(36,364)
Dividends on paid-in capital	(19,139)	(18,396)	(13,040)
Net cash provided by financing activities	2,785,338	6,565,000	211,174
Net increase (decrease) in cash	11,808	(1,446)	(4,957)
CASH, BEGINNING OF YEAR	17,612	19,058	24,015
CASH, END OF YEAR	\$ 29,420	\$ 17,612	\$ 19,058
SUPPLEMENTAL CASH FLOW INFORMATION:			
Dividends paid on members' share and certificate accounts	\$ 1,923,207	\$ 1,351,435	\$ 863,303
Dividends paid on Membership Capital Shares	70,364	58,512	37,443
Interest paid on short-term borrowings and notes payable	401,597	301,363	155,911

See notes to consolidated financial statements.

U.S. CENTRAL FEDERAL CREDIT UNION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

1. ORGANIZATION OF U.S. CENTRAL FEDERAL CREDIT UNION AND SUBSIDIARIES

U.S. Central Federal Credit Union and subsidiaries (U.S. Central) was chartered in 1974 to act as a central credit union for the mutual benefit of its membership. Membership in U.S. Central includes corporate credit unions, state credit union leagues, national credit union organizations, and international cooperatives. The business of U.S. Central is generated almost exclusively from its 26 member corporate credit unions.

The principal activity of U.S. Central is to provide wholesale investment, liquidity, custody, technology and payment services to its members. U.S. Central is designed to serve its members as a ready source of liquidity and as an efficient conduit to the financial markets.

U.S. Central owns 100 percent of three credit union service organizations (CUSOs), CU Investment Solutions, Inc. (ISI), Charlie Mac, LLC (Charlie Mac), and Network Financial Services, LLC (NFS). ISI provides brokerage and advisory services. Charlie Mac provides liquidity, primarily by purchasing loans originated by the credit union community. NFS provides advisory services to a common trust fund.

U.S. Central also owns a 95.3 percent majority interest in Corporate Network eCom, LLC (eCom) and a 51.5 percent majority interest in Core Network Processing, LLC (CNP). eCom provides bill payment services to corporate credit unions that in turn can offer these services to natural person credit unions. CNP provides core account system processing to U.S. Central and certain of its member corporate credit unions. The 4.7 percent outside ownership interest in eCom and the 48.5 percent outside ownership interest in CNP are reflected as minority interests in U.S. Central's consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Following are significant accounting policies for U.S. Central and its subsidiaries:

- (a) **Principles of Consolidation** - The consolidated financial statements include the accounts of U.S. Central and its wholly or partially owned CUSOs, ISI, Charlie Mac, NFS, eCom and CNP. All significant intercompany accounts and transactions have been eliminated in consolidation.
- (b) **Estimates** - The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Specifically, management has made assumptions in estimating (1) the fair value of financial instruments, (2) the amortization/accretion of premiums/discounts

on investments subject to prepayment, and (3) principal and interest cash flows when evaluating investment securities for other-than-temporary impairment (see 2(f) below). Actual results could differ materially from estimates made based on management assumptions.

- (c) **Cash** - Cash includes amounts deposited at financial institutions.
- (d) **Time Deposits** - Time deposits include investments in money market demand accounts.
- (e) **Securities purchased under agreements to resell** – U.S. Central purchases certain securities under agreements to resell the same securities at a later date. The fair values of the securities purchased are monitored and additional haircuts are applied to ensure adequate collateral for these transactions.
- (f) **Investment Securities** - Investment security transactions are recorded at cost on trade date and are classified as held-to-maturity (HTM), trading, or available-for-sale (AFS) at the time of purchase. Securities are classified as HTM when U.S. Central has the positive intent and ability to hold the securities to maturity. HTM securities are carried on the balance sheet at amortized cost. Securities classified as trading are carried at fair value, with unrealized gains or losses reported in current earnings. Securities that are not classified as HTM or trading are classified as AFS. AFS securities are carried at fair value, with unrealized gains and losses reported as a component of other comprehensive income (loss).

Interest income is recorded on the accrual basis. Interest income on investment securities includes the amortization and accretion of premiums and discounts using methods approximating level yield. Gains and losses on securities transactions are recognized using the specific identification method for determining the cost of securities sold.

Fair values for investment securities are generally determined by discounting the estimated future cash flows using rates currently available for similar investments, or based on quoted market prices or dealer quotations, if available. However, given the current illiquid market for many of U.S. Central's investment securities, particularly non-agency residential mortgage-backed securities (RMBS), the assumptions used to determine fair value have become increasingly judgmental. The primary assumptions used to determine fair value are estimates of the amount and timing of principal prepayments and credit spreads used to determine discount rates. As a result, there exists a much wider range of views of fair value among market participants than would exist under more normal market conditions.

When the fair value of an investment security classified as AFS or HTM declines below amortized cost, U.S. Central considers certain factors that may indicate the decline represents an other-than-temporary impairment. These factors include the severity of the decline in fair value, the length of time that the decline in fair value has existed, credit ratings and overall conditions for the applicable market sector. In addition, U.S. Central considers its intent and ability to hold the security for a period of time sufficient for a recovery of fair value up to amortized cost. If one or more of these factors indicate that a decline in fair value may represent an other-than-temporary impairment, U.S. Central performs additional analysis of the asset.

In order to determine if a decline in fair value is other-than-temporary, U.S. Central performs detailed analysis of expected future principal and interest cash flows based on appropriate information available from market participants. Based on this analysis and the other factors discussed above, if U.S. Central believes that it is not probable that all principal and interest cash flows will be received according to the contractual terms of the asset, the decline in fair value is considered to be other than temporary and a charge is recorded in earnings equal to the difference between fair value and amortized cost, with a corresponding adjustment to the cost basis of the security. If U.S. Central believes that it is probable that all principal and interest will be received, and has the intent and ability to hold the asset until recovery, other-than-temporary charges are not recorded.

Once recorded, other-than-temporary impairment charges are not reversed for future increases in fair value above the adjusted cost basis of a security, unless principal payments in excess of the adjusted cost basis have been received or the asset is sold at a gain relative to the adjusted cost basis. Other-than-temporary impairment charges are included in Net gains/(losses) on financial instruments on U.S. Central's consolidated statements of income (loss) and are discussed further in Note 10, Net gains/ (losses) on financial instruments.

- (g) ***Loans Held for Investment (HFI)*** – Loans are classified as HFI when U.S. Central has the positive intent and ability to hold the loans to their contractual maturity. Loans HFI include loans made by U.S. Central to its member corporates and certain consumer loans purchased from originating credit unions through Charlie Mac. Loans HFI are secured by members' accounts at U.S. Central or by consumer assets, typically automobiles or residential homes. If secured by consumer assets, cash reserve accounts and/or recourse from the originating credit unions are also received. Based on availability of collateral, analysis of the creditworthiness of borrowers, the adequacy of cash reserves or recourse provisions, consideration of current economic conditions, past loan performance and risk inherent in the loan portfolio, a loan-loss allowance is deemed unnecessary. Loans HFI are carried on the balance sheet at amortized cost.

Interest income is recorded on the accrual basis. Interest income on loans HFI includes the amortization and accretion of premiums and discounts using methods approximating level yield. If loans were to become more than 90 days delinquent, U.S. Central would cease accruing interest income. If management were to believe that there were probable incurred losses within the portfolio of loans HFI, a charge would be recorded in earnings equal to the amount of the projected loss.

Loans Held for Sale (HFS) – Loans are classified as HFS when U.S. Central intends to sell the loans prior to contractual maturity. Loans HFS are comprised of residential loans purchased from originating credit unions through Charlie Mac. Loans HFS are stated at the lower of cost or fair value. Because individual loan performance is considered when determining the fair value of loans HFS and the loans are carried at the lower of cost or fair value, a separate loan loss allowance is deemed unnecessary. Fair values for loans HFS are determined by discounting the estimated future cash flows using rates currently available for instruments with similar characteristics, such as credit quality, average maturity and other factors.

Interest income is recorded on the accrual basis. Interest income on loans HFS includes the amortization and accretion of premiums and discounts using methods approximating level yield.

- (h) ***Stock of the Central Liquidity Facility*** - The Central Liquidity Facility (CLF) is a mixed-ownership government corporation that exists within the National Credit Union Administration (NCUA) and is managed by the NCUA Board. The CLF provides a source of credit to credit unions when funds are not available from traditional sources. U.S. Central is the Agent Group Representative for corporate credit unions. As Agent Group Representative, U.S. Central is obligated to purchase shares of CLF stock as required by NCUA Rules and Regulations.

CLF stock is recorded at cost, as there is no readily determinable fair value. Dividend income is recorded on the accrual basis.

- (i) ***Investment in Federal Home Loan Bank of Topeka (FHLB)*** - As a member of the FHLB, U.S. Central must maintain a minimum amount of capital stock. Minimum capital stock requirements are based on U.S. Central's borrowing activity with the FHLB and can be changed at the discretion of the FHLB. U.S. Central's investment in the FHLB is included in other assets at cost. Dividend income is recorded on the accrual basis.

- (j) ***Derivative Instruments*** - All derivative instruments are carried at fair value. Fair values for derivatives are determined by discounting the estimated future cash flows using rates currently available for similar instruments. Assets are recorded for any unrealized gains and liabilities are recorded for any unrealized losses on such instruments. U.S. Central uses derivative instruments primarily to minimize the effects of interest rate volatility on net interest income and utilizes fair value hedging strategies, cash flow hedging strategies and undesignated derivatives to accomplish this goal. U.S. Central closely matches derivative instruments with on-balance sheet risks.

Fair-value hedges – U.S. Central uses derivative instruments, primarily interest rate swaps, in order to offset changes in fair value of fixed-rate available-for-sale securities, member loans, liabilities and members' accounts that occur during periods of interest rate volatility. U.S. Central is able to demonstrate an effective hedging relationship between derivatives and matched items by proving that their changes in fair values substantially offset. Changes in the fair values of both derivatives and matched items are recorded in earnings and are included in Net gains (losses) on financial instruments on the consolidated statements of income (loss). If changes in the fair values of derivatives do not completely offset changes in the fair values of matched items, the difference represents ineffectiveness and such ineffectiveness is recorded in current earnings. Upon termination, realized gains or losses on derivatives designated in fair value hedging relationships are recorded in current earnings.

Cash-flow hedges – U.S. Central uses derivative instruments, primarily interest rate swaps, to convert variable-interest cash flows on available-for-sale securities and members' accounts to fixed cash flows. Derivative instruments are also used to manage basis risk that exists between variable rate assets and variable rate members' accounts. U.S. Central is able to demonstrate effective hedging relationships between

derivatives and the matched items by proving that their variable-interest cash flows substantially offset. Changes in the fair values of derivatives are recorded as components of other comprehensive income (loss) and are reclassified into earnings in the period in which the hedged variable-interest cash flows affect earnings. If the variable cash flows from derivatives do not exactly offset the variable cash flows of the matched items, the difference represents ineffectiveness and is recorded in current earnings. Upon termination, realized gains or losses on derivatives designated as cash flow hedges are deferred as components of accumulated other comprehensive income and amortized into earnings during the period of the originally documented hedging relationships.

Undesignated positions – In the event that derivative positions are not designated as fair-value or cash-flow hedges, changes in fair value are recorded in current earnings.

Interest accrual - The accrual of interest income or expense on derivative instruments is reported as a component of interest income or expense of the matched item.

- (k) ***Financial Instruments and Concentrations of Credit Risk*** - Financial instruments that potentially subject U.S. Central to concentrations of credit risk consist of federal funds sold, securities purchased (sold) under agreements to resell (repurchase), investment securities and derivative instruments. In the normal course of business, U.S. Central invests in and borrows from highly rated domestic and international banks, and uses nationally recognized broker/dealers in the execution of trades for financial instruments. Exposure to individual counterparties or asset classes may be significant. U.S. Central's exposure to residential real estate is discussed in Note 4, Investment Securities and Note 5, Loans. Additionally, in providing financial services solely to the credit union industry, U.S. Central is dependent upon the viability of that industry.

U.S. Central mitigates risks related to these concentrations through thorough evaluation of credit quality of the assets it purchases and the creditworthiness of its business partners. Counterparty risk is managed by ensuring that market counterparties are institutions of high credit quality and appropriate levels of collateral are maintained, if necessary. Additional measures are taken to mitigate risks associated with derivative financial instruments as discussed in Note 9, Derivative Instruments. Further information regarding the credit quality of U.S. Central's investment portfolio is provided in Note 4, Investment Securities.

- (l) ***Long-Lived Assets, including Intangibles*** – U.S. Central reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be fully recoverable. If the sum of the estimated undiscounted future cash flows is less than the carrying value of the asset, an impairment loss is recognized for the amount by which the carrying value of the asset exceeds its fair value.
- (m) ***Securities sold under agreements to repurchase*** - U.S. Central sells certain of its investment securities under agreements to repurchase the same securities and pledges assets as collateral under these borrowings. Because the counterparty may repledge the collateral, these securities are presented separately on U.S. Central's consolidated balance sheet.

In addition to repurchase agreements using securities held on-balance sheet, U.S. Central enters into similar transactions involving securities held by members. U.S. Central purchases securities from its members and sells the securities to market counterparties. U.S. Central also enters into agreements to repurchase the securities from the market counterparties and to resell the securities to its members. As collateral under these borrowings, members pledge assets to U.S. Central which U.S. Central then pledges to the market counterparties. Under the terms of these agreements, the assets may be repledged by the market counterparties.

- (n) **Guarantees** – U.S. Central records liabilities at inception for guarantees it issues that are subject to the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 45 (FIN 45). Liabilities are recorded at the estimated fair value of the guarantees.
- (o) **Income Taxes** - U.S. Central is exempt from federal income taxes under Section 501(c)(1) of the Internal Revenue Code of 1986.
- (p) **Reclassification** – Certain reclassifications have been made to the 2006 and 2005 presentations to conform with the 2007 presentation. Specifically, notes payable maturing within twelve months of a balance sheet date have been reclassified to short-term borrowings from notes payable.
- (q) **New Accounting Pronouncements** - In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 clarifies the definition of fair value as well as the methods used to measure fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 157 did not have a material effect on U.S. Central's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). This statement provides entities the option to fair value financial instruments on a contract-by-contract basis. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 did not have a material effect on U.S. Central's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS No. 160). SFAS No. 160 clarifies the required presentation of noncontrolling interests in the balance sheet and income statement, enhances disclosure requirements about noncontrolling interests and clarifies the accounting for transactions that change ownership interests. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The adoption of SFAS No. 160 is not expected to have a material effect on U.S. Central's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133* (SFAS No. 161), which requires enhanced disclosures about an entity's derivative and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments

and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. Management does not expect SFAS No. 161 to have a material impact on U.S. Central's consolidated financial statements.

3. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

The average daily balance of securities purchased under agreements to resell was \$3,737,034,000 and \$4,097,027,000 for the years ended December 31, 2007 and 2006, respectively. The highest month-end balances during 2007 and 2006 were \$5,201,267,000 and \$6,171,207,000, respectively. As of December 31, 2007 and 2006, the outstanding agreements have weighted-average maturities of 3.2 and 3.4 days and weighted-average interest rates of 4.60 and 5.42 percent, respectively.

4. INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities as of December 31, 2007 and 2006, are as follows (dollars in thousands):

	December 31, 2007			
	Amortized	Unrealized		Fair Value
	Cost	Gains	Losses	
Available-for-sale securities				
Government-sponsored enterprises	\$ 25,378	\$ 512	\$ -	\$ 25,890
Bonds, notes and commercial paper	1,932,452	92	(27,742)	1,904,802
Residential mortgage-backed securities:				
Agency	2,089,620	2,494	(18,824)	2,073,290
Non-agency	21,504,384	16,870	(1,302,807)	20,218,447
Asset-backed securities	11,579,801	7,959	(166,657)	11,421,103
	<u>37,131,635</u>	<u>27,927</u>	<u>(1,516,030)</u>	<u>35,643,532</u>
Trading securities				
Residential mortgage-backed securities:				
Agency	11,177	171	-	11,348
Non-agency	34,575	323		34,898
Asset-backed securities	980,871	4,225	(3,227)	981,869
	<u>1,026,623</u>	<u>4,719</u>	<u>(3,227)</u>	<u>1,028,115</u>
	<u>\$ 38,158,258</u>	<u>\$ 32,646</u>	<u>\$ (1,519,257)</u>	<u>\$ 36,671,647</u>
Number of securities		169	795	

	December 31, 2006			
	Amortized Cost	Unrealized		Fair Value
		Gains	Losses	
Available-for-sale securities				
Government-sponsored enterprises	\$ 50,952	\$ 164	\$ (455)	\$ 50,661
Bonds, notes and commercial paper	2,275,057	659	(625)	2,275,091
Residential mortgage-backed securities:				
Agency	2,713,651	3,511	(17,870)	2,699,292
Non-agency	18,561,259	14,535	(17,072)	18,558,722
Asset-backed securities	10,520,226	16,120	(4,571)	10,531,775
	<u>34,121,145</u>	<u>34,989</u>	<u>(40,593)</u>	<u>34,115,541</u>
Trading securities				
Residential mortgage-backed securities:				
Agency	14,457	239	-	14,696
Non-agency	114,940	107	(1,558)	113,489
Asset-backed securities	108,247	-	(349)	107,898
	<u>237,644</u>	<u>346</u>	<u>(1,907)</u>	<u>236,083</u>
	<u>\$ 34,358,789</u>	<u>\$ 35,335</u>	<u>\$ (42,500)</u>	<u>\$ 34,351,624</u>
Number of securities		513	310	

Included in asset-backed securities in the above tables are commercial mortgage-backed securities (CMBS) with par values of \$1,339,829,000 and \$318,969,000 as of December 31, 2007 and 2006, respectively. Remaining asset-backed securities are supported by various other collateral types, primarily credit card receivables, consumer auto loans and student loans.

Certain unrealized gains and losses on available-for-sale securities are included in earnings as a result of fair-value hedging relationships designated under SFAS No. 133. Cumulative net unrealized gains of \$7,866,500 and net unrealized losses of \$359,000 were included in retained earnings as of December 31, 2007 and 2006, respectively.

The following tables present available-for-sale securities in unrealized loss positions as of December 31, 2007 and 2006 (in thousands). Unrealized losses are separated into two categories – those existing for more than twelve months and those existing for less than twelve months.

	December 31, 2007			
	Amortized Cost	Unrealized Losses		Fair Value
		< 12 months	> 12 months	
Available-for-sale securities				
Bonds, notes and commercial paper	\$ 1,413,196	\$ 27,350	\$ 392	\$ 1,385,454
Residential mortgage-backed securities:				
Agency	1,574,324	11,630	7,194	1,555,500
Non-agency	19,563,704	1,142,896	159,911	18,260,897
Asset-backed securities	10,329,417	160,671	5,986	10,162,760
	<u>\$ 32,880,641</u>	<u>\$ 1,342,547</u>	<u>\$ 173,483</u>	<u>\$ 31,364,611</u>

	December 31, 2006			
	Amortized	Unrealized Losses		Fair
	Cost	< 12 months	> 12 months	Value
Available-for-sale securities				
Government-sponsored enterprises	\$ 26,782	\$ 449	\$ 6	\$ 26,327
Bonds, notes and commercial paper	446,830	92	533	446,205
Residential mortgage-backed securities:				
Agency	1,129,311	379	17,491	1,111,441
Non-agency	7,322,534	4,615	12,457	7,305,462
Asset-backed securities	1,270,714	2,700	1,871	1,266,143
	<u>\$ 10,196,171</u>	<u>\$ 8,235</u>	<u>\$ 32,358</u>	<u>\$ 10,155,578</u>

Many of U.S. Central's investment securities are in significant unrealized loss positions as of December 31, 2007, particularly non-agency residential mortgage-backed securities (RMBS). Management believes that the unrealized losses, and the severity thereof, are the result of 1) increased defaults and delinquencies on mortgages underlying non-agency RMBS, particularly for subprime borrowers, and 2) a severe imbalance in the current, illiquid market between supply and demand for these same securities.

In order to determine if the declines in fair value below amortized cost represented other-than-temporary impairment for these securities, management considered the severity of the decline in fair value below amortized cost, the length of time that fair value has been below amortized cost, current ratings by credit ratings agencies and overall market conditions in the applicable market sector. Because of the severity of the decline in fair value for many of the securities, as well as credit downgrades for some of these securities, management performed detailed cash flow analysis to determine if it is probable that all principal and interest cash flows will be received. In addition to performing internal analysis, U.S. Central engaged an independent expert valuation firm to evaluate a significant portion of the structured investment securities portfolio, with particular focus placed on non-agency RMBS.

Using internal data and the work performed by the expert valuation firm, management performed break-even analysis by comparing projected losses to the level of losses sustainable by the assets, given their level of credit enhancement. Credit enhancement typically consists of the subordination of lower tranches, excess cash within the structure and insurance, if applicable. Based on this analysis, management determined that for nearly all of its investment securities, it is probable that all principal and interest cash flows will be received according to the contractual terms of the securities. This determination, coupled with management's intent and ability to hold the securities until a recovery of fair value, which may be maturity, indicates that the declines in fair value for these securities do not represent other-than-temporary impairments as of December 31, 2007.

For the securities where receipt of all contractual principal and interest cash flows was not viewed by management as probable, other-than-temporary impairment charges were recorded. As of December 31, 2007, these securities had a combined par value of \$281,152,000, which represents 0.7 percent of U.S. Central's total investment securities portfolio. Other-than-temporary impairment charges, equal to the difference between amortized cost of these securities and their fair value, totaled \$124,612,000 for 2007 and are included in Net gains (losses) on financial instruments in the consolidated statement of income (loss).

The following table presents U.S. Central's non-agency RMBS portfolio by credit rating as of December 31, 2007 (at amortized cost). The ratings in the table represent the ratings of Standard & Poor's (S&P) or Moody's Investor Service (Moody's), whichever is higher. If ratings are not available from S&P or Moody's, the ratings from Fitch Ratings are used. The assets are further categorized by Fair Isaac Corporation (FICO) score. U.S. Central generally views assets with FICO scores of less than 680 as subprime for internal risk management purposes – a more conservative approach than many market participants that view assets with FICO scores below 620 or 650 as subprime. Non-agency RMBS with FICO scores below 680 totaled \$7,109,454,000 as of December 31, 2007.

	AAA	AA	A	BBB	<BBB	Total	Avg. Credit Enhancement
FICO 720 or higher	\$ 4,636,028	\$ 38,532	\$ 1,138	\$ 182	\$ -	\$ 4,675,880	18.4%
FICO 719 - 680	9,648,330	105,290	5	-	-	9,753,625	53.7%
FICO 679 - 620	5,415,898	611,480	7,289	4,207	15,625	6,054,499	36.9%
FICO 619 or lower	703,951	348,446	2,558	-	-	1,054,955	46.0%
Total	\$ 20,404,207	\$ 1,103,749	\$ 10,989	\$ 4,389	\$ 15,625	\$ 21,538,959	40.9%
Percent of total	94.7%	5.1%	0.1%	0.0%	0.1%	100.0%	

By regulation, U.S. Central is allowed to purchase securities with long-term credit ratings of BBB or higher. The effect of downgrades below BBB on U.S. Central's authority to continue holding securities depends on the number of ratings U.S. Central relied upon in its decision to purchase a particular security. If one rating was used at acquisition, downgrade by that rating agency below BBB would mean U.S. Central could not continue holding the security without permission from NCUA. If two or more ratings were used at acquisition, a security must be downgraded below BBB by two or more agencies before permission from NCUA is required to continue holding the security. If U.S. Central wishes to continue holding securities that have been downgraded below regulatory limits, U.S. Central must request approval from NCUA to do so. As of December 31, 2007, securities with a par value of \$56,456,000 had been downgraded below U.S. Central's regulatory limit. Subsequent to December 31, 2007, additional securities with a par value of \$1,772,955,000 experienced such downgrades. U.S. Central has requested permission to continue to hold all of these securities and has received permission from NCUA to continue to hold all but four of these securities with a par value of \$65,706,000. Management expects to receive permission from NCUA to continue to hold the remaining four securities.

The investment portfolio as of December 31, 2007, by contractual maturity, is shown below (in thousands). Because the actual lives of mortgage-related and asset-backed securities can differ from contractual maturities due to call or prepayment features, these items are presented separately. As of December 31, 2007, mortgage-related and asset-backed securities have weighted-average expected lives of approximately 3.8 years and 4.3 years, respectively.

	Amortized Cost	Fair Value
Due in one year or less	\$ 425,942	\$ 425,952
Due after one year through five years	1,053,674	1,031,603
Due after five years through 10 years	433,274	429,463
Due after 10 years	<u>44,940</u>	<u>43,674</u>
	1,957,830	1,930,692
Residential mortgage-backed securities:		
Agency	2,100,797	2,084,638
Non-agency	21,538,959	20,253,345
Asset-backed securities	<u>12,560,672</u>	<u>12,402,972</u>
	<u>\$ 38,158,258</u>	<u>\$ 36,671,647</u>

5. LOANS

The composition of loans is as follows (dollars in thousands):

	December 31,					
	2007			2006		
	Average Yield During 2007	Amortized Cost	Carrying Value	Average Yield During 2006	Amortized Cost	Carrying Value
Loans Held for Investment						
Member loans						
Overnight	4.93 %	\$ 365,045	\$ 365,045	-	-	-
Term	4.89	2,800,546	2,801,712	4.57	754,376	752,105
Automobile	6.17	92,824	92,824	6.08	123,272	123,272
Mortgage	5.68	<u>69,991</u>	<u>69,991</u>	5.32	<u>64,207</u>	<u>64,207</u>
Total Loans Held for Investment		3,328,406	3,329,572		941,855	939,584
Loans Held for Sale						
Mortgage	6.52	<u>96,499</u>	<u>96,499</u>	6.14	<u>72,838</u>	<u>72,181</u>
		<u>\$ 3,424,905</u>	<u>\$ 3,426,071</u>		<u>\$ 1,014,693</u>	<u>\$ 1,011,765</u>

Term loans to members, as of December 31, 2007, have weighted-average remaining maturities of approximately 0.9 years. As of December 31, 2007, automobile loans and mortgage loans classified as held for investment had weighted-average expected lives of approximately 1.4 and 2.8 years, respectively. Mortgage loans classified as held for sale had weighted-average expected lives of 3.0 years as of December 31, 2007. During 2007, \$23,013,000 of mortgage loans held for sale were transferred to held for investment because U.S. Central determined that there was not an accessible market for these loans. Actual lives of automobile and mortgage loans may differ from contractual maturities due to prepayment features. As of December 31, 2007, the principal balance of loans

delinquent more than 90 days was \$683,000. There were no loans for which charge-offs were taken in 2007.

6. BORROWINGS AND LIQUIDITY

Short-term borrowings and notes payable are as follows (dollars in thousands):

	December 31,					
	2007			2006		
	Average Rate During 2007	Average Days to Maturity	Carrying Value	Average Rate During 2006	Average Days to Maturity	Carrying Value
Commercial paper	- %	-	\$ -	5.29 %	24	\$ 811,428
Borrowings under the U.S. Department of Treasury Tax and Loan Program	4.98	3	2,231,543	4.85	3	1,000,452
Federal Home Loan Bank borrowings	5.20	17	3,750,000	5.11	55	4,000,000
Notes payable due within 12 months	3.81	154	386,364	3.90	182	36,364
Other borrowings	5.14	1,164	<u>6,581</u>	5.32	1,728	<u>9,653</u>
Total short-term borrowings			<u>\$ 6,374,488</u>			<u>\$ 5,857,897</u>
Notes payable	3.81 %	548	<u>\$ 32,674</u>	3.90 %	523	<u>\$ 414,629</u>

As of December 31, 2007, there was no outstanding commercial paper. As of December 31, 2006, U.S. Central had \$814,122,000 par value of commercial paper outstanding with a weighted average 24 days to maturity.

As a member of the Federal Home Loan Bank of Topeka (FHLB), U.S. Central can borrow on an overnight or term basis based on the fair value of collateral pledged at the FHLB less associated haircuts. As of December 31, 2007, U.S. Central had borrowing capacity at the FHLB of \$11,477,311,000, with the opportunity to increase its borrowing capacity by pledging additional eligible collateral. The FHLB does not have the unrestricted right to acquire or repledge investment securities pledged by U.S. Central.

U.S. Central also periodically pledges certain investment securities under the Treasury Tax and Loan Program and its line-of-credit agreements. The counterparties do not have the unrestricted right to acquire or repledge the assets. As of December 31, 2007, securities with a par value of \$5,704,328,000 were pledged under these arrangements.

In 2004, U.S. Central issued \$200,000,000 par of 2.70 percent fixed-rate amortizing notes maturing in 2009. In 2003, U.S. Central completed a \$350,000,000 par issuance of five-year, 2.75 percent fixed-rate notes scheduled to mature in 2008. Of these issuances, \$422,727,000 par remained outstanding as of December 31, 2007. In March and May 2008, notes payable with par values of \$18,182,000 and \$350,000,000, respectively, matured. An additional \$18,182,000 is scheduled to mature prior to December 31, 2008.

U.S. Central maintains a three-year committed line of credit in the amount of \$500,000,000, a one-year \$2,000,000,000 standby credit facility and an intraday line of credit in the amount of \$1,300,000,000, all supported by a group of domestic and international banks. U.S. Central pays commitment fees in exchange for access to these committed facilities. The intraday line of credit can be renewed annually upon mutual

agreement while the three-year committed line of credit expires in 2008. As of December 31, 2007 and 2006, no amounts were outstanding under these facilities.

As of December 31, 2007, U.S. Central had the right to borrow up to \$1,500,000,000 from domestic and international banks under several committed repurchase agreements. As of December 31, 2007 and 2006, no amounts were outstanding under these facilities.

U.S. Central has a regulatory borrowing limit equal to the greater of 1) 50 percent of members share and certificate accounts, or 2) 10 times regulatory capital. As of December 31, 2007, U.S. Central's regulatory borrowing limit was \$23,323,210,000.

7. MEMBERS' ACCOUNTS AND PAID-IN CAPITAL

The balances of the various types of members' accounts and paid-in capital are as follows (dollars in thousands):

	December 31,			
	2007		2006	
	Average Rate During 2007	Carrying Value	Average Rate During 2006	Carrying Value
Members' share accounts	5.23 %	\$ 9,817,854	5.03 %	\$ 12,755,582
Members' certificate accounts	5.28	<u>27,176,552</u>	4.80	<u>21,783,939</u>
Total members' share and certificate accounts		<u>\$ 36,994,406</u>		<u>\$ 34,539,521</u>
Membership Capital Shares	5.56	<u>\$ 1,434,061</u>	5.31	<u>\$ 1,167,441</u>
Paid-in capital	6.29	<u>\$ 300,000</u>	6.05	<u>\$ 300,000</u>

Dividend expense on members' share and certificate accounts is presented as follows (in thousands):

	For the Years Ended December 31,		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Dividend expense			
Members' share accounts	\$ 556,680	\$ 417,947	\$ 217,534
Members' certificate accounts	<u>1,400,451</u>	<u>1,037,605</u>	<u>685,238</u>
	<u>\$ 1,957,131</u>	<u>\$ 1,455,552</u>	<u>\$ 902,772</u>

The following table presents members' certificate accounts by contractual maturity as of December 31, 2007 (in thousands):

	Carrying Value
One month or less	\$ 2,722,957
One month through one year	13,803,408
One year through two years	3,692,758
Two years through three years	3,392,419
Three years through four years	1,389,067
Four years through five years	1,395,269
After five years	780,674
	<u>\$ 27,176,552</u>

Members are required to maintain Membership Capital Shares (MCS) at the greater of \$10,000 or 5 percent of their average investments in and borrowings from U.S. Central. These accounts have no maturity date, require a three-year notice of withdrawal and constitute regulatory capital. Paid-in capital (PIC) has no stated maturity and qualifies as equity under U.S. generally accepted accounting principles. Dividends on MCS and PIC are discretionary and declared quarterly by the board of directors.

Claims by creditors, both secured and unsecured, have priority in the event of liquidation over accounts of members. Eligible accounts of members are insured by the National Credit Union Share Insurance Fund up to \$100,000 per member. As of December 31, 2007, insured member accounts totaled \$7,214,000.

8. REGULATORY CAPITAL AND NET ECONOMIC VALUE REQUIREMENTS

Part 704 of NCUA Rules and Regulations requires U.S. Central to maintain a minimum capital ratio of 5.0 percent. The capital ratio is defined by the NCUA as capital, consisting of retained earnings, MCS and PIC, divided by 12-month moving daily average net assets (DANA). At December 31, 2007, regulatory capital totaled \$2,332,321,000 and resulted in a capital ratio of 5.1 percent. At December 31, 2006, regulatory capital totaled \$2,135,535,000 and resulted in a capital ratio of 5.8 percent. In February 2008, MCS increased by \$186,109,000 as a result of the normal semi-annual adjustment for these accounts. This increase caused U.S. Central's regulatory capital ratio to increase to 5.5 percent.

U.S. Central is also subject to an earnings retention requirement in the event that its retained earnings ratio, defined as retained earnings divided by 12-month moving DANA, is less than 1.0 percent. U.S. Central's retained earnings ratio was 1.3 percent and 1.8 percent, respectively, as of December 31, 2007 and 2006.

U.S. Central's net economic value (NEV) sensitivity is limited by NCUA regulation to a decrease of not more than 28 percent under +/- 300 basis point (b.p.) interest rate scenarios. U.S. Central is also required to maintain an NEV ratio of not less than 2 percent under the same scenarios. If U.S. Central fails to meet its regulatory capital or NEV requirements, discretionary actions by NCUA are possible that could have a material effect on U.S. Central's financial position and operations. In addition, U.S. Central must submit a plan to NCUA to achieve compliance.

Due to the effects of the extreme market dislocation on securities valuations, U.S. Central did not comply with the NEV sensitivity requirement or the NEV ratio requirement as of December 31, 2007. A 300 b.p. increase in market interest rates resulted in a 50 percent decrease in NEV from the base case. As of December 31, 2007, U.S. Central's base case NEV ratio was 1.6 percent. A 300 basis point increase in market interest rates resulted in a NEV ratio of 0.8 percent. U.S. Central submitted the required plan to NCUA and the plan was approved by NCUA in April 2008. The plan includes considerations for limiting exposure to particular types of investment securities, limiting non-member funding to that needed to satisfy short-term member liquidity needs and an evaluation of U.S. Central's capital structure.

The continuation of the current illiquid market for non-agency RMBS could further impact U.S. Central's compliance with regulatory capital, earnings retention, and NEV requirements.

9. DERIVATIVE INSTRUMENTS

Upon entering into a derivative instrument, U.S. Central designates a fair-value hedging relationship or a cash-flow hedging relationship, pursuant to SFAS No. 133. In some instances, while management believes that derivatives represent good economic hedges, the criteria to qualify for hedge accounting are not met. In those cases, hedging relationships are not designated and the derivatives are marked to market through current earnings.

The following tables provide information on U.S. Central's derivative portfolio by type of hedge as of December 31, 2007 and 2006 (in thousands):

	December 31, 2007			Estimated Fair Value
	Notional	Gross Unrealized		
		Gains	Losses	
Cash-flow hedges				
Interest-rate swaps				
Pay floating, receive fixed	\$4,300,000	\$ 8,866	(\$377)	\$8,489
Receive floating, pay fixed	787,618	36	(19,554)	(19,518)
Basis swaps	198,660	430	(408)	22
Interest-rate caps/floor	2,696,509	4,642	-	4,642
	7,982,787	13,974	(20,339)	(6,365)
Fair-value hedges				
Interest-rate swaps				
Receive fixed, pay floating	3,153,752	8,880	(3,976)	4,904
Pay fixed, receive floating	675,500	209	(8,693)	(8,484)
	3,829,252	9,089	(12,669)	(3,580)
Undesignated positions				
Interest-rate swaps				
Other	2,822,377	382	(34,869)	(34,487)
	78,585	11	(534)	(523)
	2,900,962	393	(35,403)	(35,010)
	\$14,713,001	\$23,456	(\$68,411)	(\$44,955)

	December 31, 2006			
	Notional	Gross Unrealized		Estimated Fair Value
		Gains	Losses	
Cash-flow hedges				
Interest-rate swaps				
Pay floating, receive fixed	\$4,900,000	\$ 1,864	(\$13,413)	(\$11,549)
Receive floating, pay fixed	623,200	1,682	(2,448)	(766)
Basis swaps	290,624	627	(304)	323
Interest-rate caps/floor	910,000	1,292	-	1,292
	<u>6,723,824</u>	<u>5,465</u>	<u>(16,165)</u>	<u>(10,700)</u>
Fair-value hedges				
Interest-rate swaps				
Receive fixed, pay floating	4,769,034	321	(39,874)	(39,553)
Pay fixed, receive floating	495,500	3,095	(294)	2,801
	<u>5,264,534</u>	<u>3,416</u>	<u>(40,168)</u>	<u>(36,752)</u>
Undesignated positions				
Interest-rate swaps	377,114	2,718	(1,553)	1,165
Other	42,856	94	(21)	73
	<u>419,970</u>	<u>2,812</u>	<u>(1,574)</u>	<u>1,238</u>
	<u>\$12,408,328</u>	<u>\$11,693</u>	<u>(\$57,907)</u>	<u>(\$46,214)</u>

As of December 31, 2007 and 2006, gross unrealized gains on derivatives of \$23,456,000 and \$11,693,000, respectively, are included in other assets. Gross unrealized losses on derivatives of \$68,411,000 and \$57,907,000 are included in other liabilities as of December 31, 2007 and 2006, respectively. As of December 31, 2007, cumulative net losses of \$3,067,000 have been excluded from the assessment of hedge effectiveness for fair value hedges.

Net unrealized losses of \$11,629,000 and \$12,474,000 on cash-flow hedges were included in accumulated other comprehensive income (AOCI) as of December 31, 2007 and 2006, respectively. In addition, deferred gains on terminated cash-flow hedges of \$9,038,000 and \$8,341,000 were included in AOCI at December 31, 2007 and 2006, respectively. Management estimates that of the net unrealized losses on cash-flow hedges included in AOCI as of December 31, 2007, \$2,338,000 will be reclassified into earnings during 2008.

Other derivative instruments included \$78,000,000 and \$40,000,000 of open short-sale agreements of to-be-announced mortgage securities as of December 31, 2007 and 2006, respectively. As of December 31, 2007 and 2006, U.S. Central had commitments to purchase fixed-rate mortgage loans of \$585,000 and \$2,856,000, respectively.

U.S. Central is exposed to credit risk on derivative instruments if the counterparty should fail to perform under the terms of the contract. U.S. Central manages credit risk through the use of comprehensive credit-approval processes, the selection of only creditworthy counterparties and effective collateral administration. In addition, U.S. Central requires legally enforceable master netting arrangements, which permit netting of transactions with the same counterparty. The amount of credit exposure is limited to the net interest receivable and the fair market value of the derivative contracts in gain positions reduced by the value of any collateral pledged by the counterparty. As of December 31, 2007, the net credit exposure associated with derivative instruments totaled \$24,008,000. As of

December 31, 2006, the net credit exposure associated with derivative instruments totaled \$29,066,000.

10. NET GAINS/(LOSSES) ON FINANCIAL INSTRUMENTS

The following table provides a summary of the net gains/(losses) on financial instruments:

	For the Years Ended December 31,		
	2007	2006	2005
Net gains (losses) on available-for-sale securities and loans held-for-sale	\$ 1,832	\$ (2,625)	\$ 14,872
Other than temporary declines in value	(124,612)	-	-
Fair-value hedge ineffectiveness	74	139	(1,072)
Realized gains (losses) on termination of derivatives	5,416	404	(166)
Realized gains (losses) on early certificate redemptions	(2,440)	2,176	612
Changes in fair value of:			
Trading securities	954	(193)	(1,738)
Undesignated derivative instruments	(36,198)	1,070	1,870
Loans held for sale	316	(342)	(56)
	\$ (154,658)	\$ 629	\$ 14,322

For the years ended December 31, 2007, 2006 and 2005, U.S. Central recorded gross realized gains on sales of investment securities of \$12,145,000, \$23,545,000, and \$68,235,000 respectively. Gross realized losses on sales of investment securities for the years ended December 31, 2007, 2006 and 2005, totaled \$9,153,000, \$24,803,000, and \$54,009,000, respectively.

During 2007, U.S. Central determined that the unrealized losses associated with certain debt securities were other than temporary because management did not view the receipt of all principal cash flows on these securities as probable. As a result, other-than-temporary impairment charges of \$124,612,000 were recorded in 2007 to reduce the carrying values of the securities to their fair values. Additional discussion of other-than-temporary impairment charges is provided in U.S. Central's Summary of Significant Accounting Policies, Note 2(f), and in Note 4, Investment Securities.

In 2007, 2006 and 2005, certain member corporate credit unions requested to redeem certificates prior to their contractual maturity. U.S. Central redeemed these certificates at fair value, which resulted in net realized losses of \$2,440,000 during 2007 and net realized gains of \$2,176,000 and \$612,000 during 2006 and 2005, respectively. In some cases, U.S. Central elected to retain assets or derivatives associated with the certificates rather than recognize offsetting losses or gains. U.S. Central is not obligated to redeem certificates prior to their contractual maturity.

Ineffectiveness resulting from cash flow hedging relationships was not material for the three years ended December 31, 2007, 2006 and 2005.

11. COMMITMENTS

U.S. Central provides loans with fixed or variable rates and commitments under standby letters of credit. Essentially, all loans, advances and standby letters of credit are collateralized by members' accounts at U.S. Central or other qualifying collateral. Therefore, exposure to credit losses is limited in the event of non-performance by a counterparty. As of December 31, 2007, U.S. Central had outstanding letters of credit of \$2,890,000.

As of December 31, 2007, U.S. Central had extended committed lines of credit to its members in the amount of \$314,600,000. At December 31, 2007, no amounts were outstanding under these lines.

12. RETIREMENT PLANS

In February 2005, U.S. Central merged its two defined contribution plans into one plan. The consolidated plan provides for the same combined employer contributions as did the two legacy plans.

Under the terms of the plan, participants may immediately contribute a percentage of their salary up to limitations as defined by the Internal Revenue Service. After the participant completes one year of service, U.S. Central matches 50 percent of the participant contribution, up to 6 percent of the salary of the participant. The employer matching contributions vest immediately. U.S. Central also contributes 5 percent of participants' salaries up to limitations as defined by the Internal Revenue Service. U.S. Central begins making these contributions after the employee completes one year of service. These amounts are fully vested after four years of service.

U.S. Central contributed \$1,387,000, \$1,385,000 and \$1,530,000, to the plan for the years ended December 31, 2007, 2006 and 2005, respectively.

13. FIXED ASSET IMPAIRMENT CHARGES

During 2005 and 2004, U.S. Central capitalized certain expenditures related to the development of a new core account processing system. However, given unsatisfactory performance of the system, further development was terminated and the capitalized asset was determined to be impaired. As a result, U.S. Central recorded a \$4,367,000 impairment charge in December 2005 to reduce the carrying value of the capitalized asset to zero.

During 2005 and 2004, U.S. Central developed a front-end ACH application in anticipation of converting back-end ACH processing to a third-party vendor. As the plan to convert back-end processing was terminated in 2005, the carrying value of the capitalized asset was not considered recoverable. As a result, an impairment charge of \$1,414,000 was recorded in September 2005 to reduce the carrying value of the capitalized asset to zero.

In June 2000, Network Financial Services (NFS), a wholly owned subsidiary of U.S. Central, acquired certain contract rights associated with the Government Securities Program (GSP), a common trust fund for credit unions. The intangible asset was to be amortized over 15 years, the estimated useful life of the rights. In October 2005, it was

determined that the intangible asset was not considered to be recoverable. Therefore, an impairment charge of \$531,000 was recorded to reduce the carrying value of the intangible asset to zero.

14. ESTIMATED FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair values are generally based on internally calculated values, quoted market prices, or dealer quotations, if available. These valuations are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The derived fair-value estimates, in many cases, would not be realized in immediate settlement of the instrument. All non-financial instruments are excluded from fair-value disclosure requirements. Accordingly, the aggregate fair-value amounts presented are not intended to reflect the underlying value of U.S. Central.

The assumptions used by U.S. Central in estimating fair-value disclosures for its financial instruments are described below. The use of different market assumptions and/or estimation methodologies could have a material effect on the estimated fair-value amounts.

Cash - The carrying amount of cash represents its estimated fair value.

Time Deposits, Federal Funds Sold and Securities Purchased Under Agreements to Resell - These assets are valued by discounting future cash flows using interest rates currently available on similar instruments.

Investment Securities and Derivative Instruments - Fair values are generally determined by discounting the future cash flows using rates currently available for similar investments, or based on quoted market prices or dealer quotations, if available.

Loans - The estimated fair value of loans is determined by discounting future cash flows using interest rates currently being offered to members for loans with similar terms.

Stock of the CLF – Stock of the CLF is carried at cost because there is no readily determinable fair value. Stock of the CLF, if redeemed, would be redeemed at cost.

Short-term Borrowings and Notes Payable - These liabilities are valued by discounting future cash flows using interest rates currently available on similar instruments.

Members' Share and Certificate Accounts - The fair value of share and certificate accounts is estimated by discounting the future cash flows using rates currently available for similar certificates.

Membership Capital Shares – The fair value of Membership Capital Shares is estimated to be par value because there is no readily determinable fair value.

Loan Commitments and Letters of Credit - Fair values of loan commitments and letters of credit are determined based on the fees currently charged to enter into similar agreements, taking into consideration the remaining terms of the agreements and the present creditworthiness of the counterparty. Neither the fees earned during the year on these instruments nor their fair values at year end are material to the consolidated financial statements.

The following table summarizes the estimated fair value of financial instruments, by type, as of December 31, 2007 and 2006 (in thousands):

	2007		2006	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets:				
Cash	\$ 29,420	\$ 29,420	\$ 17,612	\$ 17,612
Time deposits	85,518	85,518	850,000	849,995
Federal funds sold	500,000	500,004	987,000	986,985
Securities purchased under agreements to resell	2,046,937	2,047,146	4,142,736	4,142,721
Investment securities	36,671,647	36,671,647	34,351,624	34,351,624
Loans	3,426,071	3,438,690	1,011,765	1,005,218
Stock of the CLF	1,565,647	1,565,647	1,479,256	1,479,256
Liabilities:				
Short-term borrowings	5,988,124	5,988,738	5,821,533	5,820,891
Notes payable	419,038	418,392	450,993	443,109
Members' share and certificate accounts	36,994,406	37,133,696	34,539,521	34,533,740
Equity:				
Membership Capital Shares	1,434,061	1,434,061	1,167,441	1,167,441

The fair-value estimates presented above are based on market conditions and other information available to management as of December 31, 2007 and 2006. Subsequent changes in available information could cause fair-value estimates to vary significantly from those presented.

15. SUBSEQUENT EVENTS

In February 2008, U.S. Central reclassified investment securities, primarily non-agency RMBS, with a par value of \$5,080,724,000 from AFS to HTM. In June 2008, management reclassified additional investment securities with a par value of \$5,396,429,000 from AFS to HTM. Management elected to make these reclassifications due to a change of its intent with respect to holding these securities and increased liquidity available to U.S. Central from other sources. The total unrealized losses on the assets transferred in February 2008 and June 2008 were \$496,504,000 and \$602,175,000, respectively, at the time of transfer. Upon transfer, these amounts remained in AOCI and will be amortized over the remaining life of the assets. Similarly, basis adjustments were recorded in the assets for the same amounts and will be amortized over the remaining life of the assets, thereby offsetting in earnings the amortization of the AOCI balances.

The severe market dislocation present at December 31, 2007 continued into early 2008, causing further declines in the fair value of U.S. Central's available-for-sale securities portfolio. As of June 30, 2008, AOCI had decreased further to a loss of \$2,581,918,000 as a result of greater net unrealized losses on these holdings. Additionally, as of June 30, 2008, HTM securities had further declines in fair value of \$1,070,290,000 that are not included in AOCI. Given the current illiquid market for many of U.S. Central's investment securities, particularly non-agency RMBS, the assumptions used to determine fair value have become increasingly judgmental. The primary assumptions used to determine fair value are estimates of the amount and timing of principal prepayments and

credit spreads used to determine discount rates. As a result, there exists a much wider range of views of fair value among market participants than would exist under more normal market conditions. The views of other market participants as to the fair value of U.S. Central's investment securities portfolio could differ materially from the view of management. Management continues to believe that the severe declines in fair value are the result of a continued severe imbalance between supply and demand for non-agency RMBS. Based on detailed cash flow analysis, as discussed in Note 4, Investment Securities, management believes that all principal and interest cash flows will be received on all securities for which other-than-temporary impairment charges were not recorded in 2007.

In May 2008, U.S. Central elected to waive its banker's bank exemption and begin holding reserves with the Federal Reserve Bank of Kansas City (Federal Reserve). As a result of this election, U.S. Central is eligible to borrow from the Federal Reserve discount window as a contingent source of liquidity. All discount window advances are at the discretion of the Federal Reserve. U.S. Central's borrowing capacity is based on the fair value of collateral pledged at the Federal Reserve, adjusted for applicable haircuts. As of June 30, 2008, the par value of assets pledged at the Federal Reserve totaled \$7,592,970,000.